BANK of
HIAWASSEE

A CHATUGE BANK SHARES, INC. COMPANY

Post Office Box 68
20 South Main Street
Hiawassee, Georgia 30546

(800) 653-0222
(706) 896-2243
(706) 896-3350 Fax

www.bankhiawassee.com

November 13, 2008

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: RIN 3064-AD35, Proposed FDIC Premium Increase

Dear Mr. Feldman:

I am writing today in response to the Federal Deposit Insurance Corporation's (FDIC) request for comments on a proposed increase in deposit insurance premiums. It is our understanding that, if adopted as proposed, the annual assessment rate for Risk Category I institutions will increase from its current level of 5 to 7 basis points to an assessment rate of 10 to 14 basis points, plus certain adjustments. Assessments for Risk Category II institutions would increase from 10 basis points to 20 basis points, plus adjustments. One of the proposed adjustments is a "brokered deposit adjustment."

For the past several years, Bank of Hiawassee has utilized brokered deposits as an important component in its overall funding and liquidity plan. Deposits generated through registered broker-dealers have repeatedly proven to be a more reliable and cost-effective funding source. By way of example, in our market area which primarily encompasses the North Georgia Mountains, we are currently able to acquire a one-year CD through a broker-dealer at an all-in cost of 3.60% to 3.70%. In contrast, that same CD in our retail market would cost us as much as 4.25%.

Currently our institution's Asset & Liability Management Policy limits purchased or brokered deposits to the greater of 25% of earning assets or 30% of total funding. These limitations are consistent with limitations placed on other funding sources and, we believe, promote a well balanced approach to overall balance sheet management. There is no evidence that the proposed 10% and the 20% growth threshold are closely related to the risk of losses to the deposit insurance fund. The 20% growth threshold over four years allows only 5% growth per year, which should not be unilaterally viewed as "aggressive". A financial institution that is growing at an annual rate of 10%, for example, and is funding that growth through a balanced increase in all funding sources should not have its access to this important funding source arbitrarily suppressed.

We are concerned that a 10% brokered deposit threshold will discourage reasonable usage above that amount because both banks and bank examiners will view it as a cap. To avoid potential criticism by regulators, rating agencies, and the financial press, Banks will look for alternative, potentially riskier, sources of funding. Worse yet, a large number of smaller community banks who don't have ready access to the capital markets or other sources of funding will be forced to reduce lending activities altogether. Clearly this cannot be in this country's best interest in the current economic environment. We see no clear reason why the use of brokered CDs should be needlessly discouraged.

In closing, we believe that the FDIC should not impose premiums on brokered deposits except as warranted on a case by case basis. We also believe that the current Risk Categories for financial institutions should already include factors relating to an abnormally high dependency on brokered deposits as a funding source and should also allow for mitigating factors that justify such dependency.

Sincerely,

Michael T. Blubaugh
Executive Vice President &
Chief Financial Officer
(706) 896-2243, ext. 113
mike.blubaugh@hiawassee.com