From: GKlein@mahopacnationalbank.com [mailto:GKlein@mahopacnationalbank.com]
Sent: Monday, March 09, 2009 8:36 AM
To: Comments
Subject: Special Assessment for Banks-

I have spent most of my 27 year career in Banking as a Community Banker, and I am extremely disappointed and upset about the proposed special assessment of 10 basis points for all Banks to shore up the Insurance Fund. While I agree that a special assessment is needed to stabilize and protect the Banking system during this crisis, nearly all of your 8,000 Community Banks across the country were not involved in the irresponsible lending practices that are at the root of the problem, and should not have to bear the burden of the cost to shore up the system. Rewarding bad behavior and punishing good behavior is simply counter intuitive.

The large Banks, and irresponsible lenders of yesterday seemed ready, willing and able to accept the high level of risk, in exchange for the high yield on the loans they were pushing to borrowers who simply could not afford the loans in the first place. While these large institutions were involved in these irresponsible lending practices, your community banks continued with business as usual, lending on basic, time tested principles of repayment ability, and hard equity at risk in the transaction to build stronger communities, which in turn, would build stronger banks. Because of the astounding liberties taken, and the difference in underwriting standards that had developed over the years, your community banks became ridiculed by the larger banks as dinosaurs of the industry that never evolved into a new era. Many community bank customers were lost as they too believed that in the new age of prosperity, all you needed to buy a house was a dollar and a dream!!! As it turned out, the new era of high risk mortgage lending destroyed communities, rather than prudently building them.

Not only did the larger banks have a "perceived" credit underwriting advantage over their community bank competitors, but due to their economies of scale, they continue to have a pricing advantage over community banks as well and this, in a nutshell, is the essence of the argument for why community banks should not be disadvantaged in the rebuilding of the reserves of the FDIC. It seems ironic to me that while community banks endured the stigma of being unreasonable in their underwriting standards and repayment terms by the community at large, we were actually protecting our customers, communities, and ultimately, the FDIC fund. Now, after the inevitable result of the unconscionable lending practices that took place by the big lenders, the community banks are being asked to pony up in replenishing the reserves that we so diligently protected in the face of adversity. During the credit crisis of the last 18 months, it has been community bankers that have stepped up to the plate and have continued to make responsible loans in their communities, while the larger banks have turned off the credit spigot completely. To penalize us, just sends the wrong message to our country, and especially to our communities. We would be forced to cut other expenses to cover this assessment, including limiting the sponsoring of Community activities, and reducing charitable donations, just at the time our communities need us most.

My recommendation is as follows: charge the Banks that were involved in the irresponsible lending, including the successor banks, for the total cost that is required to shore up the system. However, given that this is a special assessment, one could argue that it is the result of a systemic problem that was a consequence of a 5 year "credit free for all" created by large lending institutions with an insatiable appetite for above average returns, without regard for the underlying risk. Therefore, collect the total amount from the risk takers up front, however, in order to give them the opportunity to minimize the impact on earnings, allow them to amortize the cost of the assessment on a "back loaded" basis over a 5 year period. For example, the assessment could be amortized on a 15, 15, 20, 20, and 30% basis over the 5 year period. This may put some strain on the risk takers, and rightfully so, but would allow them to pay their obligation to the public, with a minimal impact on capital, and give them the opportunity to benefit from a growing economy over a 5 year period.

Finally, one of the reasons that this has turned into a global crisis, is the massive size of the institutions, and underlying risk which perpetrated the mess. During the last 12 months, in order to save the system, we have created even larger institutions as a result of necessary mergers of Bank of America and Countrywide, and Wells Fargo and Wachovia to name a few. Let's give the Community Banks a fair and continuing opportunity to compete on price, and enable us to grow and build market share through traditional banking, gathering local deposits, and lending them back in their communities. This will spread the systemic risk in the banking system, rather than continuing to only support the continued growth of the behemoth organizations that are "too big to fail", and got us into this mess in the first place! Community Bankers have demonstrated their consistent support of economic vitality of their communities, while the larger banks have clearly demonstrated their "cut and run" philosophy, leaving the charred remains of communities across our country for all of us to clean up. This compromised proposal will allow us to rebuild the confidence in our system, but will not provide a lopsided advantage to the risk takers.

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