Association for
Financial Professionals

Submitted via E-mail

September 22, 2006

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

RE: RIN number 3064-AD09

Dear Mr. Feldman,

The Association for Financial Professionals (AFP) welcomes the opportunity to comment on the Federal Deposit Insurance Corporation's (FDIC) proposed rule regarding deposit insurance assessments.

The Association for Financial Professionals represents 15,000 finance and treasury professionals drawn generally from the Fortune 1000 and the largest middle market companies. AFP members manage their organization's banking relationships and have an active interest and a sizable stake in proposed changes to the deposit insurance assessment system. Banks pass the costs of deposit insurance onto corporate depositors. Thus, AFP member organizations contribute large sums to the deposit insurance system. In their role as bank relationship managers, AFP members negotiate, monitor and approve for payment charges that their banks pass on to them for deposit insurance assessments.

The Federal Deposit Insurance Reform Act of 2005 (Reform Act) requires the FDIC to promulgate regulations providing for deposit insurance assessments. On July 24, 2006, the FDIC issued proposed rules to consolidate risk categories from nine to four and provide a new mechanism to determine into which risk category to place an institution. The FDIC also proposed a base schedule of rates for determining premium assessments. What follows are AFP's comments addressing the base schedule of rates, the use of debt ratings in determining an institution's 'insurance score' and the complexity of the proposal.

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ASSESSMENT RATES

The FDIC is proposing to adopt a base schedule of rates that it would use to calculate assessment premiums. The FDIC proposes to set assessment rates as follows: Category I institutions – 2 to 4 basis points (bp), Category II institutions - 7 bp, Category III institutions - 25 bp, and Category IV institutions - 40 bp. The FDIC further proposes to establish six assessment rate subcategories for large institutions in Category I.

Congress specifically required the FDIC to consider "[t]he projected effects of the payment of assessments on the capital and earnings of insured depository institutions."[1] Since banks typically pass the cost of deposit insurance onto their corporate customers, premium assessments have far-reaching impacts that extend well beyond the banks that the FDIC charges directly. AFP urges the FDIC to also consider the impact that assessments will have on the bank's corporate customers and to exercise the maximum amount of flexibility allowed for by the Reform Act when setting assessment rates. High premiums will reduce the resources available for AFP member organizations to invest and grow their businesses.

A major goal of the Reform Act is to avoid sharp increases in the assessment of premiums and volatility in the Deposit Insurance Fund (DIF). AFP believes that the best way to achieve stability is through a system of low and steady premium assessments. AFP does not believe that the FDIC has provided sufficient justification for setting the minimum assessment rate at 2 bp or the maximum at 4 bp. Thus, AFP recommends that the FDIC set the minimum assessment rate at 1 basis point and the maximum at 3 bp for Category I institutions. This would meet the objectives of providing low premium assessments and provide sufficient flexibility to adjust for variations in risk among institutions in Category I.

USE OF DEBT RATINGS

For large institutions, the FDIC is proposing to compute an 'insurance score' using "(1) a weighted average of CAMELS component rating with a value between 1.0 and 3.0; (2) long-term debt issuer ratings converted to a numerical value between 1.0 and 3.0; and (3) for institutions with between $10 billion and $30 billion in assets, financial ratios converted to a value between 1.0 and 3.0."[2] The result would be an insurance score with values ranging from 1.0 to 3.0. Under the proposal, the importance of debt ratings would increase as the size of the institution increased from $10 to $30 billion. For institutions above $30 billion, the insurance score would be derived solely from debt ratings and supervisory ratings.

AFP is concerned about relying too heavily on long-term debt ratings to determine a bank's risk-based assessment. AFP members have long been concerned about the timeliness and accuracy of debt ratings issued by the current Nationally Recognized Statistical Rating Organizations (NRSROs).[3] The existing system used by the U.S.

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[1] Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (P.L. 109-173) §2104(a) (1)iii.
[2] Deposit Insurance Assessments; Proposed Rule, 71 Federal Register 41919; July 24, 2006.
[3] See AFP RATING AGENCIES SURVEY: Accuracy, Timeliness, and Regulation, November 2002 and 2004 CREDIT RATING AGENCY SURVEY, October 2004.

Securities and Exchange Commission (SEC) to recognize credit rating agencies is not transparent and has led to lack of competition in the market for credit ratings. This lack of competition has resulted in significant concerns by market participants about the credibility and reliability of the ratings issued by the "major rating agencies," defined in the proposal's footnotes as Moody's, Standard and Poor's and Fitch. By specifically referring to Moody's, Standard and Poor's and Fitch, the FDIC is further limiting competition in the credit ratings market. The FDIC should not restrict the use long term debt ratings to those issued by the "major rating agencies." The FDIC should allow for the use of ratings issued by any currently recognized rating agency or those that may later be recognized.

Congress is considering legislation[4] reforming the current NRSRO recognition process. If enacted, this legislation will promote greater competition and address many of the concerns regarding the credibility and reliability of ratings issued by existing NRSRO's.

Unless Congress enacts the proposed reforms, AFP urges the FDIC not to adopt a regulatory structure that is overly dependent on a debt rating system so wrought with problems.

COMPLEXITY OF THE PROPOSED SYSTEM

AFP is concerned that the FDIC's proposal is overly complex and places additional burdens on AFP members and their organizations. The FDIC proposes to use a complicated formula for calculating an institution's risk and also proposing to use different methods for small and large banks included in Risk Category I. The proposed rule adds additional complexity by separating large institutions into four subcategories.

Once the FDIC determines an institution's 'insurance score,' it would then calculate that bank's assessment rate. The FDIC would then use different assessments rates for large and small banks. The FDIC would assess premiums to large banks in Category I based on the subcategories in which they are placed. For small banks in Category I, the assessment rate would be individualized. Adding to the complexity is the fact that a small change in any particular bank's CAMELS rating, debt rating or financial ratio could result in significant changes to the amount an institution and in turn, its corporate customers pay for deposit insurance.

As previously noted, AFP members negotiate and manage the charges and fees paid to their banks for deposit insurance assessments. As such, transparency in the calculation of the assessments and how a bank's risk is determined is critical to our members' ability to manage their bank relationships. This is particularly important for our members who manage relationships with dozens of banks. Under the proposal, a situation could arise where an AFP member organization ends up paying substantially different premium assessments to their banks, all of whom are in Risk Category I. The complexity of the proposed system combined with the use of different methodologies for small and large banks could result in an inequitable assessment regime that places too great an emphasis

[4] On July 12, 2006, the U.S. House of Representatives passed the Credit Rating Agency Duopoly relief Act of 2005 (H.R. 2990) by a vote of 255 to 166. The U.S. Senate Committee on Banking, Housing and Urban Affairs approved the Credit Rating Agency Reform Act of 2006 (S. 3850) on August 2, 2006.

on bank size, rather than its risk. AFP urges the FDIC to reconsider its proposal and develop a more transparent and equitable system.

We appreciate the opportunity to present our views and recommendations. If you have any questions or need additional information, please contact Tom Santos, AFP's Director of Government Relations at 301.907.2862.

Sincerely,

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