From: Don Forsberg [mailto:donf@icbnd.com]
Sent: Monday, March 09, 2009 9:44 AM
To: Comments
Subject: Special Assessment

Dear Chairman Bair:

On behalf of the membership o f the Independent Community Banks of North Dakota we thank you for considering our comments and concerns regarding the $0.20 special assessment to help restore the Deposit Insurance Fund (DIF). We understand the DIF has been reduced dramatically from the 1.15% level to the current .40% level which has triggered the need for the FDIC to develop and implement a plan to restore the reserve fund to its statutory minimum level of 1.15% under the Federal Deposit Insurance Reform Act of 2005.

We greatly appreciate the FDIC recognizes the current economic conditions make the mandated 5 year recovery plan virtually unattainable and have proposed a 7 year recovery period to restore the fund to its 1.15% level. We also greatly appreciate the proposal to cut back of the special assessment today from $0.20/$100 of deposits to $0.10/$100 of deposits "if" the Congress will authorize an increase in the FDIC line of credit to $100 million. We strongly agree that this is a good first step. However, we believe the FDIC needs to pursue additional options to maintain public faith in not only the reserve fund by the public but also in their depository institutions.

From information on the FDIC website we submit the following information for your consideration. There are 94 banks in the state of North Dakota with total assets as of 12/31/08 of $20,612 million and total deposits of $12,620 million. The assets grew by 7.7% and 10.93% and loans grew at a rate of 9.8% and 9.8% in 2008 and 2007, respectively. Deposits grew by 9.4% and 10.7% and equity remained a strong 10% and 9.9% for the years 2008 and 2007, respectively.

However, most of the banks in our state and all of the banks in our membership are community banks. That means our banks are prime sponsors of businesses on main street by providing loans and banking services to these businesses considered too small and too marginal for many "too big to fail" banks. Our members also provide scholarships and financial support for extracurricular activities for our schools students by supporting their fundraisers and special projects. We have members who have provided all or the largest single donation for hospitals, clinics and senior citizens centers. Our community banks provide funds for high school uniforms and scoreboards, community band shells, athletic facilities and trips to Washington DC and the State Capitol for civic lessons. Our members serve on foundations, hospital, nursing home and economic development boards. We have members who make a significant impact to their local communities by making "giving back" a way of life and not just a corporate philosophy. These community banks make large contributions of dollars and encourage use of staff time to help those who need help.

The proposal to increase the regular reserve assessment alone will mean a curtailment of the ability of some or perhaps many of our banks to continue to provide the financial support our communities depend upon. As noted in the FDIC's own Quarterly Banking Profile there will be significant pressure on profits in 2009. While here in North Dakota we have managed to avoid most of the housing and real estate problems plaguing the rest of the country we do see our loan reserve increasing and interest margins being squeezed significantly. We appreciate that while the reserve assessment rate and spread are increasing there are additional risk assessment factors which may result in higher or lower assessments potentially offsetting the higher premiums. However, the combined impact of all of these conditions will result in significantly lower earnings for our banks. This means that many of our banks will not be able to continue the level of community support they have in the past at the same time our communities may well need this support even more.

We can also appreciate the FDIC's concern about the public confidence in the deposit insurance reserve fund. We hope you can understand and appreciate the importance of public confidence of our customers in their financial institution. It is their financial institution which meets their depository, lending, trust and investment needs and not the DIF. Therefore we strongly urge the FDIC to consider all alternatives which may be available to include working with FASB on the possibility of treating and amortizing all special assessments over the remaining period of the restoration plan. We will work with the FDIC to try and convince the Congress that an increase in the line of credit for the DIF is both prudent and fiscally sound.

We have community bank members whose total DIF premium will go from $5,500 to $133,000 (@ $0.20/$100 deposit) and from $9,000 to $322,000 (again @ $0.20/$100 deposit) because of prior year credits which have now been used up and the proposed increased premium on top of the special assessment. Obviously taking $100,000 or more out of a small bank's earnings seriously impact their ability to serve their communities. There will be less capital and thus less ability to lend. There will be less money available to support our schools and community and nonprofit activities which is at conflict with the intent of the Treasury, Federal Reserve and direction from the President to free up funding for making loans and stimulating the economy. Even with a reduction of the special assessment to $0.10/$100 in deposits <u>we would encourage the FDIC to consider assessing all banks based upon their total assets less their capital.</u> This approach would have all banks contributing to the stabilization of the reserve fund using the same base. This form of assessment would allow a lower special assessment rate than $0.10/$100 of deposits and the largest banks who tend to use other forms of debt for providing funding would be paying a greater percentage of the reserve fund restoration assessment.

<u>We also strongly recommend the FDIC work with FASB to allow recognition and amortization of any and all special assessment funds over the expected period of restoration.</u> This approach would spread the recognition of this expense over the expected period of restoration. Future special assessments should also be spread over the remaining period of restoration.

We would also again emphasize that the housing crisis and real estate crisis and lending constriction being experienced around the country is not the making of community banks.   We also did not receive a bailout and if we get in trouble, we are allowed to fail. We would also point out that while your projections would seem to focus on failure of all banks including community banks, it is in fact the largest banks that are the real stress on the DIF and without taxpayer funds Citi Group, Wachovia, and many other "too big to fail" banks would have had an even greater impact on the reserve fund than they already have! This is clear evidence that there must be a "too big to fail" component of the DIF assessment. In addition these "too big to fail" institutions have access to TARP funding to pay for their share of special assessments.

At a time when virtually every 401k has diminished significantly, employees are worried about their jobs, businesses are worried about their customers, legislators are worried about budgets and "too big to fail" institutions receive billions upon billions of taxpayer assistance, the stability of our community banks is more important than ever. We are asking you to leave no stone unturned, no resource untapped and no option unexplored to mitigate the impact of the DIF special assessments.

Thank you again for your consideration of our concerns

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