

Laterra, Ann

From: Jim Franks [jfranks@arbankersbank.com]
Sent: Monday, November 24, 2008 8:50 AM
To: Comments
Subject: Assessments - RIN-3064-AD35

Via e-mail

1020 West 2nd Street
Little Rock, Arkansas 72201
November 24, 2008

Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Room 6028
Washington, D.C. 20429

RE: RIN 3064-AD35 – Proposed FDIC Premium Increase

Dear Mr. Feldman:

Thank you for allowing Arkansas Bankers' Bank to comment on the FDIC's proposed insurance premium increase.

Arkansas Bankers' Bank (ABB) is one of twenty "bankers' banks" in the country, founded in 1990. Some 83 Arkansas community banks are the stockholders of ABB. ABB serves approximately 120 of the 140 commercial banks in Arkansas. The services ABB provides its customer banks include such things as cash letter settlement, investment purchases/sales, safekeeping, and cash/liquidity management to specifically include a managed "agency" Fed Funds pool.

If adopted, the proposed increase in FDIC premiums would increase the annual assessment rate for institutions from its current levels to higher levels, plus certain adjustments. Among the adjustments are a "brokered deposit adjustment" and "Federal Home Loan Bank advance adjustment."

First, I believe it is critical that FDIC know what a bankers' bank is, and most importantly, how it funds its balance sheet. Since there only twenty of us, we do tend to get lost in the shuffle, even though collectively, bankers' banks serve well over 5,000 of the nations community banks. Suffice to say that a bankers' bank is not like a community bank as it relates to how a bankers' bank is funded. The funding of ABB's balance sheet is noticeably different than that of the community banks ABB serves. While our customer community banks rely heavily on "core deposits," for a bankers' bank, there are no core deposits. When banker's banks were conceived in the 1980s and approved as such by the Federal Reserve, it was known then by the regulatory community that the funding of balance sheets for a bankers' bank would be from non traditional sources as compared to a typical community bank. Today, just like yesterday, the balance sheets of many bankers' banks continue to be heavily funded with the purchases of Fed Funds from their customer banks. Additionally, the responsible use of other forms of balance sheet funding sources, such as brokered CDs and FHLB advances, results in a consistent, reliable source of liquidity. These approaches to funding a bankers' bank's balance sheet have not materially changed since the creation of bankers' banks in the 1980s. Any regulation that discourages ABB from prudent borrowing measures or increases the cost of borrowing from such sources as the Federal Home Loan Bank would be counterproductive. It most certainly would result in higher costs to ABB, which ultimately would be passed to its customer respondent banks.

While it is understandable that the proposed insurance premium rates are more closely tied to "risk," there is no evidence that ABB is aware of that even hints that the funding mechanisms of bankers' banks posses any undue

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or additional risk on the FDIC's Deposit Insurance Fund. There has never been a bankers' bank fail. Certainly, the unwise use of non core deposits applies to all types of banks, but is totally different from the current use by bankers' banks of such funding sources as FHLB advances when prudently used in context with a broader asset-liability management program. But, to use a set percentage amount for every type bank as being the difference between more versus less risk seems unjustifiable, arbitrary and capricious. In ABB's case, the size of our bank has remained relatively constant from year to year. Therefore, to say brokered deposits or FHLB advances leads to "run away" asset growth is just not the case for ABB. Yet, FDIC's proposed risk-based premium increase will have a significant and adverse impact on our bank – and ABB is doing nothing different today compared to what it did years ago.

Arkansas Bankers' Bank believes that the FDIC should not impose upward adjustment premiums on brokered deposits and FHLB advances for bankers' banks except as individual bankers' bank unsafe and unsound use warrants.

Sincerely,

Jim Franks
Arkansas Bankers' Bank