From: Joe Gore [mailto:joegore@firstate.net]
Sent: Wednesday, December 17, 2008 3:02 PM
To: Comments
Subject: Assessments - RIN-3064-AD35

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429
Re: Federal Deposit Insurance Corporation Notice of Proposed Rulemaking,
RIN 3064-AD35

Dear Mr. Feldman:

I am writing to you as President of First State Bank in Wrens, Georgia. Our total assets on September 30, 2008 were $112,514,000 and we have four branch offices. We are a non-complex financial institution operating in Jefferson and Sumter Counties in Georgia. Jefferson County has a population of 17,266 and Sumter County has a population of 33,200 – we serve small, non-metropolitan markets.

This letter contains our views and comments regarding several items in the Notice:

<u>Reciprocal Deposits:</u>
We are a member of the Promontory Interfinancial Network and offer CDARS Reciprocal Deposits to our customers. Our bank relies on CDARS deposits as a stable source of core funding. For the reasons discussed below, CDARS deposits should not be included in the FDIC's definition of a brokered deposit for purposes of the Notice's assessment rule.

CDARS is a deposit placement service that allows us to place our customers' funds in FDIC-insured certificates of deposits at other banks and, at the same time, receive an equal sum of funds from the customers of other banks in the CDARS Network. We rely on CDARS Reciprocal Deposits as a stable source of funding. The CDARS network allows banks such as ours to better serve our customers – individuals, businesses, nonprofit organizations and local governments.

CDARS Reciprocal deposits have the three characteristics that define core deposits. One, CDARS CDs have a high reinvestment rate. This year, the average reinvestment rate for CDARS deposits across the network has exceeded 83 percent. Two, our CDARS deposits have been exclusively gathered within our geographic footprint through established customer relationships. Across the network, eighty percent of CDARS placements are made by customers within 25 miles of a branch location of the relationship institution. Three, we set our own rates on our CDARS deposits, rates that reflect our funding needs and our local market.

In our case, we protected a significant amount of existing local deposits for which our customers requested full FDIC insurance coverage. Had it not been for CDARS, we would have been forced to replace these funds from other, possibly non-local sources.

Because CDARS deposits are built on established customer relationships, they demonstrate a high degree of "stickiness" and are insulated from the rate volatility in the national certificate of deposit market.

Moreover, CDARS Reciprocal deposits actually reduce the FDIC's exposure to bank failures and minimize the costs to the deposit insurance fund when a failure occurs. CDARS deposits reduce the likelihood of bank failures by enabling banks to better accept and retain large-dollar deposit accounts. And through CDARS, banks can hold large dollar customers without having to pledge collateral, leaving banks in better positions to handle liquidity emergencies that can arise in times of stress.

CDARS deposits lower the FDIC's cost in the event a bank fails because they have genuine franchise value, being based on solid customer relationships with significant cross-sell potential. The FDIC can easily market these relationships in the event of a bank failure. Also, CDARS deposits can be terminated by the FDIC without prepayment penalty.

The Notice also points out that call reports do not currently distinguish between CDARS deposits and brokered deposits. Our bank can identify the amount of CDARS deposits on our books, so it would be simple to include this information on call reports.

In conclusion, CDARS deposits should be excluded from the Notice's definition of brokered deposits. In fact, CDARS Reciprocal deposits should not be considered brokered deposits for any purpose. We therefore request that the FDIC give its support for legislation that would exclude CDARS deposits from the definition of brokered deposits in the Federal Deposit Insurance Act.

<u>Secured Liabilities:</u>
I want to also express my concerns about the FDIC's proposal to increase deposit insurance premiums and apply potentially higher premiums on federally-insured depository institutions that use secured liabilities to manage risk and complement core deposits. This would be counterproductive for First State Bank.

I am concerned that this proposed regulation could increase the cost of funding for First State Bank, even though we use Federal Home Loan Bank (FHLB) advances as a consistent, reliable source of liquidity. While I respect the importance of the Deposit Insurance Fund (DIF) and appreciate the effort by the FDIC to restore its balance, any regulation that discourages prudent borrowing measures or increases the cost of borrowing from Federal Home Loan Banks would be potentially damaging to the economy in the current environment.

As a case in point, we are now competing with local area deposit rates that are irrationally high, due in part to high rates paid by a nationwide banking enterprise which was in the news as the target of a controversial merger. This institution recently offered rates which were more than 100 basis points higher than Federal Home Loan Bank advances for the same term. Clearly, secured liabilities are more cost-effective than local area deposits whose rates have been maintained at high levels, primarily by competition with national organizations.

First State Bank management uses FHLB advances prudently and within the context of a broader asset-liability management program – in my opinion, the deposit insurance assessment proposal unfairly characterizes the potential risks that this funding tool would have on the DIF. In fact, discouraging the flexible use of advances may prompt greater dependence on more volatile sources of wholesale funding or prompt institutions to raise interest rates on deposits, an unintended consequence that may lead to higher costs of borrowing in Jefferson and Sumter Counties. This proposal also suggests that I limit the amount of credit that I can make available in my community when the ability to raise core deposits does not keep pace with loan demand. In essence, the proposal could require banks like mine to limit credit at this moment when sound lending at competitive interest rates is critical to economic health.

<u>“Rapid Asset Growth” and Brokered Deposits:</u>
I now want to express my concerns about the FDIC’s proposal to increase deposit insurance premiums and target a combination of “rapid asset growth” and use of brokered deposits.

In particular, I am concerned about the definition of “rapid asset growth” in the proposal. A growth rate of 20% over four years implies an annual growth rate of approximately 5%. Compound interest on deposit accounts alone will cause a bank to grow at almost this rate, so the “rapid growth” threshold seems to have been set lower than necessary.

While I support the corporation’s concern over funding excessive growth with brokered deposits, the 10% brokered deposit threshold also seems lower than necessary. The failure of a financial institution with $1.6 billion in brokered deposits out of a total of $1.8 billion (an 89% ratio) clearly showed the danger of excessive reliance on brokered deposits, but a threshold higher than the proposed 10% would seem appropriate.

In many cases, brokered deposits are very cost-effective for First State Bank. As a case in point, we are now competing with local area deposit rates that are irrationally high, due in part to high rates paid by a nationwide banking enterprise which was in the news as the target of a controversial merger. This institution recently offered rates which are approximately 45 basis points over comparable all-in brokered deposit rates.

I urge the corporation to raise the proposed 20% “rapid asset growth” threshold and set the proposed brokered deposit threshold higher than 10%.

<u>Deposit Listing Services:</u>
Regarding the calculation of the new “adjusted brokered deposit ratio” as introduced in the Notice of Proposed Rulemaking which will implement changes to deposit insurance

assessments:

The FDIC proposes adopting the current definition of brokered deposits as stated in Section 29 of the Federal Deposit Insurance Act (U.S.C 1831f). The FDIC has, however, requested comments on whether so-called internet deposits or those deposits generated through a deposit listing service should be included in that calculation.

First State Bank agrees with the FDIC’s current position that a listing service or the internet is not a deposit broker, therefore should not be included in calculating the new adjusted brokered deposit ratio.

The inclusion of listing service and internet deposits in the calculation of a “brokered deposit” ratio would conflict with the opinions and interpretations that have been published by the FDIC since the brokered deposit regulations inception (FIRREA 1989). What is ultimately at issue here is whether a listing service is a "deposit broker" as that term is defined in the Federal Deposit Insurance Act. FDIC staff has consistently differentiated a "listing service" from a "deposit broker".

Advertising rates on a listing service or the internet is no different from advertising rates through different forms of media such as the newspaper, television or radio. There are no guarantees regarding the amount of deposits which can be obtained and the listing service makes no effort to refer depositors to the listing institution. Depositors communicate directly with the depository institution and the bank establishes, on a case by case basis, an individual relationship with each depositor.

Deposit listing service and internet deposits provide a beneficial supplement as well as an alternative to our bank's local market deposit funding. They also provide an additional funding resource and serve well as a component of our bank's contingency funding plan. Deposits result from a direct communication between our bank and our customer and do not have the same qualities or characteristics of a brokered deposit.

First State Bank agrees with the FDIC’s existing opinion that a listing service or the internet is not a deposit broker; therefore, banks soliciting deposits directly as a result of posting rates on a listing service or the internet would not be required to classify those deposits as “brokered deposits”. We strongly believe that deposits generated directly as a result of advertising on a listing service or the internet do not qualify for inclusion in the definition of brokered deposits for the purpose of the “adjusted brokered deposit ratio” and should not be considered in the calculation of this ratio.

Thank you for your consideration of these comments.

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Joseph E. Gore

First State Bank

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