



October 31, 2008

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

Attention: Comments – RIN No. 3064-AD35

Re: **Notice of Proposed Rulemaking – Deposit Insurance Assessments**

Dear Mr. Feldman:

I am writing to express my deep concerns about the **Federal Deposit Insurance Corporation's (FDIC)** notice of proposed rulemaking published in the Federal Register on October 16, 2008. In this notice, the FDIC is proposing to increase deposit insurance premiums in an effort to restore the **Deposit Insurance Fund (DIF)** to a reserve ratio of 1.15 percent over a five-year period. The 30-day comment period for this proposed rulemaking ends November 17. Please accept this letter as my comment relating to this matter of potentially higher premiums on federally-insured depository institutions that use secured liabilities to manage risk and to complement core deposits. Specifically, I request that the FDIC withdraw its current proposal in order to limit unnecessary financial stress on insured depository institutions during this extraordinary period.

In particular, I am concerned that this proposed regulation could increase the cost of funding for my financial institution, Citizens South Bank, which uses **Federal Home Loan Bank (FHLBank)** advances as a consistent, reliable source of liquidity. While I respect the importance of the DIF and appreciate the efforts by the FDIC to restore its balance, any regulation that discourages prudent borrowing measures or increases the cost of borrowing from FHLBanks would be counterproductive and potentially damaging to the national economy in the current environment.

I sincerely appreciate the FDIC's work to support the recovery of the credit markets, but, as a community banker who uses FHLBank advances prudently and within the context of a broader strategic asset-liability management program, I also believe this proposal unfairly characterizes the potential risks that this funding tool would have on the DIF. In fact, discouraging the flexible use of advances may prompt greater dependence on other, more volatile, sources of wholesale funding or prompt institutions to raise interest rates on deposits, an unintended consequence that may lead to higher costs of borrowing in our community. This proposal also suggests that I limit the amount of credit that I can make available in our community when the ability to raise core deposits does not keep pace

Page Two
October 31, 2008

with loan demand. In essence, the proposal could require banks like ours to limit credit at this moment when sound lending with competitive interest rates and terms is critical to the community's economic health.

After assessing this proposed regulation, I also would recommend that the FDIC utilize its "extraordinary circumstances" authority to extend the time period to rebuild the DIF from five to ten years. This extension of time will limit unnecessary financial stress on insured depository institutions, such as ours. In light of the extraordinarily fragile domestic and global banking system and the numerous sweeping measures the FDIC, the U.S. Treasury, and the Federal Reserve have taken in order to restore financial stability and the public's confidence, I do not believe that increasing deposit insurance premiums to the extent proposed is appropriate at this time.

Given the current environment and the temporary emergency actions taken by the government that will expire at the end of 2009, I strongly urge the FDIC to maintain its current assessment formula for 2009 and to revisit this issue in the latter part of 2009, allowing time for the full array of deposit insurance related-issues to be better quantified and considered. I also ask that you not increase the cost of FHLBank borrowing, which has constituted a consistent and reliable funding source for many institutions during this crisis. Thank you for this opportunity to comment.

Very truly yours,

CITIZENS SOUTH BANK



Kim S. Price
President and Chief Executive Officer