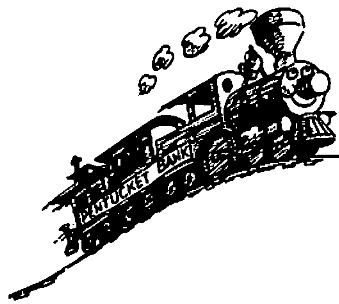

Pentucket Bank

"The Little Bank That Could"

March 19, 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 of 20 basis points effective June 30th, on all FDIC-insured institutions. I have serious concerns about this proposal, which is a significant and unexpected cost to my bank that will hurt our ability to lend in our community.

I strongly believe 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 and a deepening recession, accounting rules that overstate economic losses, increased pension expenses related to reductions in securities 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 additional strain on my institution.

Banks like Pentucket who didn't participate in the high-risk practices that have lead to the current economic crisis and have served our communities in a responsible way for years are being unfairly penalized by the FDIC's proposal. We are continuing to lend aggressively and have also maintained our level of donations to worthwhile community organizations.

The cost of the special-assessment is so high that it is a disincentive to raise new deposits, which will inhibit our ability to lend. We're all challenged with trying to find new sources of liquidity and with issues related to the Home Loan Banking System so sources of liquidity are becoming very scarce.

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 meet continued strong loan demand for both home mortgages and small business businesses, when I received the news of the potential additional 20 basis point increase in FDIC premiums for 2009. I immediately told my marketing company to cancel printing of the direct mail piece. 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.

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When we modeled what the increased assessment would mean to us, it is projected to cost us over $1,450,000. That would equate to our entire operating earnings for 2008! Our FDIC costs would increase from about $200,000 last year and $45,000 in 2007. That's a very tough hit for any small business to try and absorb or pass on to customers, at a time when most consumers and small businesses are already hurting. It's also difficult to understand when we're a strong financial institution who has always focused on prudent lending resulting in strong capital and a very solid loan portfolio. There are many other smaller and/or weaker financial institutions than us that may not have the critical size or financial stability to absorb this level of expense during these very difficult economic times. Furthermore, the proposed assessment may also impact our charitable giving at a time when many non-profit institutions and social service agencies are facing decreases in donations and a higher demand for services. These actions will have negative consequences on our local communities 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 local communities, I strongly encourage the FDIC to consider alternatives that may reduce the burden of rebuilding the Fund while still ensuring that the FDIC has the resources it needs to address ongoing issues in the system. Specifically, I believe the agency should consider the following options:

We appreciate Chairman Bair's public statements that the assessment will 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 the healthy institutions and small community banks who have not participated in sub-prime lending and other higher risk activities. For example, the special assessment could have a range of 7-11 basis points that imposes lower premiums on banks in the lower risk categories without overburdening banks in the higher risk categories;

- While the FDIC board approved an extension of the recapitalization process from five to seven years, I believe the agency should consider extending that further, to <u>at least 10 years</u>;

- Consider using a bond or convertible debt option that might allow banks to write off the expense over time or only when the funds are actually needed; and

- Calculate premiums for new, higher-risk entrants to the DIF based on assets for a certain time-frame instead of deposits. This will increase premiums on institutions that obtained bank charters over the last several months and contributed to the dilution of the fund's resources.

- We feel that several of the institutions who recently received banking powers such as Goldman Sachs and GMAC for example, should be required to pay some type of "buy-in" fee to help bolster the FDIC fund. A way to do this would be to base the assessment on asset size or have some type of sliding scale for some of these very large organizations. Many of these companies will be difficult for small financial institutions to compete with due to their economies of scale and the depth of their retail franchise as well as their various sources of fee income from specialty services. These "new banks" will be able to grow deposits significantly and rapidly due to their retail network and their cost and revenue structure, which will lead to fewer choices for consumers and may result in some local financial institutions being forced to merge or go out of business.

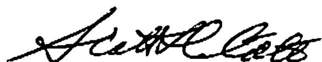
- We think it also makes sense to assess higher fees to those that were the most responsible for the lending and underwriting abuses related to sub-prime loans, and exotic investments products which were built on leverage and other high risk activities. To the extent that mortgage companies are still in business, they should help pay for much of the cost of the Fund's shrinkage since their sub-prime lending activities have lead in large part to the collapse of the financial services industry. Many large financial institutions such as Bank of America and Wells Fargo, who purchased mortgage companies such as Countrywide and Wachovia respectively, should pay a higher cost of the assessment since they bought the institutions who were underwriting many of the sub-prime loans. Most community banks like ours never participated in risky lending but we're being asked to pay for the abuses of others.

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.

These recommendations all ensure that the DIF remains secure without placing such a large burden on my bank and others in Massachusetts that continue to lend in our communities. I urge the FDIC to take these suggestions into consideration when the Board meets in April to finalize the special assessment rule. Thank you for the opportunity to comment on the proposed rule.

Sincerely,



Scott D. Cote
President

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