THE CITIZENS BANK OF WINFIELD
P. O. Box 550
Winfield, Alabama
35594-0550
(205) 487-4277
Fax (205) 487-3799

November 3, 2008

Federal Deposit Insurance Corporation
550 17th Street NW
Washington, D.C. 20429

Subject: RIN 3064-AD35

On October 7, 2008, the FDIC announced deposit insurance premium increases. The northwest part of Alabama has been a slow growth area for many years. Several years ago, our city with a population of 3800 people had two growing and moderately profitable banks. Over the next few years, the regulators allowed two additional banks and a credit union to branch into our city. Now we have four banks and a credit union in a city of 4200 people. With slow growth, there are only a certain amount of loans and deposits available. It is our goal and we know it is your goal to have strong, safe, profitable banks.

When our return on assets dropped below 1%, we began analyzing business plans that would improve our bank's strength, build retained earnings, increase capital, and provide an equitable return to our stockholders. Regulatory pressure to increase lending within our community necessitated that we increase our lending to deposit ratio from 33% to 43% at which time our loan losses tripled. Aggressive lending policies were revised in order to preserve bank equity, so we decreased our Loan to Deposit ratio back to 33% which dropped loan losses down.

Bank management evaluated methods to provide alternative funding for preservation of capital. Large financial institutions within our community began paying high-priced rates on deposits that were not based on market models or prudent banking practices. Community banks within a saturated financial market require funding alternatives. To raise funding, we began utilizing FHLB advances that provided a reliable and predictable alternative to fluctuating deposits. As a result, we were able to bring our bank's return on assets up to an average of 1.62% over 16 years while maintaining a loan loss of .10%. In developing this business plan we chose to take interest rate risk only. Our results over the past 16 years reflect that we have built and maintained a well capitalized, well run bank paying minimal dividends and building retained earnings. We did not have the capability to control the number of financial institutions in our town nor the strong competitive position we found ourselves in. The only thing in our control was developing and maintaining a business plan for our individual bank. We think the proof is shown in our strong performance and the larger banks within our community are considered troubled banks seeking capital, government assistance, and new financial partnerships in order to survive. With all of these things taken into consideration, does it make sense that we are charged a higher assessment when we are prudently managing our assets and liabilities? Through business planning we have accomplished our goals in accordance with FDIC and State Banking Department regulations. Examinations by regulatory authorities have verified the process of funding through FHLB advances as a management tool that promotes sound equity and capital and can help preserve a bank in an economic collapse.

Some banks have used brokered deposits and FHLB advances to put risky assets on their books. We have put solid assets on our books. Most banks, particularly well managed banks, have used FHLB advances to improve their bank's situation while not disintermediating their core deposits. It would seem with the need for liquidity in the banking system, you would not want to discourage the proper use of FHLB advances as it is the primary source of liquidity for community banks. One of your primary concerns might be the blanket lien put on all loans of a bank borrowing from the FHLB. That is not the case in our bank as we are using individual securities to collateralize our FHLB advances. All of our loans plus our excess securities are available to the FDIC if there is a need.

We would request that you rethink a flat assessment against all FHLB advances over 15% and look more toward the individual business model and the risk that banks are taking with FHLB advances. The regulators plus the rating agencies apparently feel that our bank's business plan is a proper plan and is well managed. Why penalize community banks for properly utilizing the best liquidity source available to them? We are not requesting liquidity from the treasury, but without access to FHLB advances we would have to seek costly funding, which is the same method used by troubled banks.

Thank you for your consideration for individual bank situations.

Very Truly Yours,

Russell Carothers

Russell Carothers
Chairman, President & Chief Executive Officer
The Citizens Bank of Winfield
Winfield, AL