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OFFICE OF THE EXECUTIVE SECRETARY

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

Re: RIN 3064-AD35, Proposed FDIC Premium Increase

Dear Mr. Feldman,

I am writing in response to the Federal Deposit Insurance Corporation's (the "FDIC") request for comments on a proposal to increase deposit insurance premiums. If adopted, the proposal would increase the annual assessment rate for Risk Category I institutions from its current level of 5 to 7 basis points to an assessment rate of 10 to 14 basis points, plus certain adjustments. Risk Category II institutions would experience even larger increases plus potential adjustments. The adjustment that I will address in this letter is the "brokered deposit adjustment."

Our bank uses brokered deposits and has for some time now. There are several factors that we consider on an ongoing basis that makes the usage of brokered deposits not only useful but in many cases a necessity. Among these factors are cost, liquidity, stability and convenience.

Considering the current market, cost has to be a major consideration when determining how the bank will be funded. With respect to deposits there are several sources for deposits that we consider. When making this determination, the first and foremost consideration is our marketplace. Currently, the average rate for a 1 year CD within our marketplace is approximately 3.00%. There are 13 Banks within this same market that are paying rates above 3.00% for the same term. Therefore, if we post a rate of 3.00% we will be very fortunate to convince our customers to renew their CD's let alone think that we will attract new customers, so we must post a much higher rate if we want to even retain our current customers. It just so happens that the total all-in cost (rate plus the broker's fee) for this same term today is 3.00%. If we order brokered deposits at this rate we can almost guarantee that we will have new deposits within a week or two. That gets me into the next point.

In many cases brokered deposits are the reason that that there are not more liquidity problems within some banks already. There are two reasons for this. First, as I stated above, when an order is placed at the prevailing market rate it is almost certain that the order will be filled and new deposits will flow into the bank in short order. When the bank decides to advertise a specific rate or product in the local newspaper to attract the same level of deposits, it is fraught with uncertainty. At best, it is an educated guess that predicts the amount of deposits that will flow into the bank as a result of this advertising campaign. This doesn't even address the expense involved in placing that ad. Also, in times like these some customers will decide that their perceived risk of a certain institution makes it imperative that they withdraw their deposits immediately, even if they incur a penalty for such withdrawal. This is not the case with brokered deposits. The only way that a brokered deposit can be withdrawn early is upon the death of the depositor or an adjudication of incompetence. When this occurs, it is virtually always that the withdrawal amount is a small percentage of the overall deposit. There is never a "run on the bank" caused by brokered deposits.

Considering the current economic environment, we feel that it would be imprudent to needlessly discourage the use of brokered deposits as an important source of liquidity. Setting an arbitrary threshold of 10% could conceivably do just that. We do understand that you do not want a financial institution to become overly dependant on brokered deposits. The overall cost of funds, when non-maturity accounts are included, would be extremely high. Also, the institution would not be serving their market as is intended in their charter. We agree that a threshold makes sense for these institutions, but not as low as 10%. This threshold would amount to a cap for most institutions, as no doubt the examiners would look at it as such.

In addition, the 20% growth threshold for the previous four years seems to be artificially low as well. In your own summary of recommendations you state that "staff also assumes that insured deposits would increase on average 5 percent per year from 2008 to 2013." This means that an institution that grows within your estimated level of acceptability would automatically trigger this 20% growth threshold. Like the 10% brokered deposit threshold discussed above we agree that there probably does need to be a threshold, but not as low as 20%.

To summarize this section, we feel that brokered deposits allow banks to more closely design dependable targeted funding plans than retail deposits and provide sticky deposits with minimal early withdrawal options. Therefore, we are not in favor of the proposal to limit these deposits at an artificially low level.

Adjusted Brokered Deposit Ratio

Also included in the Notice of Proposed Rulemaking (RIN 3064-AD35) is the proposed calculation of an "adjusted broker deposit ratio." The FDIC has requested comment on whether so called internet deposits or those deposits generated through a deposit listing service should be included in that calculation.

Temecula Valley Bank agrees with the FDIC's current position that a listing service or the internet is not a deposit broker, therefore should not be included in calculating the new adjusted broker deposit ratio. This would conflict with the opinions that have been expressed by the FDIC since the brokered deposit regulations inception (FIRREA 1989).

Our position is clear that advertising CD rates on a listing service or the internet is no different from advertising CD rates through different forms of media such as the newspaper, radio or television. In all of these cases there is no guarantee regarding the amount of deposits that will be gathered. Also, the listing service in no way directs customers specifically to any particular listing institution. Unlike true brokered deposits, depositors communicate directly with the listing institution and the bank establishes an individual relationship with each depositor.

The real effect that this proposal would have on any institution would be to restrict the availability of another source of liquidity. As stated above, considering the current economic environment, we don't think that this is something that should be done at the current time. Therefore, we strongly believe that deposits generated directly as a result of advertising on a listing service or the internet do not qualify for inclusion in the definition of brokered deposits for the purpose of the "adjusted brokered deposit ratio" and should not be considered in the calculation of this ratio.

If you would like to talk to me further regarding this issue I can be reached by phone at (951) 954-9067 or by email at mappanaitis@temvalbank.com.

Sincerely,

Michael Appanaitis
SVP/Asset Liability Manager