THE FINANCIAL SERVICES ROUNDTABLE

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September 22, 2006

Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corp.
550 17th Street, N.W.
Washington, DC 20429
Attn: Comments

Re: RIN # 3064-AD02, Proposed Designated Reserve Ratio

Dear Mr. Feldman:

The Financial Services Roundtable ("Roundtable")[1] appreciates this opportunity to submit a written comment on the FDIC's proposed regulation to establish the Designated Reserve Ratio ("DRR"). As outlined in more detail below, the Roundtable strongly recommends that the FDIC: (1) adopt a deliberately- paced schedule to achieve the DRR goal; and (2) set a DRR ratio that is lower than the 1.25 historical rate as this target does not reflect the reduced risk inherent in the present banking industry.

Guiding Principles for Setting Designated Risk Ratio

As a preliminary matter, the Roundtable notes that two of the primary purposes of the Federal Deposit Insurance Reform Act are to prevent the automatic imposition of a significant insurance assessment and to prevent sharp swings in assessment rates. We believe that it is critical that any regulatory proposal be consistent with that "slow growth, no cliff" approach. We further believe that the goals of any new system should include long-term assessment stability and the creation of reasonable business expectations as to future deposit insurance costs.

This position appears to be recognized in the preamble to the proposed regulation. The preamble notes that the Reform Act authorizes the FDIC to manage the insurance fund's reserve ratio within a range, and the DRR is no longer a trigger for the imposition

[1] The Financial Services Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance, investment products and services to the American consumer. Roundtable member companies provide fuel for America's economic engine accounting directly for $18.3 trillion in managed assets, $678 billion in revenue, and 2.1 million jobs.

of assessments. The proposal also notes that one of the goals of the Reform Act was to prevent sharp swings in assessment rates.

The FDIC posits two possible goals for the DRR: (i) establishing a signal of the reserve ratio that the FDIC Board would like to achieve over time; or (ii) acting as a signal of the FDIC Board's expectation of where the reserve ratio is likely to be in light of economic conditions.

The first goal would provide useful information to the industry in terms of the FDIC's long range expectations and goals for the deposit insurance fund, and, therefore, support the use of the DRR to signal the FDIC's position on its plans for the future. In this role, the DRR could be used by depository institutions to anticipate possible changes in the assessment rates and plan accordingly. However, failure to achieve or maintain the DRR should not be viewed as requiring the imposition of higher assessments. Rather, the FDIC should consider whether, in light of economic factors and the condition of the banking industry, the DRR should be lowered, or if the DRR is likely to be restored through changes in the deposit base, growth in investment earnings, low levels of expected failures, and other similar factors.

If the FDIC nevertheless determines that it must increase the assessment rates when the reserve ratio falls below the DRR, it should provide a reasonable period of time for the industry to achieve the DRR goal. The Reform Act provides up to five years for the industry to restore the reserve ratio to 1.15 percent if it falls below that statutorily set lower bound. If five years is a reasonable period to restore the reserve ratio to the statutory 1.15 percent, a period of at least five years, and probably longer, should be considered reasonable to raise the reserve level to the DRR, which is proposed to be higher than the 1.15 percent minimum.

The second possible use, noted in the preamble, would set the DRR to reflect the expected results of deposit growth (or decline) and anticipated losses to the fund. The DRR would not provide a signal of where the FDIC Board would like to see the fund, but instead indicate where the fund is likely to go due to economic conditions. In this role, the DRR would be less helpful to the industry, since it would be a far less effective tool for long-term planning.

Designated Risk Ratio Should Reflect the Reduced Risk in Current Banking Industry

We believe that the DRR should reflect the current, reduced risk in the banking industry. The suggested DRR ratio of 1.25 percent is high in light of the fact that the FDIC's exposure today is significantly less than it was fifteen years ago when the 1.25 percent target was established. More sophisticated risk measurement, the use of risk reduction techniques, other enhanced management practices, and improved transparency

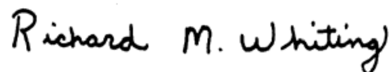
have all lowered the risk to the deposit insurance fund. The FDIC's exposure has declined significantly, and the level of equity and subordinated debt in the system has increased. Further, the FDIC and the other bank regulatory agencies have enhanced supervisory and regulatory powers, including prompt corrective action, depository preference, and cross guarantees, that make it less likely that a bank will fail, and even more unlikely that the FDIC will suffer a loss, even if a bank does fails. In light of all of these improvements, it would be appropriate to set a DRR at a level that is considerably less than 1.25 percent.

Conclusion

As set out above, the Roundtable strongly recommends that: (1) the FDIC adopt a deliberately-paced schedule to achieve the DRR goal; and (2) set a DRR ratio that is lower than the 1.25 historical rate as this figure does not reflect the reduced risk inherent in the present banking industry.

If you have any questions concerning these comments, or would like to discuss these issues further, please contact me at rich@fsround.org or 202-589-2413, or Mitzi Moore at mitzi@fsround.org or 202-589-2424.

Sincerely,



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