



December 15, 2008

Mr. Robert Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 Seventeenth Street, NW
Washington, DC 20329

Attention: Comments

Re: RIN No. 3064-AD35
Notice of Proposed Rulemaking – Deposit Insurance Assessments

Dear Mr. Feldman:

We are writing on behalf of the Illinois Bankers Association (“IBA”) regarding the Federal Deposit Insurance Corporation’s proposed rulemaking on deposit insurance assessments and whether reciprocal deposit placement services – such as CDARS – should be exempted from the definition of brokered deposits. The IBA is the oldest and largest financial services trade association in Illinois, representing state and national commercial banks, savings banks, and savings and loan associations of all sizes in Illinois; collectively, our members account for more than 90 percent of the banking assets in our state.

While we appreciate the need to maintain adequate levels in the Deposit Insurance Fund, we are concerned that the proposals would unnecessarily increase the cost of funding for many of our member banks.

Please note that we strongly support the positions expressed to you regarding the proposed rulemaking by the Federal Home Loan Bank of Chicago, the American Bankers Association, Shorebank Corporation, and Cole Taylor Bank, among others expressing similar concerns. The reasons for our positions are similar, so we will be brief in our comments.

Recapitalization Period

We are concerned about the timing of the payments to rebuild the fund. The proposed premium rates are too high under the current circumstances, and we

recommend a moderated premium hike. A phased-in increase in the assessment schedule over the next few years may be more appropriate.

We are concerned that the proposed increase in assessments will restrain credit availability. By more than doubling the current premiums for some insured institutions, their earnings would be significantly impacted, as would be their ability to make loans. This result clearly would be counter to the goal of the Treasury's Capital Purchase Program, which calls for extra capital and liquidity for healthy banks in order to encourage more lending.

A longer recapitalization period and slower expected growth rates support a more moderate rate increase. The current proposal contains an assumption that deposits will grow at a rate of 5% over the next five years, which would build the fund to 1.15% in the fourth year and to 1.25% in the fifth year. This assumption is troubling, because it is unlikely that deposits will grow substantially faster than the economy. The Congressional Budget Office predicts only a 3.8% GDP growth rate for the next year, and at this point, it is doubtful that we will see a 5% growth rate over the next five years. If the FDIC were to use a five-year timeframe to build the fund to 1.15%, instead of a four-year timeframe, the premium for healthy banks would be more than a full basis point lower, and their liquidity would be greater.

Secured Liabilities

The proposed rule calls for higher risk-based premiums for federally insured depositories that use secured liabilities, including advances from the Federal Home Loan Banks, in excess of 15% of domestic deposits. We are concerned that this would unnecessarily increase the cost of funding for smaller community banks and discourage them from using the advances as reliable sources of funding to supplement core deposits. Smaller community banks that often lack alternative sources of cost-effective funding frequently use FHLB advances for their reliability and easy accessibility. FHLB advances fill a vital role in the economic well-being of communities across the country by allowing lenders to ensure that credit remains available to worthy borrowers on affordable terms. Clearly, the FHLBs are filling the role Congress envisioned for them by providing advances that help to alleviate liquidity shortages.

The proposed rule also threatens to decrease the amount of funding available to support affordable housing and community development activities. If FHLB members are discouraged from using advances, then FHLB earnings will suffer and the FHLBs' contributions to programs such as down payment and closing cost assistance programs, affordable housing projects, and foreclosure prevention, will decrease. In light of the current housing crisis, any decrease in funding available to help American families become homeowners and to keep their homes is ill-advised and should be reconsidered.

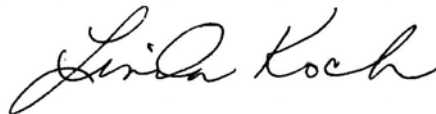
Reciprocal Deposit Placement Services

Reciprocal deposit placements services such as CDARS deposits should be exempted from the definition of brokered deposits for purposes of the proposed rule. Defining CDARS deposits as brokered deposits is illogical, as no party is standing between the bank and its customer, and the deposits do not behave like traditional brokered deposits. CDARS deposits act like traditional core deposits, and they should be treated as core deposits. While CDARS deposits currently appear on call reports with other brokered deposits, it would be a simple matter for banks to separately report their CDARS deposit holdings.

For all of the above reasons, the IBA strongly urges the FDIC to amend its proposal in a manner that addresses our concerns. Thank you for your consideration of our comments.



Michael G. Steelman
Chairman
Illinois Bankers Association



Linda Koch
President and CEO
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