

**From:** Lloyd Gunter [mailto:lgunter@communitybankga.com]  
**Sent:** Wednesday, December 17, 2008 10:17 AM  
**To:** Comments  
**Subject:** FW: Message from Steve Bridges: Regulatory Alert

I've read the letter below and fully agree with his opinion. We are a small \$49 million dollar bank located in a small town in South Georgia. The new premium increase is going to cost me an additional \$29,000.00 in 2009. We will probably make \$300,000.00 this year. Easy math – 10% of my profits.

We have not experienced a "credit crisis". We are like all small community banks; making loans locally to farmers, small businesses, and individuals.

We don't buy collateralized instruments, don't really understand derivatives, have never stripped income from a loan to sale to another investor, if I had to buy default insurance on a loan, I would not make it, and I'm still trying to understand "interest rate swap investments".

Seems to me you guys need to have a plan for the money center and regional banks, then address the small banks under \$250K with a more reasonable solution.

Personally,  
Lloyd Gunter  
President-CEO  
Community Bank

## FDIC INSURANCE ASSESSMENT PROPOSAL

The CBA submitted a comment letter on behalf of Georgia community banks today on the proposed rulemaking and request for comment, which proposes to revise the deposit insurance assessment system by adding a number of risk based adjustments to the base rate. I have the **comment letter below**. It is quite lengthy, but that length was necessary in order to address the issues with this proposal brought to our attention by Georgia community bankers. In the letter, we are asking them to reconsider most of the risk based adjustments or at a minimum allow a grace period before the surcharges would become effective. We have also asked them to consider extending the period for restoring the fund beyond the five years.

You may submit your own comment letter on this proposal and you may use all or any part of the letter, if you wish. However, the comment period ends tomorrow. Comments should be sent by email to [Comments@FDIC.gov](mailto:Comments@FDIC.gov) and you must include the RIN number in the subject line of the email. The RIN number for this proposed rule is RIN 3064-AD35. If you have any questions, please give me a call.

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Robert E. Feldman  
Executive Secretary  
FDIC  
550 17<sup>th</sup> Street NW  
Washington, D. C. 20429

SUBJECT: RIN 3064-AD35- Notice of Proposed Rulemaking on Deposit Insurance Assessment

Dear Mr. Feldman:

The Community Bankers Association of Georgia (CBA) appreciates the opportunity to provide comments on the Federal Deposit Insurance Corporation's (FDIC's) proposed rulemaking which changes the deposit insurance premium assessment system. CBA is a non-profit trade association representing community financial institutions in the state of Georgia. CBA has 310 member institutions, including state and nationally chartered commercial banks and credit unions. The average size of member institutions is approximately \$270 million, and member institutions range in size from less than \$50 million up to several billion dollars in asset size. The institutions represented by CBA are geographically dispersed throughout the state of Georgia.

First, we would like to state for the record that the members of CBA are supportive and understand the extreme importance of maintaining a strong deposit insurance system. However, there are a number of specific issues in this proposal and request for comment that we would like to address. We will make some general comments first, followed by more specific comments on certain of the proposed, new risk-based adjustments to the de

minimum insurance reserve ratio of 1.1% due to extraordinary circumstances. Given the happenings of the past twelve months and especially the last 120 days, it would be difficult to characterize these times as “extraordinary.” We realize the DIF must be restored, but substantial increases in deposit insurance premium assessments at this time, coupled with new risk-based adjustments will further add to the stress the industry is experiencing and further weaken the industry and will result in reduced lending, which runs counter to the other recent initiatives of Congress, the Treasury, the Federal Reserve (FRB) and the FDIC. Therefore, we would urge the FDIC Board to consider using its authority to extend the restoration period beyond five years.

### **Risk-Based Adjustments are likely to Decrease Prudent Lending**

Marketplace developments and responses from the federal government to the current crisis have been occurring at a breakneck speed in the weeks since and just prior to this proposal being issued for comment. Among other developments, Congress passed and the President signed the Emergency Economic Stabilization Act on October 3, 2008 and invoked its systemic authority under the FDIC Improvement Act of 1991 to establish the Temporary Liquidity Guarantee Program. One of the primary goals of these programs is to stabilize the credit markets, restore the flow of prudent credit, and stabilize the economy in the United States and the world. Additionally, the federal banking agencies issued an Interagency Statement on Meeting the Needs of Creditworthy Borrowers on November 12, 2008 in which they stated that, “The agencies expect all banking organizations to fulfill their fundamental role in the economy as intermediaries of credit to businesses, consumers, and other creditworthy borrowers.” The proposed risk-based adjustments to the assessment rules, especially those relating to brokered deposits and secured liabilities, will discourage many community bankers from continuing to lend to their communities contrary to the intent of all the government initiatives mentioned above and others. We at the trade association (CBA) have already had community bankers complain that they have plans to shrink their bank by several million dollars over the next year because of constricting new lending and allowing brokered deposits and Federal Home Loan Bank borrowings to run off as loan payments will allow, in order to be sure they will not exceed the risk-based benchmarks included in this proposal for brokered deposits and secured liabilities. Since this constriction of lending runs contrary to most other recent government initiatives and because liquidity management is one of the most significant challenges facing the community banking industry today, we encourage the FDIC Board to consider if now is the appropriate time to institute such risk-based adjustments.

### **Risk-Based Adjustment Benchmarks likely to Become Caps**

If this proposal is adopted, the thresholds or benchmarks in this proposal of 10% for brokered deposits and 15% for secured liabilities are likely to become de facto caps for these liability categories. While we realize the proposal does not prohibit a bank from exceeding the risk-based adjustment benchmarks, as mentioned in the previous section, community bankers are already viewing these benchmarks as caps and are already working to get within what they view as the “new guidelines.” The fact is that the decision of community bankers to limit their lending to these benchmarks is being reinforced by the field examination staff of the FDIC. FDIC

out to four and five year maturities of FLD borrowings of three to five year maturities match fund certain loans. It is critical that community banks be able to maintain real flexibility in managing the bank's funding. If the risk-based adjustment benchmarks for brokered deposits and secured liabilities are included in the final rule and they become caps (which we already see evidence of with field examiners), the needed flexibility is gone. We recognize that some additional guidelines, including perhaps some upper limits to be established, but, as previously mentioned, a separate supervisory policy addressing these issues would be a more effective approach. Also, a new supervisory policy would allow FDIC to phase in the new guidelines.

### **Brokered Deposits**

There are a number of issues related to the brokered deposits provisions in the proposed rulemaking we would like to address:

**Network Reciprocal Deposits:** For the purposes of this proposed rule, FDIC has used the statutory definition of brokered deposits, which includes deposits received through a network on a reciprocal basis (i.e. reciprocal CEDARS deposits). Many Georgia community banks use network deposit placement services of CEDARS to accommodate established local customers who have requested full FDIC insurance coverage. As you know, these funds are placed with other banks in the network at levels which maintain deposit insurance coverage and equal sums of funds from other banks are received by the original bank. While we know FDIC has interpreted the statute that these deposits are included in brokered deposits, in practice, these deposits have characteristics more similar to core deposits. For example, such deposits are built on long-term customer relationships and are almost always obtained from within the geographic territory of the community bank's normal market area, they have shown a high degree of "stickiness" (i.e. there is a high reinvestment rate on these deposits.), and the rates on these deposits are set by the individual community bank based upon that bank's funding needs and its local market conditions. The concern expressed in the proposal regarding brokered deposits is that, in the event of a failure, brokered deposits detract from the franchise value of the failed institution. If, however, the core deposit characteristics of network reciprocal deposits, they should enhance the franchise value of the failed institution similar to other local deposits. Also, FDIC has not required that currently such deposits are not separately identified on the Call Report making it impossible to separate these out from other brokered deposits. Community bankers in Georgia have indicated it would not create a burden for them to include this information separately on the Call Report. Therefore, we would strongly encourage the FDIC Board to exclude reciprocal deposits obtained through a network from the definition of brokered deposits for the purposes of this proposed assessment rule. In fact, the core deposit characteristics of these deposits should encourage the FDIC to support legislation to exclude such deposits from brokered deposits in the Federal Deposit Insurance Act.

**Brokered Deposit Thresholds for Risk Category I Banks:** The proposal would require a surcharge to the base deposit insurance premiums for a Risk Category I bank, if the institution's brokered deposits exceed 10% of domestic deposits and the institution's total assets exceed \$200 million. We believe that this threshold is too high for community banks. As you understand,

growth for the entire banking system should not be defined as "rapid asset growth." There have been interest rate environments in the not-too-distant past where growth strictly based on a compound interest rate on deposit accounts could cause a community bank to grow at that rate. Assuming the risk-based benchmarks for brokered deposits are adopted, we encourage FDIC to raise the threshold for defining "rapid asset growth."

**Deposit Listing Services:** So-called "internet deposits" or deposits generated through a deposit listing service do not meet the statutory definition of brokered deposits. This proposal asks for comments on the merits of inclusion of such deposits in the definition of brokered deposits for purposes of the calculation of the "adjusted brokered deposits" ratio. Deposits generated through a deposit listing service provide a beneficial supplement to an alternative to a community bank's local market deposit funding. Further, such deposits are frequently a significant component of community banks' contingency funding plans. Advertising rates on a listing service seems little different than advertising rates through other sources, such as the newspaper, television, or radio. The listing service does not refer depositors to a particular listing institution and makes no representations regarding the amount of deposits which may be obtained from the listing. Finally, the deposits result from direct communication between the bank and the customer. On a case by case basis, the bank establishes an individual relationship with each depositor. In view of the nature of these deposits as described above, they do not seem to have the same characteristics as brokered deposits and should not be included in the definition of brokered deposits for the purposes of this proposal.

### **Secured Liabilities**

The proposal would require an upward adjustment of the base insurance premium rate if an insured institution's ratio of secured liabilities to domestic deposits exceeds 15%. This surcharge would be assessed with respect to institutions in all risk categories. While this proposal includes other types of loans in the definition of secured liabilities, FHLB advances are the primary type of secured liability used by community banks in Georgia. FHLB advances have provided many community banks in Georgia with access to a reliable and stable source of low-cost funding over the years. These advances help community banks to serve the credit needs of their communities, support local home ownership and assist with local community development. The additional charges when the threshold is exceeded would increase the cost of a vital source of liquidity, when liquidity risk is one of the most significant challenges facing community banks in our state today. It would also result in an increase in the cost of money, and perhaps result in many institutions extending less credit, at a time when the recent government initiatives have been directed at thawing the credit markets and stimulating lending. Reductions in prudent lending would also impede the recovery of the local economies where community banks operate, as well as, impeding the recovery of the broader economy as a whole. We encourage you to carefully re-examine this proposal in light of the above discussion.

### **Phase in of Risk-Based Adjustments to Deposit Insurance Assessments**

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## Community Bankers Association of Georgia

1900 The Exchange, Suite 600 ♦ Atlanta, GA 30339 ♦ Phone: (770) 541-4490 ♦ Fax: (770) 541-4496  
[Stacey@cbaofga.com](mailto:Stacey@cbaofga.com) ♦ [www.cbaofga.com](http://www.cbaofga.com)

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