

September 22, 2006

Mr. Robert E. Feldman
Executive Secretary
Attn: Comments
Federal Deposit Insurance Corporation
550 Seventeenth Street, NW
Washington, DC 20429

Re: RIN 3064-AD09; Proposal to Amend Regulations for Risk-Based Premiums; 71
Federal Register 41910; July 24, 2006

Dear Mr. Feldman

The Federal Deposit Insurance Corporation (FDIC) has issued a Notice of Proposed Rulemaking to amend its regulation on risk-based assessment by creating a new risk scoring system for banks that are well capitalized and well managed. I am particularly concerned about one aspect of the proposal: assignment of all banks that are in their first seven years of operation (“de novo” banks) to the top risk rating within the category of well capitalized and well managed banks. I disagree with this provision because it fails to consider the scrutiny of de novo banks by examiners, does not encourage sound operations among de novo banks, and would discourage future chartering of new banks.

My bank, The Commerce Bank of Oregon, was chartered in 2005, as a subsidiary of Zions Bancorporation. It is a strong competitor in its market. I welcome the FDIC’s evaluation of our performance so that deposit premiums are consistent with soundness of the bank. Our inaugural exam is scheduled for next month.

De Novo banks like ours do not warrant separate treatment by the FDIC. The FDIC risk rating system stipulates that a bank with strong capital, a healthy loan portfolio, with few volatile liabilities, decent earnings, and a good exam rating warrants a lower premium. I agree, and my bank is prepared to be judged by this test. To arbitrarily ignore the system’s results based on a bank’s age suggests that the system is missing factors which are not recognized.

The proposal defends ignoring the financial performance of de novo banks’ by stating that “financial information for newer institutions tends to be harder to interpret and less meaningful” (page 41927). On the contrary, the financial statements of de novo banks are generally more reliable than those of older banks because de novo banks are examined more frequently and closely than other banks.; A young bank has to prove itself to its examiners; our financial results are put under very close inspection.

Due to this examiner bias, it is very difficult for a new bank to obtain a strong CAMELS rating. If a de novo bank gets a rating of II or better, so that it qualifies for the risk rating system, it has earned the right to be measured by that system. The systemic examiner bias already inherent in CAMELS ratings already penalizes these banks. There is no justification for additional penalty.

More importantly, the proposed treatment penalized al de novo banks, not just the underperformers. Instead the FDIC should encourage safe and sound bank operations by rewarding good management practices with lower premiums, regardless of the age of the bank.

The proposal defends disparate treatment for de novo banks by citing past data that “new institutions” have a higher failure rate than established institutions” (page 41927). This evidence is out of date and does not relate to today’s de novo banks. Many of the de novo banks were chartered by experienced bankers in markets they had operated for years. Many, like The Commerce Bank of Oregon, were chartered by long standing banking firms. Over 900 banks were chartered in the past seven years, and not one has failed.

Finally, there are important public policy reasons not to apply separate treatment to de novo banks. If the public is told that the FDIC believes that all banks chartered within the past seven years are less safe, confidence in all de novo banks will be undermined. Moreover, requiring de novo banks, regardless of condition, to pay higher premiums would put them at a competitive disadvantage relative to older banks. Both of these considerations would present challenges to newer banks and deter future chartering.

Thank you for opportunity to provide feedback on this issue.

Sincerely,

Michael V, Paul
President and CEO