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Sent: Thursday, November 13, 2008 5:26 PM
To: Comments
Subject: Assessments - RIN-3064-AD35

November 10, 2008

Mr. Robert E. Feldman
Executive Secretary
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 concerns about the Federal Deposit Insurance Corporation's 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 and apply potentially higher premiums on federally-insured depository institutions that use brokered deposits and secured liabilities to manage risk and complement core deposits.

I understand the concern of the FDIC regarding the "uncontrolled" use of brokered deposits and the consequences resulting from it. Uncontrolled growth, however funded, is very risky. However, the FDIC should be aware that there are no regulations in place that prohibits an insured institution to "bid" aggressively for deposits by instituting an advertising campaign to gather deposits within its market area so they do not have to classify them as brokered deposits even though these deposits represent hot money and will leave the bank the minute they lower the rates, or the bank gets in trouble. They can also aggressively bid for funds in internet listing services. These deposit campaigns result in increasing the cost of funding of all institutions within the market area, as seen recently by the aggressive bidding for deposits by large national banks that are trying to expand their domestic core deposit franchises. Limiting the use of brokered deposits is not going to stop a bank from increasing deposits and will only result in an overall increase in the funding costs of all community banks. We should always keep in mind that "is not the money, but the use of the money" that gets a bank in trouble. However, charging an extra assessment for brokered deposits above 10% should not be, by itself, a hardship on anyone using them.

In today's changed banking world, community banks need to have access to as many funding tools as possible in order to better manage their liabilities and control their cost of funds. If we maintain the current spreads being paid for "core" deposits, combined with a soft lending market, it is only a matter of time before the net interest margin of these institutions will completely disappear.

I would like to request that the FDIC, at a minimum, make it very clear to all insured institutions that the use of brokered deposits to the extent of 10% of total deposits will not be a reason for criticism on the part of the regulators and that as long as institutions keep the use of brokered deposits to no more than 10% of total deposits it will be considered a prudent practice not subject to criticism. I interpret your proposed regulation as allowing banks to go over the 10% threshold by paying a higher premium for deposits as long as the use of these brokered deposits are

managed in a prudent manner as outlined in your Risk Management Manual of Examinations Policy:

- QUOTE The acceptance of brokered deposits by well-capitalized institutions is subject to the same considerations and concerns applicable to any other type of special funding. These concerns relate to volume, availability, cost, volatility, and maturities and how the use of such special funding fits into the institution's overall liability and liquidity management plans. **There should be no particular stigma attached to the acceptance of brokered deposits per se and the proper use of such deposits should not be discouraged.** UNQUOTE
- QUOTE The use of wholesale funding, in and of itself, is not viewed negatively. Active and effective risk management can mitigate the added risks associated with the use of wholesale funding sources. When the terms and conditions of such funding sources are well understood and well-managed, such funding can facilitate an institution's ability to meet foreseen and unforeseen liquidity and funding needs. UNQUOTE

Please note that although at the Washington level it has been very clear for many years that the use of brokered deposits by itself is not to be discouraged, this position has never reached the level of the examiners and it has been a constant source of friction between bank management and examiners for the last 25 years. It would help tremendously if language to this effect is included in the proposed regulation. Without such language the regulation appears to taint the use of brokered deposits by well managed insured institutions, even within the 10% level. The fact that the FDIC will not charge an extra assessment on the first 10% of brokered deposits reflects the FDIC position that this small percentage does not represent any extra risk for the insurance fund and this should be made very clear to your examiners.

In closing I would like to add that the FDIC, the OCC, and the Federal Reserve, will find themselves in the same position I outlined in the preceding paragraph when trying to convince community banks to lend money today. I speak with several bank CEOs each day, and I can share with you their universal response which is "I am not going to ease my lending criteria and make more loans because Washington is asking me to when I have to deal with the examiners when they come down and they will force me to take loss provisions on these new loans and close my bank if they so decide".

I repeat, there is a disconnect between Washington at the Policy Level and the Examiners on the ground.

Sincerely

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