

Mechanics

SAVINGS BANK
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November 5, 2008

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

RE: RIN 3064–AD35 Notice of Proposed Rulemaking - Deposit Insurance Assessments

Dear Mr. Feldman,

On behalf of Mechanics Savings Bank, I am submitting the following comments regarding the Federal Deposit Insurance Corporation's proposed rule concerning insurance assessments.

Mechanics is a mutual savings bank headquartered in Central Maine. Our primary market area is Androscoggin County. If you review the FDIC branch deposit survey report for June 30, 2008, in addition to a year over year decline for total bank branch deposits in the State of Maine, you will note that Androscoggin County bank branch deposit balances have declined for the past two years. In fact, Androscoggin County bank branch deposits are lower at 6/30/08 than they were at 6/30/04.

There are probably a number of factors driving this – competition from tax exempt credit unions, out of market banks, internet banks, non-bank competition (brokerage, investment and insurance companies) along with a relatively slow growing State and County economy. Core deposit growth has been a challenge for all Maine based banks over the past many years. It has been exacerbated recently by larger financial institutions bidding up deposit rates to address their liquidity issues and the Treasury Departments recent guarantee of investment firm money market accounts.

100% of our loans are to Maine individuals and business. However, less than 50% of our loans are supported by in market deposit balances. We fund the difference using capital, out of market deposits, advances from the Federal Home Loan Bank and sales of loans (which we service).

In addition, because our market area is not experiencing organic domestic deposit growth, we are currently exploring brokered cd relationships to help expand and diversify our funding sources.

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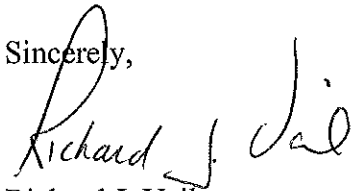
We have several concerns with this proposal:

- How would banks in capital and deposit poor markets like Maine and Androscoggin County address loan demand? Where would we go for domestic deposits? What would we have to pay to attract additional domestic deposits and how would that impact the cost of our existing core deposits?
- Operating expenses would increase either through higher insurance premiums or higher domestic deposit funding costs.
- In general, our loan customers are not comfortable with variable rate loans and our core deposit customers prefer short term deposit maturities. Federal Home Loan Bank long term advances and possibly brokered certificates of deposits help us manage interest rate risk.

Although I believe that Mechanics Savings Bank would currently fall under the targeted 15% threshold, we believe that this rule would limit our ability to grow, meet the credit needs of individuals and businesses in our market area and negatively impact our ability to responsibly manage expenses and interest rate risk. Federal Home Loan Bank advances and brokered certificates of deposit are an important resource.

I strongly urge you not to adopt a policy that would penalize institutions like ours that responsibly use FHLB advances and brokered cds to meet market needs and manage our balance sheets and p&ls.

Sincerely,



Richard J. Vail
President & CEO

CC:

Lloyd P. LaFountain, III, Bank Superintendent, Maine Bureau of Financial Institutions
Donald W. Groves, Deputy Superintendent, Maine Bureau of Financial Institutions
Christopher D. Blanchette, Risk Management Examiner, FDIC
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