COMMUNITY BUSINESS BANK

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November 17, 2008

Robert E. Feldman
Executive Secretary
Attention; Comments/Legal ESS
Federal Deposit Insurance Corporation
550 Seventeenth Street, N.W.
Washington, D.C. 20429
RE: FDIC RIN# 3064-AD35
Email: comments@fdic.gov

Dear Sir or Madam:

On behalf of Community Business Bank, I am writing this comment in response to the publication of the federal banking agencies' proposed rule to increase deposit insurance premiums on banking institutions utilizing brokered deposits

Our institution has significant concerns about the proposal. Due to the volatility and erratic nature of the retail markets, our Bank has moved into the brokered markets in order to stabilize our cost of funds as we finish our third year of De Novo status. This strategy has had a very positive effect on our cost of funds and ultimately our profitability. This improvement would not have been possible had Management chosen to remain solely within the retail markets with institutions such as Countrywide, Indy Mac, Wachovia and Washington Mutual driving rates up with unreasonable offerings, which ultimately contributed to their demise. I have also attached a copy of an article from Friday, November 14, 2008's Wall Street Journal entitled "Banks Wage Rate War for Deposits". This article further describes the irrational behavior currently permeating these local retail markets.

Other pertinent comments regarding our institution's usage of brokered deposits are as follows:

- Brokered deposits are a cost-effective funding source that is frequently less expensive than other funding options.
- Brokered deposits are an important source of liquidity to banks in this economic environment and should not be needlessly discouraged.
- The 10% brokered deposit threshold and the 20% growth threshold are artificially low. Neither benchmark is an indication of risk to the deposit insurance fund.
- The 10% brokered deposit threshold will discourage reasonable brokered deposit use above that amount because banks and examiners will view it as a cap, not a guideline.

- The fact that DTC brokered deposits are not eligible for early withdrawal (except in the rare case of death or adjudication of incompetence) assists the banking institution in the event that customers choose to make a "run on the bank" which has occurred and adversely affected insured institutions in the recent past, often adding to the probability of failure of the institution.

I strongly urge the FDIC to treat brokered deposits as comparable with retail / non-brokered deposits in regard to deposit assessments. Equal treatment would help negate the unfair competition that some of the large institutions have been allowed to participate in with their exorbitant rate solicitations with which small community banks such as ours have had to compete in our local markets.

Sincerely,

Mark S. Day
Executive Vice President & Chief Financial Officer
Community Business Bank

NOVEMBER 14, 2008

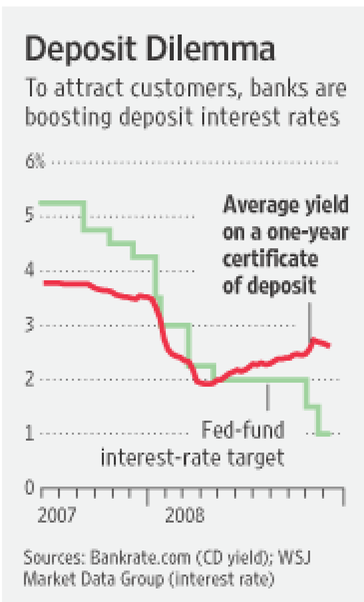
Banks Wage Rate War for Deposits

Consumers Benefit as Institutions Move to Shore Up Funds, but Profit Margins Suffer

Banks across the U.S. are engaged in a heated competition for deposits as the battered industry tries to shore up its funding sources.

From giant Citigroup Inc. to tiny S&T Bancorp Inc. -- which is based in Indiana, Pa. and has just 55 branches -- banks are responding to uncertain times by sharply increasing the interest rates paid on deposits.

The result is a boon for consumers hungry for higher returns as the stock market lurches. But the moves are causing pain for large and small banks across the U.S. by squeezing their profit margins.



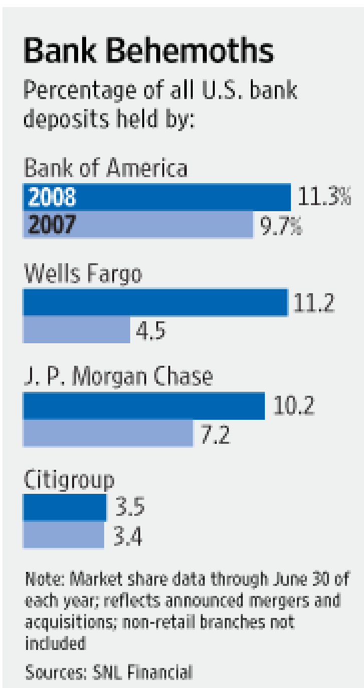
The desire to lure depositors is triggering a "national price war," says Michael Poulos, a partner at financial-services consulting firm Oliver Wyman. "In the past 15 years, there's been nothing like this. The level of competitive intensity is unprecedented right now."

The deposit-collecting binge could help banks build up the funds needed to make new loans. That could help ease the credit crunch choking the economy.

But the scramble for deposits also poses a dilemma for lenders. Banks that don't boost interest rates to keep up with rival institutions will find it harder to attract money that can be funneled into loans. Banks that do jump into the fray are likely to see profit margins erode at a time when many already are struggling with rising loan losses and the weakening U.S. economy.

To attract new deposits, Citigroup has been deploying a double-barreled pitch of safety and hefty rates of up to 4% on six-month CDs. "At Citibank, you can feel confident with a short-term CD at a great rate," the company says in newspaper ads. "All from a bank you can trust."

Citigroup's offer has drawn the ire of far smaller Virginia Commerce Bancorp Inc., which has 26 branches. William Beauchesne, chief financial officer of the Arlington, Va., bank, last month blamed Citigroup for inflating deposit rates in northern Virginia. Trying to keep pace, Virginia Commerce is now offering CDs with interest rates as high as 4.5%. That is eroding the bank's profit margins.



Citigroup's chief financial officer, Gary Crittenden, said the company has a wide array of funding sources world-wide that it can tap. He said Citigroup's high rates on U.S. deposits are worthwhile because they're still cheaper than other types of financing available to the company.

Deposit levels have fluctuated from bank to bank as the industry's crisis has deepened in recent months. Some have reported large increases, including from customers who see banks as a haven from the market's volatility -- especially now that federal deposit-insurance limits have been increased. Other banks have suffered declines in deposits, with the steepest falloff at institutions beset with large losses.

For banks in the latter category, the shortage "means less money for lending," says Chris Holmes, the head of retail banking at South Financial Group Inc., of Greenville, S.C., which has 180 branches. "You can have capital, but where you can really get hurt is on the liquidity side."

In the third quarter, South Financial shrank its loan portfolio by $176 million, bringing it to about $10.3 billion, in part by curtailing loan growth. Executives said on a conference call last month that loan growth will be constrained again in the fourth quarter.

William Reuter, chairman and CEO of Susquehanna Bancshares Inc. in Lititz, Pa., said the competition for deposits hasn't been letting up. In the third quarter, that clipped the bank's profit margins, and it's likely to continue taking a toll in future periods, Mr. Reuter said, even though Susquehanna is trying to compensate for the higher deposit costs by demanding higher prices for loans.

The fallout of the rate skirmish is "potentially quite damaging," said Mr. Poulos of Oliver Wyman. "It will be a drag on bank earnings, and so it will slow down the recapitalization process" since banks will have less profits to help rebuild their tattered balance sheets.

The average rate of 2.61% on a one-year certificate of deposit as of Wednesday is up from 2% in early May, according to Bankrate.com, a North Palm Beach, Fla., financial-data provider. The jump comes despite Federal Reserve interest-rate cuts that have reduced the fed-funds rate to 1%. Such cuts usually lead to lower deposit rates.

One of the keys for banks to return to health is a resumption of the normal process of taking in deposits at low rates and lending at higher rates. Now, bankers say, this mechanism is under pressure. Deposits are coming in at unusually high rates, and can't be readily lent with the typical healthy net interest spread.

Executives at banks such as Fifth Third Bancorp and Webster Financial Corp. said their profits are suffering in part due to the new high rates.

Citigroup and Bank of America Corp. shares fell on Thursday to 13-year lows on economic jitters and concerns that the government's $250 billion infusion hasn't done enough to stabilize the banking sector. By day's end, Bank of America's shares had rebounded along with the overall market, but Citigroup's stock price dropped another 2%.

Banks covet deposits because of this year's failures of IndyMac Bank, Washington Mutual Inc.'s banking operations and other institutions. Bank executives have been rattled by those seizures and the woes of beleaguered banks such as Wachovia Corp. and National City Corp., from which panicky customers yanked their money. Many lenders are now ratcheting up rates to shore up their deposits.

The situation may undermine the Treasury Department's plan to pump capital into financial institutions, which is intended in part to get banks to make more loans. "They have this new capital, but they have to raise deposits to be able to substantially grow their loan portfolios," says Ken Zerbe, an analyst at Morgan Stanley.

In recent weeks, federal regulators have intensified their scrutiny of bank deposits. Among other things, they are examining the rates banks are paying, according to people familiar with the matter. Regulators often consider rising rates as an indication that a bank might be in peril.

Unlike previous periods of turbulence, the Fed's rate-chopping campaign isn't relieving the pressure this time. In the past, reductions in the federal funds rate have helped level off interest rates on CDs and savings accounts, according to Market Rates Insight Inc., which tracks pricing trends for financial institutions. "This time around, it's much more fierce," says Dan Geller, executive vice president of the San Anselmo, Calif., firm.

Banks that don't keep up risk losing deposits. That happened with regional lenders SunTrust Banks Inc., Atlanta, and Regions Financial Corp., Birmingham, Ala., where deposit levels declined in the third quarter. Both banks said their deposit levels started to rebound in October.

—Dan Fitzpatrick, Damian Paletta, Robin Sidel and Paul Glader contributed to this art