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Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

ATTN: Comments

RE: RIN 3064-AD09: Deposit Insurance Assessments

Dear Mr. Feldman:

Citigroup appreciates the opportunity to comment on the FDIC's proposal for deposit insurance assessments under the Federal Deposit Insurance Reform Act of 2005. It is clear that the FDIC has devoted considerable effort to developing a thoughtful proposal. We favor the general approach taken by the FDIC, but have a number of specific comments, which are set out below.

1. **For banks with assets of at least $30 billion, the proposed 50% weighting for public debt ratings should be adopted.** Public debt ratings provide a very good proxy for market risk perceptions, and closely reflect the credit analysis that large banks perform regarding each other. Rated issuers provide information continuously to the rating agencies, and the ratings are under constant review. These ratings therefore offer a useful measure of the risk that a particular bank represents to the FDIC.

2. **Any bank, regardless of size, that is part of a bank holding company, should be permitted to use public debt ratings for that holding company at a 50% weight.** This should be permitted either (a) if the bank does not have public debt ratings of its own, or (b) as a replacement for the six financial factors that otherwise apply in varying degrees to banks with assets of less than $30 billion. The six financial factors overlap significantly with the CAMELS rating, whereas the public debt rating provides a very useful complement to the CAMELS rating. Allowing all banks that are part of a bank holding company to use the holding company's debt ratings makes sense because bank holding companies are required to serve as a source of strength to their subsidiary banks, and in view of the cross guaranty liability of affiliated banks.

3. **The FDIC should select a lower reserve ratio target.** The vibrant health of the banking industry, as evidenced by capital ratios, earnings, and the extremely low failure rate demonstrate that a lower figure than the 1.25% target established in 1991 is appropriate. Since that time risk-based capital requirements and the prompt corrective action regime of FDICIA have had a very favorable effect on the industry, and a lower reserve ratio target than seemed necessary in 1991 now makes sense.

4. **The base rate for Category I should be lower, and the rates for Categories II-IV should be higher.** The strength of the banking industry and the FDIC's actual loss experience demonstrate that banks in Category I, and particularly those in the highest sub-category, present almost no risk to the FDIC. Conversely, FDIC's loss experience for banks in Categories II-IV is greater than would be suggested by the proposed assessment rates for those categories. Therefore, the base rate for Category I should be lower than the proposed 2bp, and the rates in Categories II-IV should be higher in order to avoid having banks in Category I subsidize banks in Categories II-IV.

5. **The proposed six sub-categories for Category I should be reduced in number and the highest sub-category should be larger.** Having numerous sub-categories within Category I (a) defeats the supposed benefit of eliminating the old nine categories since the total number of categories and sub-categories would continue to be nine, (b) greatly enhances the chance that banks will be punished disproportionately in the market for very small differences in performance because it will allow reverse engineering of their CAMELS ratings, (c) implies that the 55% of banks in Category I that as proposed will not be in the highest sub-category represent significantly greater risk to the FDIC than they actually do, and (d) is likely to cause protracted debate between banks and their primary regulators regarding exam ratings because small changes in CAMELS ratings will now be worth millions of dollars. We appreciate that the FDIC believes that it is desirable to cause some risk differentiation within Category I. However, that objective can be accomplished with fewer of the adverse effects described above if the FDIC uses three sub-categories and places a significantly larger number of Category I banks, such as 75%, in the highest sub-category.

6. **The FDIC should not override the judgment of a bank's primary regulator either by directly changing the CAMELS rating or by adjusting the overall insurance score to reflect "stress" factors.** For large banks with resident examination staffs, the level of knowledge of and involvement in the bank's affairs by the primary regulator is significantly broader and deeper than that of the FDIC. Consequently, the FDIC should make such adjustments in the CAMELS rating or insurance score only with the concurrence of the primary regulator.

7. **Any Category I bank with subordinated liabilities and equity that substantially exceed the FDIC's average loss rate should be placed in the highest sub-category.** Many banks have significant liabilities that are subordinated to domestic deposits. Such liabilities function as de facto equity from the perspective of the FDIC. Although it is possible that some subordinated liabilities could be withdrawn from a bank experiencing financial distress, this is unlikely to occur in any significant amount as long as the bank is in Category I given the very low failure

rate for Category I banks. In addition, the FDIC can create an effective cushion for itself by requiring that subordinated liabilities plus equity substantially exceed the FDIC's average loss rate. Such a cushion would appear to be insured by setting the requirement for subordinated liabilities and equity as a percentage of assets at 25%.

8. **The Tier I leverage ratio should not be used in determining insurance assessments.** The FDIC has emphasized the Tier 1 leverage ratio by making it (and not the risk-based capital ratio) one of the six financial factors to be used in formulating the insurance score for banks with less than $30 billion of assets. By effectively penalizing banks for investing in high quality short-term assets such as U.S. government securities, the Tier 1 leverage ratio is not an accurate measure of risk and places U.S. banks at a competitive disadvantage to foreign banks.

Thank you for considering our comments.

Very truly yours,

Carl V Howard

Carl V. Howard

CVH/kj