Missouri Bankers Association

207 E. Capitol Ave.
Jefferson City, MO 65102

December 17, 2008

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
Sent via Agency FAX

RE: RIN 3064-AD35

Dear Mr. Feldman,

These comments are being submitted on behalf of almost 400 Missouri banks and Savings and Loan Associations by the Missouri Bankers Association (MBA), a Missouri trade association. The MBA is responding to the proposed rulemaking issued by the Federal Deposit Insurance Corporation (FDIC) to increase FDIC premiums.

The MBA appreciates the opportunity 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 system. A strong FDIC insurance fund is important to maintaining depositor confidence and the MBA supports changes to the premium calculation that truly reflect the risk of loss to the FDIC. Missouri banks had practically nothing to do with the current problems, and the MBA believes that the aggressive recapitalization proposed would be counterproductive and would limit Missouri banks' ability to meet local credit needs.

The proposal would significantly raise premiums assessments to aggressively recapitalize the insurance fund in five years to over 1.25 percent of insured deposits. Yet the Federal Deposit Insurance Reform Act requires the FDIC to rebuild the fund to 1.15 percent in five years and to take longer when there are "extraordinary circumstances." There is no question that these are extraordinary circumstances and excessively high premiums only reduces the resources that Missouri banks have available to lend in their communities. It is also counter to other efforts by Congress and the Treasury to stimulate lending. Premium rates should be substantially less than what is proposed.

In addition, members of the MBA believe that the proposal should remove the Certificate of Deposit Account Registry Service (CDARS) from inclusion in the brokered deposits ratio as these deposits allow Missouri banks to retain customers and keep funding local. While the MBA is troubled that some recent failed or troubled banks have used brokered

deposits to grow rapidly and fund risky assets, it is unfair to include CDARS deposits in with other, more volatile, forms of brokered deposits.

Furthermore, the members of the MBA believe that the proposal is particularly punitive to banks that use Federal Home Loan Bank advances. FHLB advances are stable source of funding for many banks that is often at lower cost than local deposits. In addition, FHLB advances can be used to match-fund longer term loans, mitigating interest rate risk. This type of funding is not available elsewhere.

The FDIC should not inhibit good, stable sources of funding. Rather, the focus should be on the risk of the assets that the bank has funded, regardless of the source of funds and any concerns should be raised as part of the examination process – which is included in the premium calculation. It is patently unfair to penalize banks that use these stable sources of funding.

The MBA respectfully requests the FDIC to consider a modification of the Secured Liability section of the deposit insurance assessment proposal. We recommend that the definition of secured liabilities exclude any securities sold under agreement to repurchase (REPO's) with state and local governments where the securities sold are federal government or agencies. In the alternative, we recommend that any FDIC assessment for secured liabilities be calculated using the risk factor method for category one institutions similar to the treatment of brokered deposits.

The FDIC proposes to assess a deposit insurance premium for secured liabilities above 15% of domestic deposits. The secured liabilities includes Federal Home Loan Bank advances, securities sold under repurchase agreements (REPO's), secured federal funds and other secured borrowings. The proposal provides a formula to increase the deposit insurance premium by multiplying the base assessment rate by one plus the ratio of the bank's secured liabilities to domestic deposits minus 0.15. This factor could increase the assessment of Category I banks above the ceiling rate of 14 bps but no more than 50 percent of the initial assessment rate.

Some Missouri banks makes competitive bids for State and local deposits and/or REPO transactions under the provisions of state law. State law requires deposits to be secured by eligible collateral which is generally United States Government securities or securities of the various federal government agencies. In the alternative, banks frequently sell the state or public entity securities overnight with the agreement to repurchase them the next day. These transactions require high quality government securities that some Missouri banks use to secure their deposits.

The result of the proposed assessment rules will cause banks to pass the FDIC assessment on to the state or local entity. Passing on the assessment cost will lower the revenue to state and local governments and effectively shift part of the cost of bank failures to them. The MBA doesn't believe this is the result the FDIC desires, nor is it a fair result. After all, the State and local governments merely want to invest their funds over night with

either a secured deposit or a REPO. Either way, these liabilities pose little risk to the FDIC since they are offset by government securities.

Finally, one unintended result will be that commercial banks will not be as competitive when bidding for public funds compared to non-depository financial institutions such as brokerage firms and investment banks. Non-bank entities will not have to pay the FDIC assessment for REPO transactions and bank earnings will be damaged by that result.

The MBA appreciates the opportunity to comment on this proposal.

Sincerely,

/Signed

Max Cook, President