November 11, 2008

Mr. Robert E. Feldman
Executive Secretary
Attn: Comments
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

Re: RIN 3064-AD35

Dear Mr. Feldman:

The Minnesota Bankers Association (MBA) is pleased to have the opportunity to comment on the proposed rulemaking to raise premiums to recapitalize the insurance fund and to change the risk-based premiums classification system. The MBA is a trade group representing nearly 450 Minnesota banks. The MBA membership includes a broad range of banks, from independent community banks to regional banking organizations operating in multiple states.

The MBA supports the FDIC's efforts to better reflect risk to the insurance fund in premiums. However, we do have some concerns with the proposal. First, we question the necessity of recapitalizing to more than 1.25 percent of insured deposits in five years. The Federal Deposit Insurance Reform Act only requires the FDIC to rebuild the fund to 1.15 percent in five years and allows the FDIC to take longer in "extraordinary circumstances." We believe that current economic conditions qualify as extraordinary circumstances. We also believe that high premiums will shrink the resources that our members could put to better use in their communities. Aggressively raising premiums is contradictory to recent efforts to increase liquidity and stimulate lending. Premiums can and should be significantly less than what is proposed.

Second, we believe that reciprocal deposits such as those in the Certificate of Deposit Account Registry Service (CDARS) should not be included in the brokered deposits ratio. Reciprocal deposits more closely resemble core deposits in risk than brokered deposits. Like core deposits, rates are generally set by the bank rather than by a deposit broker, so they reflect local markets, not regional or national markets, making reciprocal deposits less expensive than brokered funds. In addition, reciprocal deposits generally belong to our banks' local customers who have multiple account relationships with the bank, so there is a high reinvestment rate. This is a significant difference from brokered deposits where the

7601 France Avenue South | Suite 200 | Edina, Minnesota 55435-5972
Phone: 952.835.3900 | MN Toll Free 866.835.3900 | Fax 952.896.1100 | www.minnbankers.com

owner has no other relationship with the bank and is chasing the highest return. An added benefit of reciprocal funds is that their use frees up liquidity. Banks using CDARS don't have to pledge assets to deposits over the FDIC insurance limit, leaving the FDIC in a better position if that bank fails. For these reasons, reciprocal deposits present less risk to the insurance fund than brokered deposits and should be treated differently.

Third, we are concerned that the proposal punishes banks for using Federal Home Loan Bank advances. FHLB advances are a stable, low cost source of funding for our members that can be used to mitigate interest rate risk by match-funding longer term loans. This is not the time for the FDIC to discourage the use of solid, stable funding sources. The FDIC should direct its attention to the risk of the assets being funded, not the source of funds. Banks that have risky portfolios will pay more in premiums. It is not fair to increase premiums for banks that have safe and sound portfolios. Doing so will only increase the cost of funding with no change in the risk of assets funded. In addition, we believe the 15 percent threshold does not single out risky institutions. Rather, it captures and punishes normal users of FHLB funds that have used the funds in a safe and sound manner for many years.

A better approach might be to look at normal advance levels for seasoned users of FHLB funds and determine outliers from there. It is important to remember that the FHL Banks monitor the use of advances to prevent too much exposure. The FDIC should remove the use of FHLB advances from the rule or, at least change the threshold to better differentiate outliers from regular users of advances.

Thank you for the opportunity to comment on the proposed rule.

Sincerely,

Tess Rice
General Counsel

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