From: Jim McIntyre [mailto:jim@bankbp.com]
Sent: Thursday, March 05, 2009 11:14 AM
To: Comments
Subject: Assessments - Interim Rule - RIN 3064-AD35

For the past several years our little rural bank has watched loan business go to lenders that didn't require down payments, didn't verify income, didn't verify employment, relied on ridiculous appraisals that must have been created "remotely", and charged rates that were well below our "all-in" cost structure. These "sub-prime" borrowers used to be our bread-and-butter and we considered these working people to be anything but "sub-prime". They were our friends and neighbors who didn't fit the cookie-cutter mentality that used to characterize the secondary mortgage market. We'd structure these folks in loans that they could afford. If they ran into a tough spell due to a job loss or major medical expenses, we could work with them until they got on their feet again. Foreclosure was something that happened once every few years…bank-wide…reserved for those folks who just gave up trying to pay.

Our earnings dwindled as this source of business dried up…even to the point that we became criticized by regulatory authorities for sub-par earnings, excess liquidity and excess loan loss reserves (as loan balances dropped with minimal charge-off activity). Maybe all those lenders with their credit scores (which we don't use) and their computer models were smarter than us country bumpkins who were living in the past thinking that borrowers ought to have a little skin in the game…and have adequate earnings to pay the loan off through normal payments of interest…and, believe or not, principal too. Maybe its because home values in our little communities didn't go up like rockets that we didn't resign ourselves to the philosophy that making all loans would be fine because values will go up to cover our mistakes.

We stuck to our guns…and sound underwriting principals. We didn't buy esoteric securities and complex derivative instruments in an effort to make up for the lost earnings. We didn't even buy more mundane investments like Fannie or Freddie preferred stock at lucrative yields (no vacation to the risk/return rule has ever lasted for long).

The world just passed us by…or so we thought until we get a notice that we get to pay for the reckless, feckless activity wrought upon our country by unscrupulous or just plain ignorant lenders of all stripes and regulated by examiners who either looked the other way or didn't understand the risks that were developing in the "system". The assessment of a 20 basis point hit to our bottom line is indeed "special". We definitely feel special having to pay for an activity from which we didn't profit and could readily see as a reckless endeavor to maximize profits in the short-run that would most assuredly maximize losses in the long-run.

I understand that you pay for insurance fully well hoping to never have a claim. I also understand the substantial benefit that the FDIC insurance label provides in assuring customer confidence. What I don't understand is why an insurance company wouldn't notify insureds engaging in risky behavior that continuing to do so would endanger their coverage. If a driver has several DWIs, don't they risk losing coverage, or, at least, isn't the cost of coverage significantly increased (not to mention possible jail time)? If you smoke, don't you pay significantly more for life insurance? If a house has been hit by three hurricanes in five years, isn't homeowners insurance hard to obtain…at any price?

Why isn't deposit insurance actuarially based? If an institution is four times as risky (using a common indicator like risk-based capital), why doesn't it pay four times as much in premium? Where were the C & D orders to limit or stop risk from getting out of hand? When I drive, there is a posted speed limit. It's there not just for my safety, but for the safety of all who drive the road. We have experienced Autobahn lending conditions over the past decade and we had an accident…and our airbag isn't inflating properly. As a country, we ignored the warning indicator light on the dash too long and now its too late to fix the problem as our hood is getting crumpled. Now is not the time to scold the driver and parade him in front of driver's ed classes as an example of how not to drive…that lesson has already been fully demonstrated…over and over again. Now is the time to mend the broken bones and begin the healing process. Fining the drivers who watched the accident occur in horror doesn't make much sense as they will be the ones pulling the driver (read "the economy") out of the fire.

We can't turn back the clock and repair the damage. We can learn from this experience. Once again the assumption that "this time is different" led us over the abyss. Bubbles burst…sometimes it takes a while, but they burst. They always will.

Sincerely,

Jim McIntyre
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Bank of Brookfield-Purdin, N.A.