From: William H. McFaddin [mailto:wmcfaddin@cbbonline.com]
Sent: Thursday, November 13, 2008 3:42 PM
To: Comments
Subject: RIN#3064-AD37 Comments on the TLGP Interim Rule

Temporary Liquidity Guarantee Program: Comments on Interim Rule and Amended Interim Rule

On behalf of the officers, directors, staff and shareholder banks of Community Bankers' Bank, I appreciate the opportunity to comment on the Interim Rule and Amended Interim Rule for the Temporary Liquidity Guarantee Program.

We are gravely concerned that the proposed rules for the TLGP governing overnight federal funds will have a disastrous impact on the continued viability of interbank lending by community banks. All community banks depend on a vibrant fed funds market so they may earn income on their daily excess funds and to borrow at relatively low cost when additional overnight funding is need to balance the ledgers. The yields earned on overnight fed funds are usually lower than other investment alternatives, and the costs paid to borrow overnight fed funds are also usually lower than other funding alternatives. The Federal Reserve has set the fed funds target rate at 100 basis points. In the current market banks selling fed funds to other banks can earn roughly 25 to 80 basis points, and banks borrowing overnight fed funds are paying in the range of 110 to 130 basis points.

The FDIC proposal to assess an insurance premium of 75 basis points on covered overnight fed funds would almost double the cost of these funds, essentially forcing banks to have to choose to opt-out of the program in order to be able to afford the funds. If the entire purpose of the TGLP is to encourage banks to lend to each other without fear of excessive losses in the event a borrowing bank fails during the next seven months, then the proposed 75 basis point premium could produce the exact opposite results. Banks in need of funds will not be able to afford the premiums, and banks with excess funds will direct their investments elsewhere.

We are not aware that the FDIC insurance fund has in the past experienced losses by having to pay out the unsecured fed funds purchased obligations of failed institutions. In fact the proposed premium may encourage more banks to obtain <u>secured</u> overnight fed funds borrowings, which would not be covered by the proposed 75 basis point premium. We understand that a failed bank with secured fed funds obligations can be more difficult for the FDIC to resolve, increasing the costs to the insurance fund. The proposed 75 basis point premium would therefore create a structure that could be even more costly for the FDIC.

We believe that the appropriate premium rate for overnight fed funds guaranteed by the TLGP should be no more than 1.5 to 2.5 times the rate applicable to a bank's premium rates on its core deposits. For a community bank that relies on overnight fed funds purchases, this source of funding has many of the characteristics of core deposits. The funds are readily available in a vibrant market and rates paid are determined by market forces. In the event the FDIC wants to be able to rely on the simplicity of a flat rate for all banks, we suggest that rate not exceed 15-20 basis points.

Please let me know if I can be of any further assistance as you formulate your Final Rule.

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