March 9, 2009

Mr. Robert E.Feldman
Executive Secretary
Federal Deposit Insurance Corporation
Attention: Comments
550 17th Street, N.W.
Washington, DC 20429

Dear Mr. Feldman:

First, allow me to express my appreciation for the opportunity to comment on the FDIC's interim rule that would impose a special assessment of 20 basis points in the second quarter of 2009.

While I support the intention of the FDIC given the need for a strong and financially secure insurance fund, how this is done is vitally important to both my bank and my community.

In the midst of celebrating our 100th anniversary, the Bank of Hiawassee finds itself fighting for its very existence.

Currently operating under a Cease and Desist Order, we are taking a number of aggressive steps to reduce overall expenses and increase revenues. Among those actions was a reduction in our workforce of more than 10% with the possibility of further reductions all but guaranteed.

As much as we are to blame for our current predicament, so to are we a victim.

For better or for worse, the economic vitality of the North Georgia Mountains as been dependent on two major industries - tourism and real estate.

Through its economic and regulatory policies, the U.S. Government made real estate one of the most lucrative investment opportunities available. Developers developed and investors acquired millions of acres of land with the sole intention of flipping their investments for a quick profit. Many of these investors leveraged everything they had in order to participate in the “gold rush”. Development outpaced absorption rates by a wide margin for years.

Just as it was difficult for investors to ignore the opportunities for a quick profit, so too was it difficult for financial institutions to turn a blind eye.

The government undeniably encouraged much of the lending that is at the root of our problems. Through regulatory action such as the Community Reinvestment Act and their failure to adequately address poor lending practices (e.g., unreasonably high concentrations in loan portfolios, high loan to values, and absence of income verifications), the government nearly mandated lending to those who couldn't afford it.

At least in this part of the country, regulatory agencies repeatedly noted heavy portfolio concentrations in real estate but failed to require corrective measures. They too allowed record earnings and high capital ratios to mask the hidden dangers.

Then there were the local economic forces. Banks were under significant local pressure to lend. While we would have preferred to say no to several of the loans we ultimately approved, doing so would have meant a significant loss of market share (both loans and deposits) as relationships moved to our much larger local competitor who essentially dictated lending practices for smaller banks such as ours. We either had to play the game or step aside and be swallowed up.

When the government decided to lend a helping hand to assist troubled financial institutions, support often went to banks who didn't need it, and in many cases didn't want it.

For banks like ours, our primary hurdle was time. We simply needed time to weather the storm. We needed time to execute orderly foreclosures and allow for the orderly liquidation of the newly acquired collateral.

Instead of helping banks like ours, banks that are at the heart of community banking, the government redirected their assistance and left us to fend for ourselves. Support instead went to those institutions that were "too big to fail".

This "too big to fail" phenomenon presents yet another problem. The evolution of many of these institutions occurred through acquisitions and mergers as opposed to organic growth. And with each merger and acquisition came the loss of jobs as redundant overhead was eliminated.

So we traded efficiency gains for "too big to manage" and "too big to fail". A poor trade in my estimation with far more catestophic implications.

When a business grows so large that it crosses that threshold of too big to manage or too big to fail and subsequently has to look to the government for financial support, shouldn’t our Antitrust laws trigger an automatic breakup? Why are we allowing business to grow so large that free market isn’t allowed to dictate success or failure?

The Bank of Hiawassee recognized these potential issues a full three years before the turn in the economy and initiated a number of corrective actions to rebalance its portfolio and risk exposure.

First we hired a stronger and more competent management team. We then began to focus on improving our earnings, and made huge strides in 2006 and 2007.

The improvement in earnings occurred while also increasing our loan loss reserves from .76% to 1.22%. And rather than increasing shareholder dividends in recognition of higher

earnings, we opted to improve capital ratios, from less than 10% to nearly 12% for Total Risk Based Capital.

In spite of our efforts, we couldn’t avoid the impact of the economic downturn. We simply couldn't get ahead of the curve fast enough.

As I stated at the outset, the Bank of Hiawassee is not blameless, but we should be allowed to share equally in the right to survive.

As a consequence of the cease and desist order, our institution has been barred from using brokered CDs, with no possibility of receiving a temporary waiver. We have also been barred from participation in the TARP money or the loan guarantee program.

While we can at least rationalize some of the thought process behind access to the TARP money, we have been unable to rationalize our inability to access the Brokered market.

Once again the Federal Reserve allowed banks to systematically increase their utilization of and dependency on brokered deposits as a funding source. Why then, would they not authorize temporary waivers to allow institutions to systematically reduce that dependency in an orderly fashion?

The absolute denial of waivers for banks placed on corrective action is an unsafe and unsound business practice that will undeniably cause the acceleration of bank failures. It will also result in accelerated, unnecessary, and perhaps avoidable losses to the bank insurance fund. It would be a rare financial institution who could generate the liquidity necessary to replace their brokered CD portfolio in such a short time horizon.

If all of these obstacles weren't enough, now we are faced with the additional burden of a one time 20 basis point special assessment. The obstacles are simply becoming overwhelming.

The special assessment is a significant and unexpected cost to our financial institution that will devastate already stressed earnings.

We are already dealing with a deepening recession, accounting rules that overstate economic losses and unfairly reduce capital, regulatory pressure to classify assets that continue to perform, and a significant increase in regular quarterly FDIC premiums. In 2008 our premium assessment was approximately $288,000 and we are estimating that the cost will rise to $1,560,000 in 2009. The proposed 20 basis point special assessment will add an additional $740,000 to the 2009 burden.

Each of these is a big challenge on its own merit – but collectively, they are a simply too much to bear.

The Bank of Hiawassee has never made a subprime loan and has served its communities in a responsible way for years. For that, we believe we are being unfairly penalized.

The implications for this significant charge will impact every corner of the communities we serve. We will be forced to take even more aggressive action to reduce expenses which will almost eliminate our ability to sponsor community activities or make charitable donations.

I strongly urge you to consider alternatives that would reduce our burden and provide the FDIC the funding its needs in the short term.

I urge you to consider more reasonable funding options, such as use the FDIC's borrowing authority with Treasury if the fund needs resources in the short-run. This is the purpose of this fund and it remains an obligation of the banking industry. Moreover, it allows any cost to be spread over a long period of time.

Another option would be to use the revenue that the FDIC is collecting from the Temporary Liquidity Guarantee Program. There is considerable revenue from those banks that are issuing guaranteed debt to help support the FDIC at this critical time.

Making these modifications will ensure that the fund remains secure and will allow my bank to continue to lend in our community. I urge you to take these suggestions into consideration when the Board meets in April to finalize the special assessment rule.

Respectfully,

Michael T. Blubaugh
Bank of Hiawassee
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Chief Financial Officer &
Chief Operating Officer
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