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2006 SEP 22 P 1:46

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OFFICE OF EXECUTIVE SECRETARY

September 21, 2006

VIA UPS NEXT DAY AIR

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 Seventeenth Street, N.W.
Washington, D.C. 29429

Re: RIN 3064-AD09; Proposal to Amend the Risk-Based Assessment System and to Establish a Base Assessment Rate Schedule; 71 Federal Register 41910; July 24, 2006.

Dear Mr. Feldman:

HSBC Bank USA, National Association ("HSBC Bank") Wilmington, Delaware, appreciates the opportunity to comment on the FDIC's proposed regulation on risk-based deposit insurance assessments. HSBC Bank has more than 400 branches in New York, Florida, Delaware, Pennsylvania, California, Washington, Oregon, New Jersey and Washington, D.C. HSBC Bank is an indirect wholly-owned subsidiary of HSBC Holdings plc, London, United Kingdom.

The FDIC has proposed to amend its regulations to create different risk differentiation frameworks for smaller and larger banks that are well capitalized and well managed, establish a common risk differentiation framework of all other banks, and establish a base assessment rate schedule. The FDIC's notice of proposed rulemaking requests comment on every aspect of the proposed rulemaking. In particular, the FDIC seeks comment on certain enumerated issues. With respect to the definitions of a new institution and an established institution, the FDIC asks for comments on several issues. This letter is to comment on issue 27, which reads as follows:

27.Whether, when an established institution merges into or consolidates with a new institution:

a. The resulting institution should be considered new;
b. The resulting institution should be allowed to request that the FDIC determine that it is established; and
c. The factors that the FDIC proposes to use to determine whether the resulting institution in such a merger or consolidation should be considered established are the appropriate factors.

In this connection, proposed regulation section 327.9(d)(7) provides:

(7) New and Established Institutions.

(i) A new institution is a bank or thrift that has not been chartered for at least seven years as of the last day of any quarter for which it is being assessed. All new institutions shall be assessed the Risk Category I maximum rate for that quarter.

(ii) An established institution is a bank or thrift that has been chartered for at least seven years as of the last day of any quarter for which it is being assessed.

(iii) When an established institution merges into or consolidates with a new institution, the resulting institution is a new institution. The FDIC may determine, upon request by the resulting institution to the Director of the Division of Insurance and Research, that the institution should be treated as an established institution for deposit insurance assessment purposes, based on analysis of the following:

(A) Whether the acquired, established institution was larger than the acquiring, new institution, and, if so, how much larger;
(B) Whether management of the acquired, established institution continued as management of the resulting institution;
(C) Whether the business lines of the resulting institution were the same as the business lines of the acquired, established institution;
(D) To what extent the assets and liabilities of the resulting institution were the assets and liabilities of the acquired, established institution; and
(E) Any other factors the FDIC considers relevant in determining whether the resulting institution remains substantially an established institution.

With respect to issue 27, while there may be certain instances where it is appropriate to consider the resulting institution to be a new institution, there are other instances where the resulting institution should clearly be considered to be as an established institution. One situation of particular concern is where a parent bank holding company, for internal reorganization purposes, consolidates two established bank subsidiaries, utilizing a de novo bank subsidiary. This type of consolidation involving a holding company's established bank subsidiaries is referred to herein as an "internal consolidation". It is distinguished from a combination involving the acquisition of an established institution from a nonaffiliated party.

An internal consolidation may utilize a de novo bank charter to effect the consolidation. This may occur, for example, where an established state chartered bank, and a second state or federal chartered bank, are being consolidated under a new federal charter. These internal consolidations essentially involve a change only in the charter and not in the management or business of the established institutions involved. As a result, the consolidation transaction does not warrant treating the consolidated entity as a new institution under the proposed regulation.

The proposed rules contemplate that certain consolidations, such as the internal consolidations described above, should be treated as established institutions. This is reflected in the review process provided for in section 327.9(d)(7)(iii), and the criteria listed therein. Internal consolidations should clearly be viewed as established institutions under such a review. In view of this, the FDIC should consider revising section 327.9(d)(7) to specifically treat such internal consolidations as established institutions. This would avoid the need for the review process for such internal consolidations, which should clearly be treated as established institutions.

With the above points in mind, we also wish to provide the following comments on the specific questions listed in issue 27.

a. The proposed regulation should consider the internal consolidation transactions discussed above to be established institutions.

b. If the regulations are not revised to provide that internal consolidations are considered to be established institutions, then the resulting institution should be permitted to request a review for such a determination.

c. The factors that the FDIC proposes to use for a review should include one to the effect that an internal consolidation transaction warrants treating the resulting institution as an established institution.

We appreciate this opportunity to submit comments on the proposed regulation, and support the FDIC's efforts in this regard. If you should have any questions or comments regarding this letter, please feel free to call me at the number listed below.

Sincerely,

John G. Holinka
Associate General Counsel
HSBC Bank USA, National Association
(716) 841-2705

Jgh/2006/FDIC comments Ltr 9-21-06