CORNERSTONE BANK

September 4, 2015

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

Via: comments@fdic.gov

Re: RIN 3064-AE37

Thank you for this opportunity to comment upon the recent proposal to change the deposit insurance assessment regulations for small banks. Since it is the banks that bear the full cost of FDIC insurance and bank failure resolution it is imperative that assessments weigh fairly and appropriately on banks based on risk profiles. While FDIC is attempting to develop an assessment formula that better reflects risk profiles, we are unable to endorse the proposal due to material flaws that substantially outweigh potential benefits to the FDIC or small banks.

It is not clear that some of the proposed changes to the assessments formula would reliably differentiate the risk of failure among banks through future economic cycles, or outperform the current formula. Addressing the last round of bank failures through an assessment formula change rather than attempting to accurately predicting future risk is backward looking. Punishing good stewards of the industry for past bad actors is poor policy.

CAMELS component ratings are the truest measure of the potential for an individual bank to fail, and should therefore be given the highest weight in the FDIC's small bank assessments formula – much higher than as proposed. CAMELS ratings are not "one size fits all" and should reflect the agency's actual judgment about risks presented by a particular bank to the fund.

The extreme elevation of weighting for the tier 1 leverage ratio in the proposed formula would unfairly penalize many banks that meet all the regulatory standards of "well-capitalized." FDIC assessments should not punish banks for putting their capital to work in making loans if they meet the Interagency standard of being "well capitalized."

Finally, the proposed new factors for loan portfolio distribution, core-deposits-to-total-assets and one-year-asset-growth factor are of doubtful value in forecasting bank failures and should be reconsidered. Specifically, North Dakota banks have grown substantially over the last several years. This is not due to reckless behavior, but due to an economic boom. In this boom era, not one North Dakota bank has failed. In fact, virtually all have prospered. Nonetheless, the proposed assessment factor for asset growth would penalize banks such as ours. We believe banks that are serving their communities and managing growth should be encouraged, not punished.

We therefore recommend reconsideration of the new factors as proposed and that the CAMELS components should count more in any revised formula.

Sincerely,

Gary Petersen
Chairman