August 11, 2006

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20429

Re: Proposal to Improve the Operational Processes Governing the FDIC's Deposit Insurance Assessment System

Dear Sir or Madam:

The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to offer comments in connection with the FDIC's proposal to revise and improve the Deposit Insurance Assessment System by changing the manner in which assessments are determined and collected from insured depository institutions.

Summary of ICBA's Position

ICBA generally supports the FDIC's proposal to improve the manner in which assessments are determined and collected from insured depository institutions. We support a quarterly assessment system where assessments are collected in arrears and believe such a change is an improvement over the current system of paying on a semiannual basis in two installments. We also agree with the FDIC that any change to an institution's supervisory rating should be reflected when the change occurs. ICBA supports requiring institutions with $300 million or more in assets to use average daily balances rather than quarter-end balances to compute their assessment base and also allowing institutions with less than $300 million in assets the option of using either the average daily balance method or quarter-end balance method. We support

[1] *The Independent Community Bankers of America represents the largest constituency of community banks of all sizes and charter types in the nation, and is dedicated exclusively to representing the interests of the community banking industry. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace.*

With nearly 5,000 members, representing more than 18,000 locations nationwide and employing over 265,000 Americans, ICBA members hold more than $876 billion in assets $692 billion in deposits, and more than $589 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

retaining standard float deductions and, if necessary, modifying them to recognize reduction in float due to technology advances but oppose requiring banks to deduct their actual float as unnecessarily burdensome.

Background and Proposal

Under the Federal Deposit Insurance Reform Act of 2005 ("Reform Act"), the FDIC has discretion to make certain revisions to the deposit insurance assessment system and revamp and improve the manner in which assessments are determined and collected from insured depository institutions. Accordingly, the FDIC has proposed the following changes to improve the system and make it react more quickly to changes in institutions' risk profiles:

<u>Quarterly Assessments:</u> Currently, assessments are collected on a semiannual basis in two installments. The first collection is made at the beginning of the semiannual period; the second collection is made in the middle of the semiannual period**.** The FDIC is proposing to collect assessments each calendar quarter in arrears; that is, after the quarterly period being insured. The assessment would be due approximately at the end of the <u>following</u> quarter, on a specified payment date.

For example, in 2007, the FDIC is proposing that the first quarterly assessment be invoiced by June 15, 2007 and the payment date would be June 30, 2007. The invoice date for the second quarter would be September 15, 2007 and the payment date would be September 30, 2007, and so on. Invoices would continue to be presented using FDIC*connect*, and institutions would continue to be required to designate fund deposit accounts from which the FDIC would make direct debits.

<u>Risk Category Changes Effective When the Change Occurs</u>: Presently, a bank retains its supervisory and capital group ratings throughout a semiannual period. Any change is reflected in the next semiannual period; in this way an examination can remain the basis for an institution's assessment rating long after new information has become available. The FDIC proposes that any change to an institution's risk rating be reflected when the change occurs. If an exam led to a change in an institution's CAMELS composite rating that would affect the institution's insurance risk classification, the institution's rating would change as of the date the exam began, or if that was not available, the date the institution was notified of its rating change by its primary federal or state regulator.

<u>Average Daily Deposit Balances for Institutions over $300 Million:</u> Currently, a bank's assessment base is computed using quarter-end deposit balances. The FDIC is proposing that institutions with $300 million or more in assets use average daily balances in lieu of quarter-end balances, which should give a more accurate depiction of an institution's deposits. To avoid burdening smaller institutions, which might have to modify their accounting and reporting systems, institutions with less than $300 million in assets will have the option of either using average daily balances or quarter-end deposit balances. However, any institution, once having begun to report average daily balances, would not be allowed to switch back to reporting quarter-end balances.

<u>Eliminate the Standard Float Deduction:</u> Presently, banks are allowed to take "standard float deductions"—16 2/3% for demand deposits and 1% for time and savings deposits---from their assessment base. Two basic rationales exist for allowing institutions to deduct float. First,

without a float deduction, institutions would be assessed for balances created by deposits of checks for which they have not actually been paid. Second, deducting float reduces the potential of double counting for a deposit.

However, according to the FDIC, actual float has declined substantially in the last twenty years to about 3% of domestic deposits. Accordingly, the FDIC is recommending that the standard float deductions be eliminated on the grounds that they are obsolete and arbitrary.

ICBA's Position

Quarterly Assessments: **ICBA generally supports the FDIC's proposal to improve the manner in which assessments are determined and collected from insured depository institutions.** We support a quarterly assessment system where assessments are collected in arrears and believe such a change is an improvement over the current system of paying on a semiannual basis in two installments. Under the new assessment system, banks should be able to predict at the end of each quarter what their assessment will be for that quarter. The insurance coverage period will also be synchronized with reporting dates and the institution's risk classification.

Risk Category Changes Effective When the Change Occurs: **ICBA also agrees with the FDIC that any change to an institution's supervisory rating should be reflected when the change occurs.** This way, for instance, if an institution's primary federal regulator began an examination for an institution one month into a quarter and the examination resulted in an upgrade to the institution's CAMELS ratings that would affect the institution's risk classification, the institution would obtain the benefit of an improved risk rating for the last two months of the quarter, rather than waiting until the next period. The present system of having the change only reflected in the next semiannual period penalizes those banks that have had an improvement in their supervisory rating. This proposed revision is consistent with the FDIC's overall goal of changing the present assessment system so that it reacts more quickly to changes in institutions' risk profiles.

Average Daily Deposit Balances for Institutions with $300 Million or More in Assets: **ICBA also agrees with the FDIC proposal to require institutions with $300 million or more in assets to use average daily balances rather than quarter-end balances to compute their assessment base.** We agree that using average daily balances gives a more accurate and timely picture of an institution's assessment base over a three month period. If an institution suddenly has an unusually large deposit at the end of the quarter, the present system of using quarter-end balances will not accurately reflect that institution's typical deposit level. The present system also provides an incentive for institutions to temporarily reduce their deposit levels at quarter-end. Community banks with assets of $300 million or more report that they have the capability of using average daily balances.

To avoid burdening smaller institutions, we agree that institutions with less than $300 million in assets should have the option of using either average daily balances or quarter-end balances to compute their assessment base. Some smaller community banks may not have systems capable of computing average daily balances and these institutions would find it a burden to use average daily balances. However, many smaller community banks have the system capability to use average daily balances so having the option will provide them with another way to compute their assessment base.

<u>*Retain the Standard Float Deductions*</u>: **ICBA disagrees with the FDIC's proposal to eliminate the standard float deductions and opposes deducting actual float because of the burdens this would impose on community banks.** In 1960, Congress by statute established the standardized float deductions in an effort to simplify and streamline the assessment-base calculation. The standard deductions have worked well since that time and have eliminated the burden of institutions having to calculate their actual float.

We acknowledge that legal, technological and payment system changes—such as Check 21—have significantly reduced float for most banks. But this has not made the existing standard float deductions obsolete. They still remain a simple, practical way to approximate actual float for most community banks.

ICBA recommends that the standard float deductions be retained and if necessary, adjusted to reflect the reduction in actual float that has resulted form technological and payment system changes. The standard float deductions have worked well for most banks and, unlike deducting actual float, would not impose any additional systems or reporting costs on banks.

Conclusion

ICBA appreciates the opportunity to offer comments on the FDIC's proposal to revise and improve the Deposit Insurance Assessment System pursuant to the recently enacted Federal Deposit Insurance Reform Act of 2005. If you have any questions about our comments, please do not hesitate to contact me at 202-659-8111 or Chris.Cole@icba.org.

Sincerely,

Christopher Cole

Christopher Cole
Regulatory Counsel