**Morrill & Janes Bank**

November 6, 2008

Robert E. Feldman, Executive Secretary
Attention: Comments, Federal Deposit Insurance Corporation
550 17th Street, NW., Washington, DC 20429.
**Via E-mail:** Comments@FDIC.gov

Subject: Assessments RIN 3064–AD35

Morrill & Janes Bank and Trust Company welcomes the opportunity to comment on the FDIC Notice of Proposed Rulemaking which outlines premium increases in order to recapitalize the insurance fund and to change the risk-based premium classification system. Morrill & Janes Bank and Trust Company is nearly a $500 million bank headquartered in Merriam, Kansas and operates mostly in rural and urban Northeastern Kansas. As a small community bank for over 150 years, we offer a broad range of products and services including the Certificate of Deposit Account Registry Service (CDARs). We offer the following specific comments related to the proposed rulemaking.

A strong FDIC insurance fund is important to maintaining depositor confidence. Changes to the premium calculation that truly reflect the risk of loss to the FDIC should be the basis for the calculation. However, as a healthy bank that had nothing to do with the current problems, we believe that the aggressive recapitalization proposed would be counterproductive and would limit our bank's ability to meet local credit needs. The proposal is particularly punitive to banks that use Federal Home Loan Bank advances. Our bank has relied on these for many years as an important complement to deposit funding and have used these in a safe and sound manner. Finally it is our belief that the proposal should remove the Certificate of Deposit Account Registry Service (CDARS) from inclusion in the brokered deposits ratio as these deposits allow our bank to retain customers and keep funding local. While some recent failed or troubled banks have used brokered deposits to grow rapidly and fund risky assets, it is unfair to include CDARS deposits in with other, more volatile, forms of brokered deposits.

The proposal would significantly raise premium assessments to aggressively recapitalize the insurance fund in five years to over 1.25 percent of insured deposits. Yet the Federal Deposit Insurance Reform Act requires the FDIC to rebuild the fund to 1.15 percent in five years and to take longer when there are "extraordinary circumstances." There is no question that these are extraordinary circumstances and excessively high premiums only reduces the resources that we have available to lend in the community. It is also counter to other efforts by Congress and the Treasury to stimulate lending. Premium rates should be substantially less than what is proposed.

In addition, we would also like to comment specifically on the penalty assigned to use of Federal Home Loan Bank advances greater than 15 percent of deposits. The bank use advances for several reasons. Most importantly, it's a stable source of liquidity that allows us to manage the overall cost of funding. In this volatile environment, there are often weaker institutions that have bid up the cost of local retail deposits. FHLB advances often provide a lower cost of funding than local deposits. Without advances, we would be forced to rely on these deposits more heavily during these periods. If the FDIC added a significant penalty, this would do nothing more than raise the cost of funding – with no change in the risk of the assets that are funded – and end up reducing the bank's profitability. Thus, raising the cost of funding by FDIC is not consistent with safe and sound banking.

Second, we use advances to match-fund longer term loans. This allows community banks to effectively manage our interest rate risk. This type of funding is not available elsewhere. Adding an additional cost is not consistent with safe and sound banking.

Seasoned members of the Federal Home Loan Banks, like ours, naturally maintain advance balances higher than the industry average. Comparing seasoned and regular users of advances to the entire industry (as the 15 percent threshold does) does not pick up "outliers" in any meaningful sense of the word. Rather, that 15 percent threshold is capturing normal use of advances and unduly penalizes banks that have used advances in a safe and sound manner for many years. If the FDIC adopts a threshold approach, it must measure outliers relative to the normal advance levels maintained by members that routinely use advances to maintain flexible liquidity and to lower enterprise risk.

The FDIC should not inhibit good, stable sources of funding. Rather, the focus should be on the risk of the assets that the bank has funded, regardless of the source of funds. Moreover, the Federal Home Loan Banks themselves police the use of advances so that the exposure does not become excessive. The FDIC should remove the use of Federal Home Loan advances from the rule or, at a minimum, move the threshold to truly capture outliers and not normal use of advances.

While we are acknowledge that some recent failed or troubled banks have used brokered deposits to grow rapidly and fund risky assets, it is unfair to include CDARS deposits in with other, more volatile, forms of brokered deposits. We use CDARS to satisfy the needs of our depositors that want the surety of deposit insurance protection, but maintain the relationship with our bank. CDARS allows us to meet that need and to keep the funding within our community. Without this, these depositors are likely to withdraw money from our bank and spread it on their own or through brokers to banks that truly are higher risk and paying high interest rates. Moreover, some of our depositors will use the Internet to find high rates around the country – and these types of volatile deposits are not even covered by the proposed rule.

Thus, the FDIC should exclude CDARS from the calculation of brokered deposits. This method of funding is not risky and any concerns should be raised as part of the examination process – which is included in the premium calculation. It is patently unfair to penalize banks like mine that use these stable sources of funding.

Thank you for the opportunity to comment on this very important matter facing community banks and the entire financial industry.

Sincerely

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