Merrill Lynch

Global Markets & Investment Banking

December 16, 2008

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 Seventeenth Street, NW
Washington, D.C. 20429

Dear Mr. Feldman,

Re: Deposit Insurance Assessments – RIN No. 3064-AD35

We would like to respond to the request for comment by the Federal Deposit Insurance Corporation on the proposal to assess additional deposit insurance premiums on brokered deposits, under certain circumstances. As there are sometimes misconceptions about brokered deposits and the broker/dealer-sponsored CD market in general, we are taking the liberty of sending you some additional information about this market as an attachment to this letter — and in addition to any industry-wide information you may have received, of which we are supportive.

Since Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") has a long history of market leadership in the brokered CD business, we would like to share with you some background information that might be helpful to you in your decision making. We believe that it is very important to be cautious in undertaking regulatory policy decisions and that the risk of unintended consequences should be thoughtfully weighed. We note, for example, that concerns related to regulatory review of brokered deposits may have already caused institutions to post above-market rates through national listing services because these deposits do not have to be classified as "brokered."

The establishment of the brokered CD market was led by Merrill Lynch Money Markets (which is now part of MLPF&S) in 1982. Since that time, it has become a dependable source of funding for a wide range of financial institutions—from small community banks to credit card and large regional banks. Many experienced funding managers now utilize brokered CDs as part of their asset/liability management strategy. They are an important tool for financial institutions in accessing the capital markets and lowering overall funding costs, as they facilitate the efficient flow of capital across markets.

Thank you very much for taking the time to consider the following information. If there is anything further we could provide, please do not hesitate to let us know.

Very sincerely,

Marion Neustadter

Enclosure

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The Brokered CD Market

Executive Summary

While a number of different types of deposit liabilities are classified as brokered deposits, we would like to address the subset of brokered deposits known as "brokered CDs." Brokered CDs, as the term is used herein, are certificates of deposits issued in wholesale amounts by a bank and sold through a registered broker-dealer to investors in fully-insured amounts. These brokered CDs are held in book-entry form at the Depository Trust Corporation ("DTC").

The brokered CD market was developed in 1982 and has become an extremely reliable source of funding for all types of issuers—from small community banks to credit card and large regional banks. Many experienced CFOs, treasurers, and funding managers of creditworthy financial institutions now utilize brokered CDs as part of their asset/liability management strategy. This is because, contrary to perception, banks are often able to diversify and *lower* their overall funding cost through the use of brokered CDs. Moreover, brokered CDs can enable them to avoid local rate wars while they respond quickly and efficiently to loan demand or other market opportunities.

In facilitating a national market for deposits, broker/dealers enable funds to flow from areas of monetary surplus to areas of monetary shortage—a function traditionally performed by the capital markets. This national market for CDs allows many depository institutions that cannot otherwise access the capital markets to obtain funding outside their local markets, especially when a scarcity of local deposits makes raising deposits expensive.

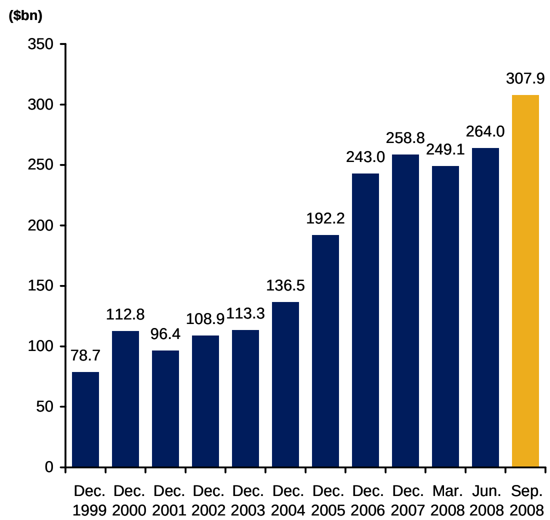
The brokered CD market is very deep, and funding is exceptionally reliable. In times of market turbulence and ratings downgrades, the brokered CD market has remained open when other markets have become prohibitively expensive or inhospitable to issuance. There is rarely a time when dealers are unable to roll over an issuer's CDs. Exceptions generally occur when a bank issuer ceases being well-capitalized, has rapid and steep credit quality deterioration, or is the target of very negative and widespread press reports.

With brokered CDs, no early withdrawal is permitted (except in the case of death or adjudication of incompetence), so the CDs remain outstanding until maturity. While not obligated to do so, many dealers maintain a secondary market, enabling issuers to enjoy funding stability, especially in the longer term maturities.

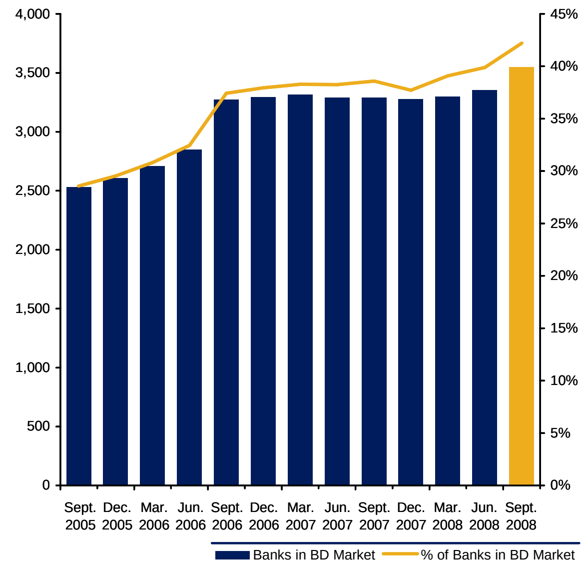
When used appropriately, brokered CDs provide depository institutions with an efficient, cost-effective and stable funding alternative. While brokered CDs (as well as Federal Home Loan Bank ("FHLB") advances) have been used imprudently by some poorly managed institutions to finance rapid growth and high risk loans, the great majority of market participants use them prudently to complement their other asset/liability management strategies.

Total Outstanding Brokered CDs **Total Banks with Brokered Deposits**

With $308 billion of DTC-registered brokered CDs, the broker-dealer sponsored market represents less than half of total reported brokered deposits.



As of September 30, 2008. Sources: DTC



As of September 30, 2008. Sources: FDIC. Not all "brokered deposits" reported by the FDIC are DTC eligible.

Strategic Uses of Brokered CDs

Well-managed banks, especially in times like these, like to have access to as many sources of liquidity as possible. A brokered CD program offers them an additional, highly efficient financing option. With few exceptions, participating institutions have local deposit taking franchises that are extremely important to them and that they do not wish to disturb. A brokered CD program affords quiet and efficient financing at the margin that obviates the need for them to engage in local rate wars, forcing them to raise the rates they are paying on a much larger deposit base. For those banks whose business model does not contemplate a traditional "brick and mortar" branch system, brokered CDs provide a consistent and cost-effective funding alternative to potentially more expensive sources of funds.

Today, the brokered CD market consists primarily of well-capitalized institutions. They range in size from the largest regional and money center banks to smaller savings associations and community banks. For small and mid-sized banks that do not have ratings from Moody's or Standard & Poor's or issue in size, the brokered CD market may be their only access to capital markets financing. Larger banks that have investment grade ratings and many other funding alternatives available to them also utilize the insured brokered CD market opportunistically when it is cheaper.

Both large and small financial institutions utilize brokered CDs for a variety of strategic reasons:

- Additional source of liquidity that may be utilized opportunistically or not at all.
- Incremental source of funds to be tapped when loan demand increases or seasonal funding needs arise.
- Avoidance of competitive forces in local market that would otherwise require re-pricing of the bank's entire deposit base.
- Effective vehicle for achieving maturity extension, enabling institutions to raise term deposits quickly and cost-efficiently.

- Effective vehicle for raising targeted sums in specific maturities or throughout the maturity curve and, if appropriate, in conjunction with an interest rate swap.
- Often a less expensive alternative to other wholesale funding alternatives including FHLB advances, especially in rising rate environments.
- Access to other financial intermediaries' clients, with no overlap with the bank's existing deposit base.

Brokered CD Pricing

Many banks strategically use brokered CDs to *lower* their overall funding cost. Access to the capital markets enables them to respond to loan demand or other market opportunities on a timely and cost-efficient basis. Although a bank might pay a higher rate on a discrete amount of borrowed funds versus its local deposits, brokered CDs can enable it to avoid engaging in local rate competition, which could force it to raise rates on its entire deposit base.

Brokered CDs are also often more cost-effective for raising longer term money (e.g., greater than one year), because the funds can be raised in a time-efficient manner and without having to worry about depositor requests for early withdrawal. This flexibility of timing and the control of issuance amounts and maturities enable a bank to manage costs, respond to unexpected loan demand, match fund particular assets, and/or extend the maturity of its liabilities.

It is important to note, that in rapidly rising interest rate environments, the retail brokered market is generally a lagging market and almost always cheaper than institutional funding sources. In fact, spreads in the retail brokered market historically tighten as investor demand for higher coupon CDs rises. This market phenomenon is important to larger banks that routinely access the institutional market, because it provides them with a lower-cost funding alternative when spreads in the institutional market widen.

Spread tightening in the brokered market is also significant for smaller banks, because it usually results in costs savings versus borrowings from the FHLB. For example, from 2005 through the first half of 2007 (and at many other points in history), all-in borrowing costs to issuers in the brokered CD market were cheaper, throughout the maturity curve, than FHLB advances. [Please see the chart on the following page.]

Ultimately, the banks that utilize brokered CDs do so on an opportunistic basis only when it makes economic sense.

Brokered CDs vs. FHLB Advances

- *The chart below shows the difference between the all-in costs of MLPF&S brokered CDs and the average of FHLB advances* since 2004. Positive numbers in the chart represent the number of basis points by which MLPF&S has been cheaper than advances. FHLB advance rates were converted to the interest calculation and payment frequency of brokered CDs.*

- *From the beginning of 2005 through mid-2007, brokered CDs were generally more competitive than FHLB advances; however, since the turmoil in the credit markets began in the third quarter of 2007, they are now less attractive across the maturity spectrum.*

AVERAGE BASIS POINT DIFFERENTIAL

	FY04	FY05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07
3 Month	(8)	13	20	19	19	16	15	14	(4)	(35)
6 Month	(3)	12	23	23	22	20	18	17	1	(25)
9 Month	(14)	6	17	18	20	21	18	15	2	(24)
1 Year	(6)	10	24	25	24	22	19	20	(2)	(29)
18 Month	(18)	1	8	9	8	2	(0)	2	(14)	(41)
2 Year	(15)	(0)	8	10	9	4	(4)	(1)	(14)	(44)
3 Year	(15)	4	4	8	6	1	(6)	(3)	(12)	(39)
4 Year	(8)	1	4	8	7	3	(4)	0	(8)	(29)
5 year	(6)	(0)	3	9	9	5	(2)	2	(5)	(26)
7 Year	1	1	3	7	9	5	(1)	4	(1)	(24)

**Average of the ten FHLBs that make their advance rates publicly available.*

All-in Cost Average Spreads to LIBOR

- *As mentioned, banks utilize brokered CDs to lower their overall funding costs. The below chart displays the average annual all-in cost of brokered CDs swapped to LIBOR by maturity since 2002. Brokered CD spreads to LIBOR fluctuate in different interest rate environments, but in all environments, they can be quite modest compared to other capital markets funding alternatives.*

	3 MO CD VS. 3 MO LIBOR*	6 MO CD VS. 6 MO LIBOR*	1 YR CD VS. 1 YR LIBOR*	2 YR CD Swapped to LIBOR**	3 YR CD Swapped to LIBOR**	5 YR CD Swapped to LIBOR**
YTD 2008	28.43	35.14	66.57	120.82	115.29	115.53
2007	(3.34)	(2.89)	5.89	30.96	30.89	28.08
2006	(10.94)	(11.77)	(9.12)	8.67	12.33	13.10
2005	(4.49)	(4.43)	(1.45)	9.45	12.63	15.51
2004	17.56	13.28	19.66	28.62	29.56	32.08
2003	36.43	33.80	41.24	41.31	35.57	38.41
2002	31.59	29.31	36.37	31.75	32.78	36.67
Average	**13.35**	**12.92**	**22.32**	**38.24**	**37.91**	**39.37**

As of November 28, 2008
**LIBOR Settings have been converted to an actual/365 day basis*
*** Assumes retail CD all-in cost swapped to quarterly LIBOR*

Stability of Brokered CDs

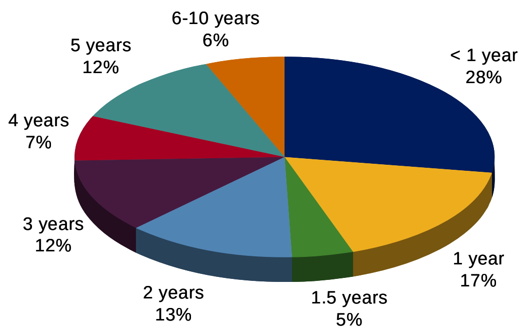
There is a common misconception that brokered CDs are an unstable source of funding. First, with brokered CDs, no early withdrawal is allowed (except in the case of death or adjudication of incompetence), so the CDs remain outstanding until maturity.

Also, while not obligated to do so, most broker/dealers maintain a secondary market for the CDs. Clients who wish to withdraw their money prior to maturity may usually sell them to a broker who resells them in the secondary market. The secondary market may make investors comfortable extending further out the curve because they anticipate that liquidity is likely to be available. At the same time, it enables the issuer to raise longer term deposits more efficiently than local deposit gathering efforts allow.

In periods of credit deterioration or other market dislocations, the brokered CD market has proven to be a steady and reliable source of funds. When the institutional market becomes inhospitable to larger banks, or local depositors withdraw money at a rapid pace, the retail brokered market can provide liquidity and may even help ward off a liquidity crisis. (The exception to this scenario would be a bank that ceases to be well-capitalized or suffers a material adverse change to its financial condition, or is the subject of continuing and widespread negative press, such that some broker/dealers choose to limit or cease further issuance.)

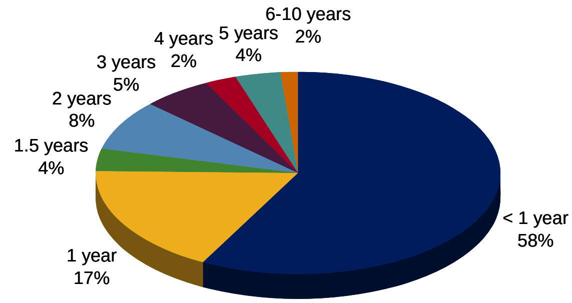
Maturity Profile of CDs Issued Through MLPF&S

Outstanding CDs



Based on the original maturity of Retail CDs issued through MLPF&S and outstanding as of September 30, 2008.

Issued CDs



Based on the original maturity of Retail CDs issued through MLPF&S from October 1, 2003 through September 30, 2008.

- *Brokered CDs enable banks to raise significant amounts of longer term deposits. This is due, in part, to the maintenance of a secondary market for the CDs by dealers. Unlike local market CDs, which have early withdrawal provisions, brokered CDs generally remain outstanding until maturity.*

- *Twenty-five percent of total issuance over the five-year period was in maturities of greater than one year.*

- *Issuers have the ability to raise significant amounts and rollover CDs in the shorter maturities.*

Economic Significance of Brokered CDs

With the proliferation of investment products offered by other financial intermediaries such as securities firms and mutual fund companies over the last few decades, depository institutions have experienced disintermediation and increased competition for customers' funds. Many of the funds that might have been deposited in banks are now actively and successfully solicited by other financial firms. It can be demonstrated that brokered CDs actually help institutions obtain funds by providing them access to brokerage firms' customers.

Brokered CDs can provide banks and savings associations with incremental funding to meet liquidity needs as a supplement to core deposits. Economic conditions in a market area may make raising incremental deposits unduly expensive and time-consuming, if deposits are available at all. In facilitating a national market for deposits, broker/dealers enable funds to flow from areas of monetary surplus to areas of monetary shortage—a function traditionally performed by the capital markets. This national market for CDs allows many depository institutions that cannot otherwise access the capital markets to obtain funding outside their local markets, particularly when a scarcity of local deposits can make that funding otherwise costly.

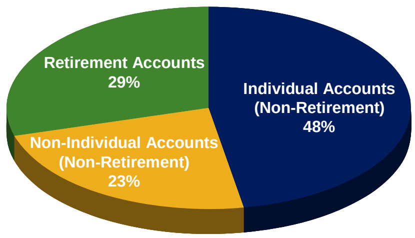
When working with an established, knowledgeable deposit broker, depository institutions can raise deposits that bear interest rates below nationally advertised highest yields on CDs. Since most full service brokerage firms make a secondary market in the CDs, depositors are generally able to sell their CDs before maturity without causing an outflow of deposits at the institution.

Brokered CDs also provide a means for institutions to match the maturities of assets and liabilities, which is difficult for them to achieve when relying solely on their own local deposit taking efforts. Institutions can obtain funding of ten years (or even more) at competitive rates in a national market. Importantly, this access to longer term, non-collateralized funding also helps stabilize the deposit base of institutions whose deposits consist largely of more volatile funds such as demand deposits and short-term CDs. As such, broker/dealers can help financial institutions reduce liquidity pressures and foster greater deposit stability, which is important to institutions investing predominantly in illiquid assets.

Additionally, it should be noted that retail deposit brokerage provides consumers with a high quality, low risk investment option that is offered in a range of maturities and rates. As such, brokered CDs are a socially and economically desirable savings vehicle.

Investor Profile

- *Brokered CDs are an important savings vehicle for consumers and small businesses. They provide access to a range of banks and maturities not otherwise available to them, especially those who live in rural areas or small communities.*
- *Recent data for MLPF&S's investor base shows characteristics of typical brokered CD buyers.*
- *Note that even the 23% of buyers that are "non-individual accounts" (401k, pension plans, business and trust accounts) generally represent traditional retail clients who buy in fully-insured amounts.*



- Average CD purchase: $44,000
- Median CD purchase: $40,000
- Average age of CD purchaser: 67 years
- Nearly 30% of all Retail CD assets held at MLPF&S are held in retirement plan accounts.

Source: MLPF&S Database. Data as of 12/31/07

Conclusion

While regulators properly object to any bank's excessive reliance on brokered CDs, when prudently managed, these deposits can be beneficial. Because of the lessons learned from the thrift crisis of the early 1990's and the prudent legislation (FDICIA) enacted since that time, only well-capitalized depository institutions are allowed to access the brokered CD market without restriction. As stated by the FDIC in the 2005 *Spring Outlook:*

> *If properly administered, such diversification of funding sources can benefit FDIC-insured institutions. The increased use of noncore funds can also enable a more precise structuring of liabilities than can be obtained primarily through changes in core deposit pricing. For instance, many institutions have found that brokered deposits can be a more cost-effective deposit-gathering mechanism than building new branches.*

Ultimately, brokered CDs are an important funding tool for depository institutions – both large and small. When used strategically and judiciously, they can have a significant impact on lowering a bank's cost of funds as well as providing greater stability to a bank's deposit base. As such, we hope the FDIC will consider this information and carefully weigh the potentially serious consequences from regulatory or other actions that could adversely impact this important funding alternative.