Citizens Financial Group, Inc.™
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September 21, 2006

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

RE: RIN 3064-AD07, Treatment of New Institutions for Calculation of Deposit Insurance Assessments.

On behalf of Citizens Financial Group ("CFG" or "Citizens"), I am writing to express our views on the FDIC's treatment of "new institutions" set forth in the Notice of Proposed Rulemaking ("NPRM") implementing deposit insurance assessments under section 7(b) of the Federal Deposit Insurance Reform Act of 2005 ("the Act"). Citizens supports the risk-based approach that the FDIC has employed in establishing a new system for deposit insurance assessments. We remain concerned, however, that the criteria set forth in the NPRM to determine whether an institution is "new" or "established" for assessment purposes is too narrow and recommend that it be expanded to include a range of other risk-mitigating factors.

Pursuant to the NPRM, an institution that is less than seven years old would be considered a "new" (as opposed to an "established") institution and automatically assessed at the highest rate under Risk-Category I. A "new" institution can only be considered an "established" institution (and therefore eligible for lower assessments) if it has merged or consolidated with an established institution *and* falls within a set of guidelines used to determine whether the institution resulting from such a merger or consolidation remains "substantially" an established institution. These factors include whether the acquired established institution was larger than the acquiring new institution, whether management of the acquired, established institution remained with the acquiring new institution and whether assets, liabilities and business lines of the resulting institution were the same as the acquired established institution.

As stated above, Citizens recommends expanding the criteria used to determine whether an institution is "new" or "established." First, the proposed criteria should make clear that the FDIC may consider whether "new" institutions are owned and managed by established, well managed and well capitalized holding companies. Second, the proposed criteria should be expanded to allow the FDIC to consider whether "new" institutions were established in ways other than through a merger or consolidation, such as through asset acquisitions. These changes should be instituted to assure that the NPRM better reflects important public policies such as creating a risk-based premium structure and encouraging local bank management and customer service operations. We are concerned that if these clarifications are not included in the final rule, established, well managed, well capitalized banks could be treated as "new" institutions and assessed at higher rates than similarly situated banks.

1. The FDIC should allow "new" institutions that are wholly owned by established, well managed, well capitalized bank holding companies to be considered as "established" institutions.

We are concerned that the NPRM could be interpreted as treating newly chartered, wholly-owned subsidiaries of established bank holding companies as if they were completely independent entities, which they are not. Bank holding companies provide capital stability and management oversight and are (by law) a source of strength to their subsidiary banks.

We believe the Citizens Financial Group structure provides a good example of why the FDIC must consider corporate structure and bank ownership when evaluating which banks are "new." Citizens Bank was established in 1871 in Providence, Rhode Island and has operated there ever since. In 1985, Citizens Financial Group was formed to become the holding company for Citizens Bank of Rhode Island. CFG has subsequently purchased assets and branches to form a company which includes six separate state chartered banks in Rhode Island, Massachusetts, New Hampshire, Connecticut, Pennsylvania, and Delaware, and three federally chartered banks including Charter One Bank, N.A. (Ohio, Indiana, Michigan and Illinois), Citizens Bank, N.A, (New York and Vermont), and RBS National Bank.

As it has grown, CFG has maintained its regionally focused network of bank charters as a part of a deliberate strategy to remain close to its customers and foster local decision making. Each bank has a highly-skilled local management team, many of whom came to CFG from predecessor instituions. This local team reports to a centralized CFG management structure. Indeed, all bank presidents report directly to the President of CFG and ultimately to the CEO. CFG sets all policies and procedures for risk management and capital adequacy and enforcement of these policies is overseen by CFG's Vice Chairman for Risk Management. In addition, the operating platforms for deposits, loans, investments and the general ledger have been standardized and centralized for internal control purposes. Such centralized operations not only provide for management efficiency but help CFG bolster safety and soundness for each bank, at the same time safeguarding its own capital investment (as CFG is the sole shareholder for each of its subsidiaries.)

It is also important to note that CFG itself is a wholly owned subsidiary of the Royal Bank of Scotland. By market capitalization, RBS is the second largest bank in the UK, the third largest bank in Europe, and the eighth largest in the world with assets totaling $1.5 trillion dollars. RBS is a strong source of stability for CFG and its subsidiary banks.

2. The FDIC should allow institutions established through asset acquisition, as well as through a merger, to be considered "established" institutions.

In 2001, CFG acquired Mellon's retail banking business, including 345 branches in Pennsylvania and New Jersey, and its small business and certain middle market commercial lending businesses. Consistent with its long-standing organizational strategy, Citizens established two new bank charters with a regional focus on Pennsylvania and Delaware (Citizens Bank of Pennsylvania and Citizens Bank of Delaware). Similarly, after CFG acquired Charter One in 2004, CFG established Citizens Banks N.A. to manage the carved out footprint of New York and Vermont.

Even setting aside CFG's ownership and control of these banks, the risk inherent in these new bank charters is still substantially less than for a typical de-novo charter because the acquired banking operations are in fact already established. In the case of the Mellon transaction, CFG did not acquire an "institution," new or established. Rather, CFG acquired the seasoned, established banking operations of an established institution, including branches, assets and liabilities, business lines, and customer deposits. Similarly, Citizens Bank N.A. was formed out of long-established Charter One Bank and nearly all branches and deposits in Citizens Bank N.A. were formerly Charter One branches and deposits.

3. Broadening the criteria in the NPRM would be consistent with important public policy goals.

In an age where consolidation sends many banks' management and service operations ever further from their customers, Citizens should be rewarded, not punished, for attempting to maintain local management and service structures. However, unless revised, this NPRM could penalize CFG for maintaining the strong local management structures that will best serve its customers. Ironically, had CFG converted Citizens Bank of Rhode Island into a national charter in 1985, and subsequently acquired assets through that charter, it is likely that none of those assets would be subject to the higher deposit insurance assessments. However, the NPRM would seem to allow Citizens Banks of Pennsylvania, Delaware, and Charter One N.A to be improperly labeled as "new" simply due to the means by which they were created.

Lastly, the NPRM could have the effect of undermining one of the central purposes of the Act—the creation of a new system of risk based deposit insurance assessments—by establishing a one-size-fits-all assessment for all banks that hold charters that are less than seven years old. Citizens notes that the findings of "empirical studies" referred to in footnote 74 of the NPRM purport to show "a higher failure probability *on average* for new institutions compared to established institutions" and recognizes that these findings could fairly characterize the risk profiles of many newer banks with smaller capitalizations and backing by smaller investors. However, as explained above, Citizens' newer bank charters are of an entirely different nature and risk profile than most de-novo charters: they consist of seasoned deposits capitalized by Citizens Financial Group, and ultimately, the Royal Bank of Scotland. To simply disregard these factors flies in the face of the risk-based approach the new law sets forth.

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Therefore, in determining whether an institution is new or established, we recommend that the final rule allow the FDIC to consider 1) whether an institution is owned by an established, well managed, and well capitalized holding company, and 2) whether an institution was formed after the acquisition entities or assets that include older seasoned deposits and branches. These changes are completely consistent with the public policy goals underlying the FDIC Reform Act of 2005.

Sincerely,

Robert T. Gormley
Vice Chairman
Citizens Financial Group