



Sent via Electronic Mail

December 12, 2005

The Honorable Richard Shelby
Chairman
Senate Committee on Banking, Housing and Urban Affairs
534 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Shelby:

As Congress moves forward with comprehensive reform of the nation's deposit insurance system, and as you work on resolving the differences between House and Senate passed versions of the legislation, we respectfully submit our views on this important issue.

AFP is pleased that the House and Senate bills merge the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) into the new Deposit Insurance Fund (DIF). We also strongly support the elimination of the 1.25 percent designated reserve ratio cliff. Merging the funds and replacing the reserve ratio cliff with a range within which the FDIC would manage the DIF are significant improvements over the current system. AFP has consistently advocated for these changes.

While both the House and Senate bills, as passed, take positive steps, we remain concerned regarding the outcome on the issues of coverage limit increases, assessments and the application of credits for prior contributions.

AFP supports providing the FDIC with the flexibility necessary to mitigate the cyclical affects of deposit insurance pricing by permitting the reserve ratio to fluctuate within a manageable range. AFP also supports the retention of a risk-based premium approach, based on meeting a range of required reserves. The costs of risk should be allocated to those institutions that pose risk. Therefore, as both the House and Senate bills "seek to prevent sharp swings in the assessment rates for depository institutions," we urge you to adopt the provisions contained in House bill (HR 1185) that would cap assessments at one basis point for low risk institutions. Such a limit would help to prevent sharp swings in the charging of assessments. Additionally, we do not believe that any institution should be barred from the low risk category simply based on size.

Importantly, the House provision would not restrict the FDIC's ability to manage the DIF. The one basis point limit would be suspended should the reserve ratio fall below the low end of the range, thereby allowing the FDIC to increase premiums in order to restore the DIF the required minimum level.

AFP has long held that deposit insurance coverage levels should remain unchanged. Since the intent for the federal deposit guarantees initiated by the Banking Act of 1933 is to protect the small saver, the current deposit insurance ceiling is appropriate. Some financial institutions have argued that increases in coverage limits are needed in order for them to compete in the marketplace. Deposit insurance coverage is not a competitive issue—coverage is intended to benefit depositors, not banks. Use of the deposit insurance system to help some banks compete, is not appropriate.

However, should Congress decide that some type of coverage increase is necessary in order to enact broader reform legislation, we urge adoption of the Senate provisions regarding the indexing of coverage increases, and no immediate coverage increase for any special category of deposits.

Excess payments to the Fund should be credited toward the payment of subsequent assessments until the credit is depleted. We oppose rebates or refunds on the basis that an equitable rebate method cannot be constructed. The entity bearing the premium cost—the corporate or institutional bank customer—is unlikely to receive the value of any rebate. A fair rebate solution would require payment to the bank customer of pass-through costs previously paid. Since most banks *would not* pass on rebates to their customer, we prefer a system in which excess funds trigger credits toward future assessments. As such, we urge you to accept the Senate provisions regarding the crediting of overpayments.

Again, AFP is pleased that the Congress is moving toward enactment of comprehensive deposit insurance reform. Please contact Tom Santos, AFP's Director of Government Relations, at 301.961.8853 for additional discussion.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Ross Guyer". The signature is fluid and cursive, with the first name "R." and last name "Guyer" clearly legible.

R. Ross Guyer
West Virginia State Auditor's Office
Chairman
AFP Government Relations Committee