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December 10, 2008

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

Re: Federal Deposit Insurance Corporation Notice of Proposed Rulemaking, RIN 3064-AD35 (“the Notice”)

Dear Mr. Feldman:

I write on behalf of the Nebraska Bankers Association (NBA) to comment on the FDIC’s proposal to raise premiums in order to recapitalize the insurance fund and to change the risk-based premiums classification systems. The NBA is a professional non-profit organization representing 239 of the 241 commercial banks and 13 of the 15 savings associations in the state of Nebraska.

A strong FDIC insurance fund is essential to maintaining depositor confidence and we support changes to the premium calculation that truly reflect the risk of loss to the FDIC. However, portions of the proposal to recapitalize the insurance fund would be counter productive and would place limitations on the ability of banks to meet local credit needs.

We are particularly concerned over the treatment to be accorded banks that use Federal Home Loan Bank (FHLB) advances. The “penalty” proposed for banks making use of FHLB advances that are greater than 15 percent of deposits is particularly punitive. Banks use FHLB advances for many reasons. Most importantly, it provides a stable source of liquidity that allows them to manage the overall cost of funding. In the current environment in which banks seeking liquidity may bid up the cost of local retail deposits, FHLB advances frequently provide a lower cost of funding than local deposits. Requiring banks to pay a penalty for FHLB advances or to switch to a higher cost source of funding winds up increasing the cost of funds with no change in the risk of assets being funded, thereby impacting the bank’s profitability.

Secondly, banks often use FHLB advances to match-fund longer-term loans in an effort to effectively manage interest rate risk. This type of funding is not available elsewhere and the imposition of a penalty for use of FHLB advances once again places additional costs on these banks. We would encourage the FDIC to move cautiously in inhibiting solid, stable sources of funding. Perhaps removing the “penalty” for use of Federal Home Loan advances from the rule or increasing the threshold to avoid capturing normal use of advances should be considered.

We also would like to express our concerns with how CDARS Reciprocal Deposits would be treated under the new deposit insurance assessment proposal. Many of our member banks have seen deposit guarantee bonds that provided coverage for deposits in excess of FDIC insured amounts withdrawn from the marketplace. In seeking to maintain customer confidence,

a number of our members have joined the Promontory Interfinancial Network and offer CDARS Reciprocal Deposits to their customers. These CDARS deposits are being utilized as a stable source of core funding. As a result, we do not believe that CDARS deposits should be included in the FDIC's definition of a brokered deposit for purposes of the deposit insurance assessment rule.

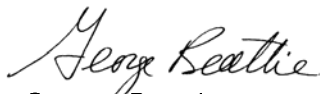
CDARS is a deposit placement service that allows banks to place their customers' funds in FDIC-insured certificates of deposit at other banks and, at the same time, receive an equal sum of funds from the customers of other banks in the CDARS Network. The CDARS Network allows banks to better serve their customers – individuals, businesses, nonprofits and local governments. CDARS deposits are clearly more aligned with the concept of "core deposits" than "brokered deposits." CDARS CDs have a high reinvestment rate. In the past year, the average reinvestment rate for CDARS deposits across the network has exceeded 83 percent.

In addition, CDARS deposits are generally gathered within the geographic area served by the bank through established customer relationships. Eighty percent of CDARS placements are made by customers within 25 miles of a branch location of the relationship institution. Finally, banks set their own rates on CDARS deposits, rates that are reflective of their funding needs and their local market. As a result, depending on maturity, CDARS deposits are gathered at a cost of 20–40 basis points less than the cost of traditional brokered deposits. Because CDARS deposits are built on established customer relationships, they are insulated from the rate volatility in the national certificate of deposit market.

We believe that CDARS Reciprocal Deposits actually reduce the FDIC's exposure to bank failures and minimize the costs to the deposit insurance fund when a failure occurs. This occurs because CDARS deposits reduce the likelihood of bank failures by enabling banks to better accept and retain large-dollar accounts. CDARS deposits effectively lower the FDIC's cost in the event a bank fails because they have genuine franchise value, being based on solid customer relationships with significant cross-sell potential. The FDIC can easily market these relationships in the event of a bank failure. Also, CDARS deposits can be terminated by the FDIC without prepayment penalty. For these reasons, we believe that CDARS deposits should be excluded from the definition of brokered deposits under the deposit insurance assessment rule.

In conclusion, we would encourage the FDIC to consider excluding FHLB advances from the proposed rule and to exempt deposit placement services such as CDARS from the definition of brokered deposits.

Sincerely,



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