March 17, 2009

Robert E. Feldman, Executive Secretary
Attention: Comments, Federal Deposit Insurance Corporation
550 17th Street, N.W., Washington, D.C. 20429

Reference: Assessments, RIN 3064-AD35

Dear Sir,

Much has been eloquently presented by the Independent Bankers Association of Texas (IBAT) and the Independent Community Bankers Association (ICBA) with regard to the negative impact of the proposed special assessment on community banks and of their suggestions for alternative strategies to replenish the Deposit Insurance Fund.

In addition, there are several other items to be considered concerning community banks. First, local public entities use community banks as depositories. Many contracts have floors which, negotiated two years ago, allowed for a safety net for the entity for a 200-300 basis point drop in rates. Rarely have the floors come into play, until now. Given the current uncertainty in the market and low market interest rates, many entities have placed increasingly higher balances with the bank as opposed to purchasing bonds or using the pooled money market funds such as TexPool. The entities know their interest rate and that their funds are secured by pledged bonds. We have several entities whose deposits have doubled; bringing our public fund balances approximately $70 million above traditional levels.

Secondly, as customer confidence eroded, funds came to the bank from troubled larger institutions and money market funds and our deposit balances have increased over $56 million, in addition to the aforementioned $70 million of public deposits. Our capital ratios remain strong yet we elected to participate in the Temporary Liquidity Guarantee Program, a 10 basis point assessment, to give our customers additional confidence to leave their funds with us. Some new customers have simply accepted very little interest just to have their deposits fully guaranteed. Now it is proposed that we pay an additional assessment on not only our customers' balances but those that came from troubled banks as well. Those are the very banks whose failures depleted the DIF.

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Finally, the increase in interest bearing balances coupled with slowing loan demand and low rates on conservative investments available for the deployment of excess funds has already begun to put pressure on earnings. The burden of a special assessment on our core deposits and our new inflows from the sources mentioned above amounts to approximately $1.4MM, almost one quarter of our budgeted earnings for the current year.

Large banks took TARP money, our community bank did not. They will pay their assessment with TARP money, thus buying them time to earn their way out. Why should our community bank fund other banks' failures with our income?

Even though community banks did not participate in the activities that caused the major financial crisis in which we now find ourselves, we are suffering the consequences of the actions of the large institutions. We will work hard to help our communities and customers through this very difficult time. The Honorable Ruben Hinojosa made similar comparisons between community banks and large banks in his opening remarks before the Committee on Financial Services, Subcommittee on Financial Institutions hearing on TARP on March 4, 2009.

IBAT and ICBA made several thoughtful recommendations, which I strongly support.

I urge the FDIC to explore all alternatives for funding the Deposit Insurance Fund in lieu of the special assessment including using its existing authority to borrow from the Treasury, issuing debt instruments to the public, or using its authority to borrow from the banking industry. The DIF would still be industry-funded if the FDIC used its borrowing authority, but the industry would be able to pay the cost of recapitalizing the DIF over time.

If a special assessment is unavoidable, several options, or combinations thereof, could potentially mitigate some of the damage to the community banking industry.

An assessment based upon assets, with an adjustment for capital, would rightfully place more of the burden on those who have more culpability in this current economic downturn. We have argued for years that the "too-big-to-fail" banks receive greater value for their FDIC premiums. It would appear to be time to recognize that inequity.

The special assessment and all future assessments should be based on total assets (minus tangible capital) of an insured institution, not its total domestic deposits, so that banks that caused the problems pay a bigger share. Since large banks hold a proportionately larger share of total banking assets, large banks should shoulder more of their fair share of the special assessment. The amount of assets that a bank holds is a more accurate gauge of an institution's risk to the DIF than the amount of its deposits. A bank doesn't fail because of its deposits, it fails due to bad asset quality, and all forms of liabilities, not just deposits, fund a bank's assets.

The FDIC and Congress should support a systemic-risk premium for the large, "systemically important" banks. This premium should be large enough to pay for the

substantial risk of insuring these "too-big-to fail" institutions. A "systemic risk" premium should strongly be considered, both for this pending special assessment as well as ongoing FDIC premiums.

An ability to amortize this extraordinary expense over several years would be most helpful. If FASB has an issue with this, Congress can clearly override, and should do so. The FDIC should support a change in the accounting rules to allow banks the opportunity to amortize the special assessment over several years, for instance, to significantly reduce its impact.

Finally, the FDIC Board as well as Congress should seriously consider the "bifurcation" of the industry to recognize the ever-widening chasm between community banks and the money center and super-regional financial services conglomerates. The distinctions between these two divergent groups have never been more obvious. We believe that a well-capitalized population of community banks, with appropriate regulatory oversight, poses minimal risk to the system or the fund, and would go so far as to encourage discussion of a separate insurance fund for community banks.

While learning portfolio management early in my banking career, our bank's former president once told me, "Pigs get fat and hogs get slaughtered." It is hard to argue with that logic. We continue to maintain conservative loan and investment portfolios which have served our communities, customers, and our shareholders well for 80 years.

Thank you for the opportunity to comment on this important issue. Your thoughtful consideration is gratefully appreciated.

Sincerely,

Marj Wagner, CPA
Senior Vice President, Investments

Cc:
Senator John Cornyn (R-TX)
Senator Kay Bailey Hutchison (R-TX)
Representative Louie Gohmert (R-TX 1st)
Cam Fine, ICBA
Chris Williston, IBAT
Milton McGee, Citizens National Bank