January 3, 2011

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

Re: RIN #3064-AD66; Assessments, Large Bank Pricing

Dear Mr. Feldman:

The Independent Community Bankers of America[1] (ICBA) welcomes the opportunity to comment on the FDIC's proposal to revise the assessment system applicable to large institutions. Except for some relatively minor changes to simplify the new assessment system and to reflect the FDIC's proposal to change the assessment base, this proposal is very similar to the proposal the FDIC made on April 13, 2010.

Background

The FDIC proposes a new assessment system applicable to large institutions to better differentiate the risk profile of an institution. The FDIC proposal would eliminate risk categories for large institutions to allow the FDIC to draw finer distinctions among institutions and would eliminate long-term debt ratings for determining the risk profile of large institutions.

In lieu of risk categories and the use of long-term debt ratings, the FDIC would use a "scorecard" method that would combine CAMELS ratings and certain forward-looking financial measures to assess the risk an institution poses to the Deposit Insurance Fund or DIF. Although the methodology used in the scorecard method would be the same for all large institutions, two separate scorecards would be used: one for most large institutions (i.e., institutions with assets of $10 billion and more) and another for large institutions

[1] The Independent Community Bankers of America represents nearly 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers we serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever changing marketplace.

With nearly 5,000 members, representing more than 20,000 locations nationwide and employing nearly 300,000 Americans, ICBA members hold $1 trillion in assets, $800 billion in deposits, and $700 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

that are structurally and operationally complex or that pose unique challenges and risks in the case of failure (highly complex institutions).

Each scorecard would consist of a performance component, which would measure an institution's financial performance and its ability to withstand stress, and a loss severity component, which would correspond to the level of potential losses in case of failure. The performance component would include CAMELS ratings, and would measure the ability of an institution to withstand asset-related stress and the ability to withstand funding-related stress. The loss severity score would measure the relative magnitude of potential losses to the FDIC in the event of an institution's failure.

ICBA's Comments

As we explained in our letter dated July 2, 2010 concerning the first proposal, ICBA commends the FDIC for its proposal to eliminate long-term debt issuer ratings as a major factor for determining a large bank's assessment rate. We agree that debt issuer ratings, particularly for the largest institutions, do not respond quickly to an institution's changing risk profile.

ICBA also commends the FDIC for proposing to eliminate risk categories for large institutions. A scorecard method will allow the FDIC to make finer distinctions between large institutions and will better capture risk at the time an institution assumes the risk. We also agree that there should be two scorecards—one for the large institutions and another for the highly complex institutions—so that even finer distinctions can be made with regard to those institutions that pose the highest risk to the Fund. **However, we do not believe the FDIC should even consider applying the scorecard to smaller institutions until the FDIC has had considerable experience with its use on large institutions and has reliable data to demonstrate its effectiveness at predicting the long-term performance of an institution and the risk of an institution to the DIF. The FDIC would also have to weigh whether the scorecard is predictive and accurate for smaller institutions and whether its complexity outweighs the desire for greater simplicity and transparency of the rating factors for smaller institutions.**

In response to ICBA's comments and recommendations from others, the FDIC has made simplifying revisions to the scorecard proposed in April NPR. Simplifying revisions include refining some risk measurements, eliminating a few add-ons, and allowing for an adjustment of a bank's total score, up or down, a maximum 15 points higher or lower than the total score, rather than allowing for an adjustment of both the performance score and the loss severity score by up to 15 points each. **ICBA agrees with the FDIC that these changes will not materially reduce the scorecard's ability to differentiate between different risk profiles of banks.**

In addition, we are pleased that in response to our comments, the FDIC has agreed to revise the loss severity score by assigning more weight to the loss severity measure than to the ratio of secured liabilities to total domestic deposits. While we realize that the greater an institution's secured liabilities relative to domestic deposits, the greater the

FDIC's potential rate of loss in the event of failure, we do not believe that measure should have equal status with the loss severity measure, which directly measures the impact on the DIF if an institution fails. Furthermore, we do not think institutions should be unfairly penalized for holding secured liabilities such as FHLB advances.

As we stated in our letter dated July 2, 2010, **we think that the size of an institution and the impact that an institution's failure would have not only on the DIF but on the entire U.S. economy (including the collateral damage it could do to other financial institutions), should play a major role in determining an institution's assessment rate.** Section 331 of the Dodd-Frank Wall Street Reform and Consumer Protection Act deleted Section 7(b)(2) of the Federal Deposit Insurance Act (12 U.S.C. 1817(b)(2)(D)), thus allowing the FDIC to assign the highest assessment rates to the largest depository institutions that pose the highest risk to the DIF. The failure and subsequent bailout of the "too-big-to-fail institutions" created enormous shock waves to the economy that contributed to the subsequent failure of many community banks. These mega institutions should pay substantially higher assessment rates than other financial institutions.

ICBA is still concerned about the complexity of the proposal. While we accept the FDIC's explanation that the complexity of the proposal reflects the complexity of large insured depository institutions, nevertheless, we believe there are ways to simplify the components of the scorecard to make them more transparent. The mathematical formulas in the appendices are quite difficult to figure out. Where possible, the objective measures of the scorecard should be explained more simply so that they can be accurately determined by the institution, the regulators, and the investment community.

Conclusion

ICBA generally supports the FDIC proposal to revise the large bank assessment system. We support eliminating risk categories for large institutions and using in lieu thereof a scorecard method. We believe that a scorecard method will better capture risk at the time an institution assumes the risk. However, the FDIC should not consider the scorecard method for smaller institutions until the agency has had more experience with its use on large institutions and has reliable data to demonstrate its effectiveness at predicting the long-term performance of an institution and its risk to the DIF, and has otherwise weighed factors appropriate for smaller institutions such as simplicity and transparency.

ICBA is pleased that in response to our comments, that the FDIC has agreed to revise the loss severity score by assigning more weight to the loss severity measure than to the ratio of secured liabilities to total domestic deposits. ICBA also agrees with the FDIC that its proposed changes to simplify some of the risk measurements will not materially reduce the scorecard's ability to differentiate between different risk profiles of banks.

ICBA believes that the size of an institution and the impact that an institution's failure would have not only on the DIF but the on the entire U.S. economy including other financial institutions should play a major role in determining an institution's assessment rate, particularly since Section 7(b)(2) of the Federal Deposit Insurance Act has been amended by the Dodd-Frank Act. The very largest financial institutions should pay substantially higher assessment rates than other financial institutions.

ICBA appreciates the opportunity to comment on the FDIC's proposal to revise the assessment system applicable to large institutions. If you have any questions or need additional information, please do not hesitate to contact me at my email address (Chris.Cole@icba.org) or at 202-659-8111.

Sincerely,
/s/ Christopher Cole

Christopher Cole
Senior Vice President and Senior Regulatory Counsel