



July 17, 2009

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments
FDIC
550 17th Street NW
Washington DC 20429

Dear Mr. Feldman;

The management team of Heritage Bank appreciates the ability to comment on the extension of the FDIC Transaction Account Guarantee ("TAG") Program. In summary, we have strongly supported the TAG program, and hope that the FDIC will consider extending this program until the economy and capital markets show consistent evidence of recovery.

The TAG program has been an important tool which has provided certainty to the bank depositors covered by the guarantee. It also enabled true community banks (those whose local deposits fund the loan portfolio) to compete on a level playing field with the large, systemically-important institutions which have proven to be too big to fail. Many of the large institutions, while potentially weakened from a capital & asset quality standpoint, are still somehow able to attract billions of dollars of non interest-bearing deposits. This influx of deposits has given the large institutions the ability to significantly lower their deposit rates on interest-bearing accounts. Ordinarily, it would seem unlikely that weakened institutions could attract deposits so easily. We feel and hear that the public is convinced that the Government will not allow these institutions to fail, and so many have shifted deposits to these banks without regard to their capital adequacy. Accordingly, these institutions are essentially able to offer fully insured deposits due to their status as being too big to fail.

The TAG program enables smaller banks to compete with larger institutions for larger accounts which would otherwise exceed the FDIC's \$250,000 insured limit. In response to the comments needed to resolve the outcome of the program, we have a few suggestions:

- Six month extension- We suggest that the program be extended until at least December 31, 2010, and then reevaluated at that time. A six month extension, during continued period of economic uncertainty, could cause an exodus of deposits from smaller institutions who have utilized TAG to attract & retain this crucial funding source.
- Reduction of interest rate paid on TAG-eligible NOW accounts- We suggest leaving the current maximum rate of .50%. This further enables smaller institutions to retain large dollars which would otherwise shift to larger institutions. This would include public fund accounts. A community bank such as ours is more inclined to have public deposits as the public entities choose to support the local community banks. In this environment, our bank prefers to keep our securities un-pledged. Without TAG, we may be forced to turn away some public deposits in our community.
- Increase in premium from 10 to 25 bps- While it is appropriate for the FDIC to charge for this insurance over and above our normal assessments, bank failures have proven that the institutions acquiring the failed bank's deposits pay a premium for those deposits and primarily for the purpose of purchasing the transaction account balances. The FDIC should never be in a position of loss on these types of deposits. We feel the 10 bps is a sufficient charge. If an increase is necessary to insure against TAG-related losses, a

modest increase would be tolerable. Perhaps something in the 15 bps range would be more appropriate. A significant increase in the premium will further widen the discrepancy between what the smaller banks must pay in deposit costs and the virtually non-existent deposit costs of the systemically-important institutions.

We sincerely appreciate the ability to comment on this important rule. The measures taken by the FDIC to broadly insure deposits has certainly been important in helping the economy work its way through this recession. And, the lending activity of smaller banks has similarly had a positive impact on the economic recovery. Accordingly, we hope FDIC strongly considers extending this program at a reasonable cost to participating banks.

Thank you,

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