AMERICAN BANKERS ASSOCIATION ®

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August 15, 2006

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

Re: RIN 3064–AD03; Proposal to Amend the Deposit Insurance Assessment System, as allowed in the Federal Deposit Insurance Reform Act of 2005; 71 Federal Register 28790; May 18, 2006 (as revised in 71 Federal Register 36718; June 28, 2006)

Dear Mr. Feldman:

The Federal Deposit Insurance Corporation (FDIC) issued a Notice of Proposed Rulemaking (NPR) to change procedures for deposit insurance assessments and collections, as well as the assessment base, as authorized in the Federal Deposit Insurance Reform Act of 2005.[1] The Federal Deposit Insurance Reform Conforming Amendments Act of 2005[2] requires the FDIC to establish regulations by November 5, 2006, to institute the changes that are intended to make the deposit insurance assessment system react more quickly and accurately to changes in bank risk profiles.

The American Bankers Association (ABA) appreciates the opportunity to comment on this proposal. ABA, on behalf of the 2.2 million men and women who work in the nation's banks, brings together all categories of banking institutions to best represent the interests of this rapidly changing industry. Its membership – which includes community, regional and money center banks and holding companies, as well as savings associations, trust companies and savings banks – makes ABA the largest banking trade association in the country.

In summary, ABA makes the following recommendations on the NPR's proposals:

- ABA supports the proposal to assess premiums quarterly after each quarter ends. In calculating a bank's premium for any quarter, we support including changes in its examination ratings as of the date the bank is notified of the change.

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[1] Sections 2107(a) and 2109(a)(3) of the Federal Deposit Insurance Reform Act of 2005 (Title II of the Deficit Reduction Act of 2005, P.L. 109-171) amended Section 7(e)(2) of the Federal Deposit Insurance Act, 12 U.S.C. 1817(e).
[2] Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (P.L. 109–173) §5.

- ABA recommends that all banks with less than ***$1 billion*** of assets – including *de novo* banks – should have the option to use end-of-quarter deposit balances for their FDIC assessments, rather than be required to use quarterly daily averages.

- ABA supports retaining the deduction for float used in determining the assessment base of banks that use quarter-*end* deposit data. The float deduction should be eliminated for banks that use quarter-*average* deposits in their assessment bases.

I. ABA supports paying quarterly premiums after each quarter ends and including changes in its examination ratings as of the date the bank is notified of the change.

ABA supports the proposal to assess premiums quarterly for the quarter just ended. This should help banks better manage their risk positions and expected premiums during the quarter for which they will be assessed.

ABA also supports the proposal to use a bank's examination ratings and changes in its capitalization as soon as they become effective, when classifying a bank for risk-based premiums. This will make the premium assessment more reflective of the current condition of the bank. However, we believe that the effective date for recognition of a change in supervisory rating should in all cases be when the bank is notified of a change, not the date an examination begins (as proposed).

II. Asset cutoff of $1 billion should be used for average daily deposit balance.

ABA recommends that all banks with less than $1 billion in assets should be allowed to continue to use the end-of-quarter balance of deposits when calculating their assessment bases. The NPR proposes only those banks with less than $300 million in assets be allowed this option. The $300 million cutoff was presumably because banks under this asset size are subject to different Call Report requirements. However, the FDIC and other federal bank regulators use $1 billion in assets as the cutoff in other Call Report requirements and for other regulatory purposes. For example, $1 billion is the size limit for:

- The Community Reinvestment Act regulation for "small institutions;"

- Eligibility for streamlined examinations under the FDIC's Maximum Efficiency Risk-focused Institution Targeted (MERIT) examination program; and

- Various requirements relating to corporate governance (e.g., internal control assessments and reports by management and external auditors, and independence requirements for membership on the audit committee).

Moreover, the NPR would require *de novo* banks to file using the average daily deposit balances for the quarter. We believe that *de novo* banks should not be treated differently in the assessment base calculation and should have the option to do either the daily average or quarter-end reporting (if they are under the $1 billion threshold). Having the option to file using quarter-end balances is important as some banks believe the cost of more involved General Ledger systems is excessive.

III. The FDIC should retain a float deduction for quarter-end filers.

The NPR proposes to eliminate for all banks the $16\frac{2}{3}$ percent fixed deduction from the assessment base for float (cash items in the process of collection). For banks that will use the quarter-average of deposits balance, ABA does not object to this change. Averaging daily balances over the quarter is likely to net out most of the float.

However, for banks that continue to use the quarter-end balance, a float deduction should be retained. The NPR provides evidence that float is declining as a percent of deposits, yet it has not gone away. Thus, if no adjustment for float were allowed, the assessment base using quarter-end balances would be greater than appropriate and, therefore, the premium assessment would be higher than appropriate.

ABA agrees with the NPR that compiling the data to report and use actual float would involve significant cost. Therefore, we recommend continued use of a set adjustment factor, and urge that the FDIC research what factor would be appropriate.

ABA appreciates this opportunity to comment on the NPR. We are prepared to work with the FDIC staff throughout development of the final rule. If you have any questions, please contact Robert Strand at (202) 663-5350.

Sincerely,

Wayne A. Abernathy
Executive Director
Financial Institutions Policy
And Regulatory Affairs