March 17, 2009

Mr. Robert Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th St. NW
Washington, DC 20429

Comments on FIL-12-2009

Dear Mr. Feldman:

Please accept these comments on behalf of Arvest Bank, on Arkansas-chartered state member bank with over $10 billion in assets as of December 31, 2008. Arvest provides retail banking services to well over 500,000 households, businesses and other organizations through banking locations in Arkansas, Kansas, Missouri and Oklahoma. Arvest Bank is a member of the FDIC.

We have read FIL-12-2009 and have studied the issues addressed therein. Our comments focus on (a) the special assessment, (b) modification to the risk-based assessment system and (c) related matters.

A. SPECIAL ASSESSMENT

1. We are very concerned with the impact on banking industry capital should the 20 basis point assessment be assessed as proposed. Our estimated special assessment would approximate $18 million and lower available capital to lend by about $11 million after taxes which translates into about $100 million less lending capacity. The effect industry wide would be to remove billions of lending capacity at the very time the economy needs banks to continue to make loans to responsible and creditworthy borrowers.

   There is a real risk that banks will attempt to mitigate the large unexpected expense through other cost-cutting measures. The easiest expenses to eliminate are for discretionary spending items such as charitable donations, education, travel, not filling job openings and the like. The ripple effect on local market economies would be significant.

   Based on the analysis provided by the American Bankers Association, we understand the FDIC Reserve Ratio could deteriorate further and, in certain loss scenarios, lead to a negative fund balance. Increased revenues would seem to be a necessity for the FDIC Fund Balance. The question is how much, when and in what form.

2. We recommend the FDIC reduce the special assessment from 20 basis points to 5 basis points and allow for additional 5 basis point assessments each quarter to avoid a continued decline in the Reserve Ratio. The ABA analysis we have reviewed indicates such an assessment would reverse the current trend and begin to improve the Reserve Ratio although obviously at a slower rate.

   There are two factors which may lessen the need for the 20 basis point assessments, or even the 10 basis point level discussed by FDIC Chairperson Bair as reported in the media. First, the rapid increase in deposits during the latter part of 2008 may prove to be temporary as markets stabilize and depositors move money into other investment vehicles. Second, the actual losses may be less than projected. If these factors moderate the need for additional assessment, bank earnings and capital will not be so severely affected and lending capacity

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protected. If however, additional assessments are needed later, there is still opportunity to make such assessments later at that time.

3. We understand the reason for the desired increase in the FDIC's line of credit authority from the Treasury from $30 billion to $100 billion to provide adequate working capital to resolve future failed institutions. It is our understanding that the FDIC sees this expanded authority as a last resort funding source and we support that position. We believe it is very important for the health of the banking industry to have an adequately funded FDIC Fund Balance funded without taxpayer money. Temporary borrowings from Treasury are not desirable and should be repaid by the industry in a fair manner and reasonable time frame.

B. MODIFICATIONS TO RISK-BASED ASSESSMENT SYSTEM

1. We support the changes to be made in the way brokered deposits are handled as well as the increase in the threshold amount of secured liabilities to 25% of deposits. Please note that 40% growth over four years for purposes of the brokered deposit adjustment indicates an institution that has grown 9-10% per year for four years, hardly a rapid rate in a vibrant economy.

2. We support the exclusion of reciprocal deposits from the amount of brokered deposits for Risk Category 1 institutions. Although these deposits are not a significant source of funds for us, these reciprocal balances result directly from our core depositors. However, it is not clear why deposits resulting from sweep accounts at an institutions' affiliated (or subsidiary) brokerage filing would be treated as brokered deposits. In those cases where the brokerage account agreement allows the customer to select whether to sweep excess balances to a bank account rather than to a money market mutual fund, it would seem logical to allow the customer's choice to use bank deposit accounts to be excluded from brokered deposits.

3. The determination of the Initial Base Assessment Rate for Risk Category 1 institutions is not clear given the range is 12-16 basis points. The FDIC's online calculator does not provide sufficient explanation of how the initial base rate is established.

C. RELATED MATTERS

1. While the ongoing assessment rate is based on a risk-based system, the special assessment rate is not similarly adjusted. While it is understandable that some institutions would pay a higher proportion of total special assessment if a risk-based system were used, it is not clear why a risk-based approach is not used for the special assessment.

2. We believe it is imperative that no taxpayer monies be used to provide capital to the FDIC Fund but rather the banking industry plus earnings should provide sufficient capital to allow the fund to operate safely. We believe extending the recovery period to reach the minimum level of 1.15% from five years to seven years is helpful in this regard.

3. There are concerns that the adverse impact of the special assessment on bank earnings will have a ripple affect on CAMELS ratings. If bank examiners do not take a special assessment into account, the reduced earnings may well lead to lower CAMELS ratings pushing more banks into the "Problem Bank" category leading to higher loss reserves and a lower Reserve Ratio.

4. Banks certainly have a high level of concern as to the FDIC's loss estimates for Problem Banks as well as the reserve methodology for already failed institutions. As the banking industry is the primary source of funding FDIC, there needs to be greater transparency as to how these losses and reserves are determined and as to what proactive steps the FDIC is taking to lessen resolution costs and administrative expenses.

5. It is our understanding that the FDIC reserve estimates are affected by "mark-to-market" accounting just as banks are affected. The application of "fair value" methods to assets in illiquid markets can provide an ever-spiraling downward value of an asset, even if performing

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as to payment of principal and interest. This clearly would make matters worse as the Reserve Ratio is furthered depressed for unrealized losses.

6. Furthermore, it is our understanding that the FDIC uses only the $100,000 coverage limit unit's assumptions and not the higher temporary $250,000 limit or the unlimited coverages for non-interest bearing transaction accounts. Should Congress extend the $250,000 limit permanently, the impact on the Reserve Ratio could be significant and require immediate funding through assessments. These type coverage increases need to be provided for over an extended period of time.

<u>SYNOPSIS</u>

1. We support an industry-funded FDIC Fund and believe taxpayer money should not be used to provide capital to the Fund;

2. Prudent steps should be taken to avoid further declines in the Reserve Ratio while not leading to a significant reduction in bank capital;

3. Consider how the 20 basis point assessment could be lowered to a 5 basis point quarterly assessment to avoid such a significant adverse impact on bank capital and assess the extra premiums only based on updated analysis of need;

4. Clarify how the Interest Base Assessment Rate is determined for Risk Category 1 banks and exclude from brokered deposits balances swept from an affiliate brokerage where the customer selected the bank for use;

5. Work with all federal bank regulators to address the impact on CAMELS ratings resulting from lower bank earnings for a special assessment;

6. Enhance transparency of how FDIC loss reserves are determined and the impact of "mark-to-market" accounting; and

7. Funding for any permanent increase to $250,000 of coverage should be over an extended period of time and not via a large special assessment.

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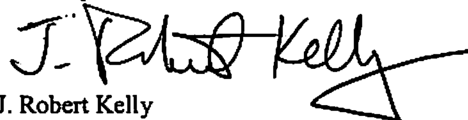
Please do not hesitate to contact us should you wish to discuss our letter.

Sincerely,



J. Robert Kelly
Executive Vice President/Finance

cc: Mr. Wayne Abernathy, American Bankers Association

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