



PENNSYLVANIA ASSOCIATION OF COMMUNITY BANKERS

THE VOICE FOR COMMUNITY BANKING IN PENNSYLVANIA SINCE 1876

To: Pennsylvania Community Bankers
From: Frank A. Pinto, President/CEO
Subject: COMMUNITY BANKER ALERT: FDIC Insurance Premium Parity
Date: October 13, 2009

PACB's Immediate Past Chairman Tom Bailey of Brentwood Bank recently sent out the following message to his directors and employees. This message has great factual information to support our efforts to establish a systemic risk premium and to modify the FDIC premium formula.

Please consider using Tom's email as a template to send to your Directors and employees. As more members of Congress hear from their own constituents about H.R. 2897, the more Pennsylvania co-sponsors we will see. Currently, there are three Congressmen from PA listed as co-sponsors to the bill: Kanjorski, Carney, and Holden. That is great, but we need more!

Feel free to contact me or Kristine Warner at 717-231-7447 for more information on HR 2897 and our advocacy activities to support the bill.

From: Tom Bailey
Sent: Wednesday, October 07, 2009 4:44 PM
To: All Employees
Subject: Your Voice needs to be heard

When the FDIC established the current insurance premium assessment formula for banks in 1934, all banks were, in effect, local banks. No single bank or small group of banks dominated the financial services industry.

That was then, this is now. Today, banks under \$10 billion in assets hold about 19% of the total financial assets in FDIC insured banks, but pay just over 30% of the insurance premiums to support the deposit insurance fund. Why? Well, for two primary reasons. First, the insurance premium assessment formula has not changed in 75 years and is still based on domestic deposits only -- which made sense at the time this formula was created, since domestic deposits were about the only funding instrument that existed. Second, because over the past 30 years two distinct banking systems have evolved in this nation - the Main Street community banks and the Wall Street mega-banking firms.

Main Street's primary funding source is still domestic deposits; Wall Street has multiple funding sources of which domestic deposits are only a fraction. Consider this: Citigroup's entire banking empire relies on domestic deposits for only 27% of its total funding. The typical Main Street community bank relies on domestic deposits for 89% of its total funding.

The FDIC's current insurance assessment formula discriminates against community banks. But we have an opportunity to correct this imbalance. By supporting the bill introduced by Rep. Luis Gutierrez (H.R. 2897) that would eliminate the inequality in the insurance assessment formula by broadening the insurance assessment base the FDIC uses to determine insurance premiums. The bill would also require too-big-to-fail financial institutions to pay a systemic-risk premium to the FDIC in addition to their regular FDIC premium.

In fact, nationwide, over 8,100 banks will pay lower premiums while only 124 will pay more. Additionally, more than 99% of banks with less than \$1B in assets will pay lower premiums using the new assessment base, with 95% saving more than 20% on their premiums.

The Gutierrez bill is about FDIC insurance premium parity, plain and simple. It is about aligning premiums to risk. At present, the very largest "systemically important" banks in our nation are not paying their fair share of FDIC insurance premiums - what they do pay certainly is not in line with the enormous risk they present to the entire banking system.

By advocating for parity in assessing premiums; the same parity that once existed in this nation before the rise of "too-big-to-fail"; we are not asking the largest banks to pay more, we are asking them to pay their fair share.

I hope you will join me in asking our Representatives to stand with all community banks in demanding premium parity. Brentwood Bank and Citigroup hold the same FDIC insurance charters, let's be assessed fairly for the privilege. By clicking on the link below, you will be sent to the Independent Community Bankers' website which will ask for:

- 1) Your ZIP code in order to address your US Representative
- 2) Your contact information
- 3) The message for your review (feel free to personalize it)
- 4) Send the message
- 5) <http://capwiz.com/icba/issues/alert/?alertid=13717946&PROCESS=Take+Action>

If you have any questions, please feel free to contact me.

Sincerely yours,

Tom

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