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Union Bank & Trust

July 31, 2015

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

Via email: comments@fdic.gov
RE: RIN 3064-AE37 Comments Regarding Proposed Rulemaking

Dear Mr. Feldman:

I appreciate the opportunity to provide feedback relating to the FDIC's recent Notice of Proposed Rulemaking regarding changes to the deposit insurance calculation for banks with assets less than $10 billion. While the methodology and intended consequences of the proposal have merit, I have a few observations worthy of your consideration in light of the FDIC's position that the changes would allow assessments to better differentiate riskier banks from safer banks. It is imperative to recognize that although the Call Report contains a considerable amount of data, it does not capture enough data at a granular level to allow for a comprehensive risk-based assessment.

The proposed model introduces several new factors within Section 2 – Financial Ratios, including a Loan Mix Index that is institution specific. Within the Loan Mix Index the loan types are broad categories that do not allow for any adjustments relating to government guarantees. Union Bank maintains a significant portfolio of federal student loans under the Federal Family Education Loan Program (FFELP) that are 97% or 98% guaranteed as to principal and accrued interest by the U.S. Government through the Higher Education Act. These loans comprise over 70% of the Other Consumer Loans portfolio found in the Loan Index Mix as of March 31, 2015 and thus have a significant impact on Union Bank's Loan Mix Index based on the Weighted Charge-off Rate assigned to Other Consumer Loans. It is interesting that while government guaranteed FFELP loans are included in the analysis, the proposal excludes credit card loans for reasons noted. Inclusion of the FFELP loans in the Other Consumer Loans portfolio without any adjustment for the government guarantee significantly misstates the risks underlying Union Bank's consumer loan portfolio and increases Union Bank's FDIC Deposit Insurance Assessment a staggering 25%.

This treatment seems counterintuitive to the description of the proposed model as the proposal notes the model is designed to better recognize risks and ensure that banks that take on greater risks pay more for

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deposit insurance, in essence effectively price risk. FFELP loans, due to the government guarantee, present close to no risk to the Deposit Insurance Fund as is demonstrated through their treatment in the Call Report. Within Schedule RC-R of the Call Report, the government guarantee is recognized through a lower risk weighting assigned to the FFELP loans on line 5, item d, column G. Utilizing the treatment within Schedule RC-R and applying it to the Loan Mix Index seems appropriate and consistent as the actual weighted charge-off rate on the FFELP portfolio would be only a fraction of the rate presented in the model for Other Consumer Loans. Viable options include excluding 97% of the FFELP loans from the Loan Mix Index or separating out the FFELP loans and applying a representative Weighted Charge-off Rate.

Similar treatment could also be extended to the guaranteed portion of SBA loans and residential loans held-for-sale. Although the residential mortgage loans held-for-sale are not guaranteed, they are normally sold within a short period of time under various commitments and thus represent minimal credit risk as is further reflected in the guidance within the FDIC Management Manual of Examinations that stipulates that no allowance for loan losses should be established for loans held-for-sale. While the totals are not as significant, adjustments recognizing the lower related credit risks should be readily available from the Call Report and could be incorporated into the model.

Another equally important item of note is the fact that Union Bank's annualized charge-off rate on loans is historically well below that of its peers and the industry as a whole. In working through the details of the model, it appears to apply a uniform Weighted Charge-off Rate to all institutions, which again seems to go against the grain of recognizing and charging for higher risks. An adjustment to reflect an institution's actual charge-off activity would seem prudent and in line with the spirit of the proposal.

I thank you in advance for your review and consideration of my comments and would welcome the opportunity to speak with the appropriate individuals at a time that is convenient for them should they have further questions. Given the risk-based focus of the proposed model and the monetary impact the results of the model may have on an institution's deposit insurance premiums, it is reasonable to expect the loans component of the risk assessment to align with the treatment utilized within the Call Report and reflective of the true risk underlying the loans including an adjustment for actual charge-off activity. Changes to the model to reflect the enhancements noted above would be minimal and would better reflect the quality and safety of Union Bank's and other banks' investment in FFELP or other guaranteed loans.

Sincerely,

Brad Crain, CPA
SVP & CFO

Cc: Mr. Tom Hoenig, FDIC
Mr. John Jenkins, FDIC
Mr. Greg Freese, Nebraska Department of Banking and Finance