Association for
Financial Professionals

April 24, 2000

Arthur J. Murton
Director, Division of Insurance
Federal Deposit Insurance Corporation
550 17” Street, N.W.
Washington, DC 20429

Dear Mr. Mutton:

The Association for Financial Professionals (AFP) welcomes the opportunity to participate in the April 25 Roundtable on deposit insurance issues.

The AFP represents over 14,000 finance and treasury professionals who on behalf of over 5,000 corporations and other organizations are significant users of the nation’s financial system. Our members have responsibilities for banking relationships, investments, pension management, credit, payments and cash management. In these roles, our members negotiate, monitor, and approve for payment the fees which are passed-through by banks to corporate customers for deposit insurance assessments paid to the Bank Insurance Fund (BIF). Therefore, AFP members have an active interest and a sizable stake in any changes to the deposit insurance system. Corporations are the major funders of the BIF because banks pass-through their deposit insurance costs to corporate customers on the basis of balance size. Our members pay these assessments based on total balances which customarily are well in excess of the insured $100,000 limit. Therefore our members subsidize the BIF through premium costs for deposits which are not insured by the Fund.

Our comments today focus primarily on deposit insurance premium assessment methodology, and certain structural inequities in the system. We recommend a relatively simple set of adjustments which can be quickly implemented:

- Assess only insured balances. Eliminate the current inequitable system of assessing total domestic deposits while insuring some lesser amount -- currently $100,000.

- Discontinue the 16 2/3% float adjustment factor. AFP members report that almost all banks with which they have relationships have the capability to calculate collected balances. Collected balances should be the assessment base.

- Use average daily balances as the assessment base for the reporting quarter, rather than quarter-end “as-of’ balances.

We believe the above outlined formula presents a simple, fair, direct, and understandable assessment structure.

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<u>Other Considerations:</u>

We believe that the float adjustment factor for time deposits of one percent for Money Market Deposit Accounts (MMDA) should be re-examined. The MMDA account is used frequently as a transaction account, and in the event of passage of the "Business Checking Modernization Act" (H.R. 4067), permissible monthly transfers will be raised from 6 to 24. In effect, the MMDA should be redefined as a transaction account.

We wish to highlight a basic structural flaw in the development of the risk-based system implemented by the Federal Deposit Insurance Corporation (FDIC) in order to comply with the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICA). FDIC insurance charges are levied currently at a uniform rate and applied to ledger balances as of the last day of each quarter. The methodology fails to capture differences in loss potential among banks with similar ledger balances but varied deposit bases. For example, a retail bank with average account balances below the coverage ceiling has a far greater loss potential for the BIF than a wholesale bank with a similar <u>aggregate</u> ledger balance. A more appropriate basis for levying BIF charges would entail some determination of account types held by the institution to assess <u>actual</u> loss potential from accounts under $100,000. This information is currently provided to the FDIC by each institution.

We also believe that excess premiums should be rebated to banks and thrifts, which in turn should reimburse their customers for the pass-through charges assessed to fund the premiums.

Finally, the" AFP does not support raising the coverage ceiling to $200,000 from $100,000, nor extending a full insurance coverage guarantee to all municipal deposits.

We appreciate this opportunity to participate in this Roundtable and express the opinions of our Association, which we believe resonate those of the general business community.

Sincerely,

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