From: WABCRA [mailto:wabcra@westamerica.com]
Sent: Tuesday, November 18, 2008 12:42 PM
To: Comments
Cc: Brian Scrip
Subject: Comment Letter - Risk Based Assessment System proposed rulemaking (RIN 3064-AD35)

Westamerica Bank

November 18, 2008

Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street N.W.
Washington DC 20429

Re: Comment – RIN 3064 – AD35
Topic: The Proposed ruling making Risk Based Assessment system – deposit insurance assessment rates.

Westamerica Bank (Bank) is in a unique position to comment on the FDIC's proposal to alter the way in which it differentiates risk based assessments. Westamerica Bank is a large bank with approximately $4.1 billion dollars in assets. It operates in a large geographic area within California which has been deeply impacted by the collapsed housing markets and stock market. Despite these set backs, the Bank remains in a strong financial condition and has not experienced the kind of financial collapses that have been so widely publicized. This experience in operating a successful Bank in this economic environment and having witnessed the financial collapse of some competitor institutions has helped the Bank to form what would be considered well developed perspectives on the ways banks can mitigate risk.

The Bank has the following comments:

- Brokered deposits and asset growth -- the proposal states:

  "A number of costly institution failures, including some recent failures, have experience rapid asset growth before failure and funded this growth through brokered deposits. Moreover, statistical analysis reveals a significant correlation between rapid asset growth funded by brokered deposits and the probability of an institution's being downgraded from a CAMEL composite 1 or 2 rating to a CAMELS composite 3, 4, or 5 rating with a year."

The existence of brokered deposits is a strong indicator that a financial institution has been unsuccessful in raising deposits through its own branch network to fund its earning assets. Brokered deposits are highly interest sensitive, exposing a bank to a higher risk profile in regard to liquidity risk and interest rate risk.

The Bank fully supports this recognition that brokered deposits are an excellent indicator of banking risk. It has been the Bank's observation that brokered deposits can be used as a reasonable funding mechanism for some Banks; however, for others it is a funding mechanism that is used to fund higher risk loan programs. In some recent environments, such deposits became a source of high priced liquidity to avoid further losses. Since brokered deposits frequently have higher rates, institutions obtaining these deposits must seek out and fund higher yielding and higher risk loans in order to generate a reasonable return. This in turn creates higher delinquency rates.

Additionally, brokered deposits can cause distortions in the market because the higher rates can cause competitive pressures. Institutions that do not accept brokered deposits are left with the difficult choice of competing and paying for the higher yielding deposits or maintaining lower rates and then witnessing a decrease in their deposit base. Lastly, very recently the Bank has witnessed an increase in brokered deposits within its market area as a result of certain banks encouraging consumers, who are alarmed over recent economic news, to enter into brokered deposit network relationships for the purpose of increasing FDIC deposit insurance amounts. Essentially, a customer's deposits are brokered to a number of banks and the customer is not disclosed the names of the receiving banks. While such brokering arrangements do decrease the FDIC insurance risk for the consumer by increasing deposit insurance among several institutions, the practice also increases the risk for institutions receiving these deposits since these network relationships can also be used for brokering large higher rate balances.

The Bank supports the new adjusted brokered deposit ratio being included in the financial ratio method. The proposal correctly calculates the risk of such deposits. Additionally, the Bank finds considering brokered deposits only if they exceed 10 percent of domestic deposits to be somewhat lenient, considering the inherent risk of the deposits. A lower rate of 5% should be considered.

- The proposal is seeking comment:

"Should deposits received through network on a reciprocal basis that meet the statutory definition of brokered deposits be excluded from the definition of brokered deposits for the purpose of the adjusted brokered deposit ratio or the brokered deposit ratio?

The Bank fully supports that section of the proposal that recognizes network arrangements are brokered deposits and should not be excluded.

"The proposed definition of brokered deposits would also include amounts an institution receives through a network that divides large deposits and places them at more than one institution to ensure that the deposit is fully insured. . ."

The Bank maintains that separating a large brokered deposit into smaller amounts for the purpose of maximizing deposit insurance does not negate the risk of brokered deposits that are described above and such amounts should properly be considered as brokered deposits for purposes of the adjusted brokered deposit ratio. There is no evidence that reciprocal arrangements negate the inherent risk of such deposits. Conversely, such arrangements could be contributing to the very sharp growth of brokered deposits by legitimizing the practice as being lower risk.

- The proposal is seeking comment:

"Should sweep accounts that meet the statutory definition of brokered deposits be excluded from the definition of brokered deposit adjustment?"

The Bank believes that sweep accounts that do meet the statutory definition of brokered deposit be included in the definition of brokered deposits. Accounts that do meet the definition of brokered deposits should not be excluded solely based on the sweep feature. Sweep features on such accounts do not reduce the risk of the accounts to the institution. Such an exemption would create a type of deposit that would contain the risk inherent in brokered deposits but would not be reported as such.

- The proposal is seeking comment:

"Should the FDIC uniformly increase current assessment rates by seven basis points for the first quarter of 2009 as proposed.". . . "Should any rate increase be postponed until the second quarter of 2009?"

While the Bank clearly recognizes the need to recapitalize the fund, the Bank supports the option that the increase be postponed until the second quarter of 2009 when the proposed changes to the assessment system take effect. Such an extension would allow Banks to better prepare for the increase and would not deplete much needed liquidity in the existing system.

- The proposal is seeking comment:

"Should asset growth rates be determined using data adjusted for mergers and acquisitions?

While asset growth should be considered, the Bank supports the proposal in recognizing that growth as a result of mergers and acquisitions should be adjusted. While the proposal states that:

> *"An argument can be made that growth from mergers and acquisitions is still growth,"*
>
> Such growth is not a result of the issuance of new or additional liquidity. Additionally, all acquisitions and mergers must undergo a lengthy approval process which provides adequate oversight of the risk of the merger or acquisition. Merger growth does not increase total deposits outstanding.

The Bank appreciates the opportunity to comment on the statement and hopes that new legislation will help restore consumer confidence in the integrity of banking in America.

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Westamerica Bank