From: Charles Blanchard [mailto:charlieb@fsbmybank.com]
Sent: Thursday, July 23, 2009 12:35 PM
To: Comments
Subject: Transaction Account Guarantee-RIN#3064-AD37

In regard to the extension of the Transaction Account Guarantee Program, First State Bank, Russellville, Arkansas strongly urges the continuation of this program, and of the two alternatives outlined would choose Alternative B. We would also suggest that the interest rate on this proposal should be the average money market rate as determined on a weekly basis, and not reduced to 25 basis points.

More importantly, we urge you to offer the extension of this program through 12/31/10. I think there are sound reasons for this.

First, it will give the FDIC a longer period to recapture the unexpected losses arising from the Silverton failure, and so perhaps it could require a somewhat lower premium. The FDIC is the only one with real knowledge of what losses should be expected under this program, but I expect there are no real Silvertons in the banks that you expect to fail over the next eighteen months. If not, collecting this fee for a longer period of time is a distinct advantage to both the FDIC and its insured depository institutions.

Secondly, my bank has moved over ten million dollars back on to our balance sheet from balances that were previously swept off balance sheet to money market funds. Our customers perceived this as a real need. These customers are far more comfortable and confident of their FDIC coverage than any money market fund, even one that invests in government securities. They believe they need this protection. They want to do business with our local bank and they trust us and the FDIC. Without this we will be forced to create repurchase arrangements that will be outside of depository insurance, so the FDIC will not receive a fee for those, but will not have the access in the event of failures. And our liquidity will be adversely affected.

Finally, it is the potential for loss of liquidity to banks that will be most harmful. These balances allowed us for example, to get out of brokered CDs and pay off home loan bank advances. With this program we are competitive with the “too big to fail” institutions. Our customers don’t move across the street to Bank of America and we have increased our liquidity and funding cost. That has to be good for the FDIC. It is certainly good for us and we are willing to pay for it. Don’t you want this money in banks and out of the shadow baking system that supports our non bank competitors? Isn’t that better for banks, the FDIC, and the economy? Lower cost funding in banks will do more to stimulate recovery than any thing else that can be done for economic recovery, and forcing this money off our balance sheet will not help anyone. Please extend this program until at least June 30, 2010.

Sincerely,

Charles H. Blanchard
Chairman and CEO
First State Bank,
Russellville, Arkansas