Pentucket Bank

"The Little Bank That Could"

March 23, 2009

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

Re: RIN 3064-AD35; Assessments

Dear Mr. Feldman:

As a community banker in Massachusetts, I appreciate the opportunity to comment on the FDIC's interim rule that would impose a special assessment on all financial institutions on June 30, 2009. I have serious concerns about this proposal, which is a significant and unexpected cost to my institution that will negatively impact our ability to lend, and otherwise impair our community commitments.

Certainly the Deposit Insurance Fund (DIF) must remain strong and secure during these challenging economic times in order to maintain public confidence in the insurance system. However, my bank is already dealing with rising unemployment amid a deepening recession, accounting rules that overstate economic losses, increased pension expenses related to reductions in asset values, increased loan loss reserve allocations, higher loan delinquency and risk management costs and a significant increase in regular FDIC premiums. Addressing each of these issues individually would be difficult; being forced to deal with them simultaneously puts an inordinate strain on my institution.

Banks like Pentucket Bank which did not participate in the high-risk practices that have lead to the current economic crisis and have served their communities in a responsible way are being unfairly penalized by the FDIC's proposal. We have not retrenched in the current environment. We continue to lend in our marketplace both to residential and commercial borrowers and we have maintained our level of commitment to our local nonprofit organizations.

The cost of the special assessment is so high that it is a disincentive to raise new deposits, which, in turn, will inhibit our ability to lend. We were about to go to market recently with a new short term CD promotion. The purpose of this new promotion was to help raise additional liquidity to fund strong loan demand for both home mortgages and small business loans. When we received the news of the potential 20 basis point special assessment, we immediately told our advertising agency to cancel the promotion. It doesn't make sense to try to grow deposits at a time when it is going to cost us significantly more expense, even if higher deposit rates will benefit consumers and deposit growth will help raise liquidity to meet our strong loan demand.

(We might have used the borrowing resources of the Federal Home Loan Bank of Boston for the first time, but current issues related to the Home Loan Banking System have cautioned us against this potential source of liquidity.)

The proposed FDIC special assessment would increase our projected deposit insurance cost in 2009 to more than $1,450,000. That equates to our entire pre-tax operating profit in 2008! By

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comparison, our FDIC premiums were $200,000 last year and a mere $45,000 in 2007. That's a very tough hit for any small business to absorb at a time when most consumers and small businesses are already hurting. It's also difficult to understand as a strong financial institution (+10% capital) which has always focused on prudent lending resulting in a very solid loan portfolio (no 90 day loans at 12/31/08). There are many other smaller and/or weaker financial institutions that may not have the critical size or financial stability to absorb this level of expense during these very difficult economic times. It is unconscionable to think that this special assessment could undermine their viability.

Furthermore, the proposed assessment could also impact our charitable giving at a time when many non-profit institutions and social service agencies are facing declining support and a higher demand for services. This proposed action will have negative consequences on our local community at the very time that banks are being asked to help stimulate the economy.

Given the impact that the proposed assessment will have on my bank and our local community, I strongly encourage the FDIC to consider alternatives that may reduce the burden of rebuilding the Fund in the short term while still ensuring that the FDIC has the resources it needs to address ongoing issues in the system.

I appreciate Chairman Bair's public statements that the assessment might be lowered to 10 basis points pending the advancement of legislation in Congress to increase the FDIC's line of credit with the Treasury Department. In addition to this reduction, we also believe that the agency should institute a risk weighting that places less of the burden on healthy institutions and small community banks who, like us, have not participated in sub-prime lending and other higher risk lending activities.

Finally, we in the Massachusetts Bankers Association are strongly opposed to provisions in Section III of the interim final rule that gives the FDIC the authority to impose an additional 10 basis point special assessment at any time and without public comment. While we understand that the agency needs flexibility in managing the fund, we do not believe this supersedes the need for public and industry comment. Given that the interim rule provides for any such special assessment to be imposed on the last day of a quarter and not collected until approximately three months later, we believe that the FDIC would have ample time to provide at least a 30-day public comment period on any additional special assessment.

Thank you for the opportunity to comment on the proposed rule.

Sincerely,

George E. Fahey
Sr. V.P. & C.F.O.

cc: Congresswoman Nicola S. Tsongas
Congressman Barney Frank
Senator John F. Kerry
Senator Edward M. Kennedy