November 13, 2008

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

Re: RIN No. 3064-AD35
Notice of Proposed Rulemaking – Deposit Insurance Assessments

Dear Mr. Feldman:

On behalf of Providence Bank, LLC, I am writing to comment on the Federal Deposit Insurance Corporation's proposed rulemaking regarding deposit insurance assessments, published in the Federal Register on October 16, 2008. My comments will address three parts of this proposed rule:

1. **Secured Liabilities exceeding 15 percent of domestic deposits** – The proposed rule will impose higher risk-based premiums for depositories that use secured liabilities, including advances from the Federal Home Loan Banks, in excess of 15 percent of domestic deposits. FHLB advances should be excluded from the deposit insurance assessment base.
2. **Definition of Brokered Deposits** – The proposed rule should exclude CDARS deposits from the definition of brokered deposits.
3. **Seven basis point increase in Assessment Rates** – The proposed rule will raise the current rates uniformly by seven basis points. Premium rate increases should be substantially less for banks that impose no increased risk of loss to the FDIC.

Secured Liabilities

While I appreciate the need to restore the Deposit Insurance Fund, I am concerned that the proposal regarding FHLB advances would increase the cost of funding unnecessarily for my financial institution and discourage the prudent use of advances as a reliable source of funding to supplement core deposits. For these and other reasons explained below, I strongly urge the FDIC to revise or delay implementing the proposal.

FHLB advances are a critical source of liquidity for financial institutions such as mine and have been used safely and effectively for over 75 years. Due to their reliability and easy accessibility, FHLB advances are especially important to smaller community banks that often lack alternative sources of cost-effective funding. These institutions, which comprise the vast bulk of the FHLB System's 8,100 members, depend on advances to fill the funding gap between their core deposits and their loan demand. FHLB advances allow these lenders to ensure that credit remains available to worthy borrowers on affordable terms, a vital role in the economic well-being of the local communities they serve.

In times of economic crisis such as these, the liquidity provided by the FHLBs is particularly important to community financial institutions, as demonstrated by the unprecedented surge in the demand for advances from FHLB members. Last year, as the crisis began to emerge, the outstanding amount of FHLB advances increased 37 percent to $875 billion. By June of this year, that figure had jumped to more than $913 billion. Recently, it exceeded $1 trillion. Clearly, FHLB advances are helping to alleviate the current liquidity shortage, which is exactly the role Congress envisioned the FHLBs would perform in such a situation.

I am greatly concerned that the FDIC's proposal threatens to substantially contract this crucial source of liquidity at a time when it is most needed. Imposing an additional premium for advance usage will penalize financial institutions that regularly use the FHLBs for their liquidity needs. It will encourage them to either decrease their lending activities in their communities or seek out less reliable, more expensive sources of alternative funding such as brokered deposits. Either way, the cost of funding for borrowers will increase. Such a result is completely contrary to the recent efforts by the Treasury Department, Congress and the Federal Reserve to promote liquidity, encourage lending and bolster confidence in the U.S. banking system.

The rule, as proposed, also threatens to decrease the amount of funding available to support affordable housing and community development activities. By law, a percentage of each FHLB's earnings are contributed for programs such as downpayment and closing cost assistance, affordable housing projects, and foreclosure prevention. Last year, a total of $318 million was contributed by the FHLBs for such programs. If FHLB members are discouraged from using advances, FHLB profits will shrink, as will their contributions to these worthwhile activities. Considering the current housing crisis, any proposal that would decrease funding intended to help American families become homeowners and keep their homes, is ill-timed and should be reconsidered.

In my view, the proposal unfairly characterizes the potential risks of advance usage to the Deposit Insurance Fund. Access to FHLB funding has long been viewed as a source of strength and stability for financial institutions, making them less likely to fall into receivership. In this way, FHLB funds help to protect deposit insurance funds, not threaten them.

I therefore urge the FDIC to revise the proposed rule to exclude FHLB advances from the deposit insurance assessment base. Congress created the FHLBs to provide low-cost, reliable funding for financial institutions. FHLB member institutions should not be penalized for utilizing this source of liquidity as Congress intended, particularly now as the economy is slowing and alternative sources of funding are more difficult to access. Nonetheless, if the FDIC decides to retain an additional premium for FHLB advances in the proposed rule, the proposal should be suspended in light of two recent actions placing added demands on the deposit insurance system. As you know, Congress recently raised the deposit insurance coverage to $250,000 per account. Shortly thereafter, the Treasury Department, FDIC, and Federal Reserve extended deposit insurance coverage to all noninterest-bearing transaction deposit accounts. Both actions are scheduled to expire on December 31, 2009. Congress is therefore likely to reconsider the issue of deposit insurance next year to determine whether these actions should be extended, modified or terminated. Until that happens, an accurate assessment of the demands placed on the deposit insurance fund cannot be known. At a minimum, the FDIC should delay any proposal to recapitalize the deposit insurance fund until Congress has acted.

Definition of Brokered Deposits

My financial institution's ability to foster customer relationships is due to an emphasis on great customer service and quality products and services. Providence Bank is a member of the Promontory Interfinancial Network and offers the CDARS Reciprocal service which, in addition to being a service highly valued by this bank's clients, is also a highly stable source of funding. The CDARS Reciprocal deposits have all the characteristics of classic core deposits -- the funds come from local customers who generally reinvest their funds when their CDs mature. These certainly are not out-of-market deposits or in any sense "hot money." In fact, the overwhelming majority (100%) of the deposits originate from customers located within twenty-five miles of Providence Bank's offices.

Defining CDARS Reciprocal deposits as brokered deposit is illogical. No one is standing between us and our customer. And these deposits do not behave like traditional brokered deposits. Since CDARS deposits act like core deposits, they should be treated as core deposits, not brokered deposits. The proposed rule would have the effect of punishing institutions like ours for no reason whatsoever. This would contradict one of the stated purposes of the proposed rule – to "make the assessment system fairer, by limiting the subsidization of riskier institutions by safer ones."

Traditional brokered deposits, in contrast to our CDARS Reciprocal funds, originate from third parties whose customers are seeking to place funds at the highest rates available. It is a national market and banks must "pay up" to play.

This is not the case with CDARS deposits. Our local customers use CDARS so that they can continue their relationship with us. In the absence of CDARS, our customers might well turn to deposit brokers or internet rate boards, which could damage the valuable customer relationship we have worked so hard to maintain and increase the level of volatile, high interest rate deposits that are the FDIC's stated concern. Alternatively, we would need to post valuable collateral in order to retain the deposits.

The Notice points out that call reports do not distinguish between CDARS deposits and brokered deposits. It would be a simple matter for our bank to separately report its CDARS holdings if this would allow an exemption of CDARS Reciprocal from the brokered deposit definition.

CDARS deposits should be excluded from the Notice's definition of brokered deposit. Moreover, I see no reason why CDARS deposits should be considered as brokered in the first place. This institution respectfully asks the FDIC to support legislation to exclude CDARS Reciprocal deposits from the definition of "brokered deposits" in the next Congress. I believe doing so would clarify any uncertainty that would remain in the wake of an FDIC exemption in the risk-based assessment rule.

Seven basis point increase in Assessment Rates

The FDIC's proposal is designed to raise premiums in order to recapitalize the insurance fund and to change the risk-based premiums classification system. A strong FDIC insurance fund is important to maintaining depositor confidence and I support changes to the premium calculation that truly reflect the risk of loss to the FDIC. However, as a healthy bank that had nothing to do with the current problems, I believe that the aggressive recapitalization proposal to uniformly increase assessment rates by seven basis points would be counterproductive and would limit my bank's ability to meet local credit needs. 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 I have available to lend in my 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 for financial institutions that impose no increased risk of loss to the FDIC.

Thank you for your consideration of my views.

Sincerely,

David DeGroot,
Regional President