Tioga State Bank

December 12, 2008

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Re: RIN 3064-AD35, Proposed FDIC Premium Increase

Dear Mr. Feldman:

This letter is intended to respond to the FDIC's request for comments on a proposal to increase the deposit insurance programs. I apologize that our letter is not being sent within the deadline you established, but still wanted to share our thoughts. Tioga State Bank is a state-chartered, FRB regulated, privately held community bank serving local customers in four counties of Upstate New York. Over the past 140 years we have steadily and carefully grown our asset size to $325 MM while maintaining a low-risk profile. Over the years, we have paid a significant amount of money into the insurance fund you oversee and we have never cost the government one penny. We appreciate this opportunity to provide feedback to you, even though we are not a "systemically critical" bank.

We understand a restoration plan is required when the reserve ratio falls below 1.15% and the expected timeline for this plan should be five years. We also understand that the current plan assumes the reserve will be brought to 1.26% in the next five years. Given the extremely unusual situation of our economy and the crisis it has put the banking industry into, we would respectfully request that the FDIC consider the extraordinary circumstances and extend the timeline so the cost burden to banks such as Tioga State Bank will not be so extreme. If you cannot extend the timeline, can you please reduce your premium increases so you are not aiming at a ratio that is higher than required? We might also suggest that a special premium assessment be made on the "systemically critical" banks that will not be allowed to fail. They pose more risk to your system and should be charged accordingly.

Regarding the increased assessments on secured liabilities, the concerns related to decreased franchise value and increase potential losses to the FDIC are coming through loud and clear, and there is some sense to this part of the plan. However, many community banks, like Tioga State Bank, hold a high amount of public deposits. Although they are not always the most profitable dollars for the bank, we have worked very hard to keep these funds inside of the local community where they help to fund loans and improve the local economy. Due to the pattern of the revenues and disbursements of public funds (primarily school districts), community banks often manage the cyclical cash flow by turning to FHLB advances, thus avoiding extreme volatility in the bank's balance sheet. These advances are then paid back to the FHLB when municipalities increase their deposits. By charging us a premium on the FHLB advances, we are being further penalized for 1) protecting and strengthening our local economy and 2) prudently managing our balance sheet. Since both the municipal deposits and the FHLB advances must be collateralized, there is not additional risk and no increased potential loss to the FDIC when we move from one of these funding sources to the other. We have the following comments:

- Starting the assessment at 15% of domestic deposits is a very low threshold for banks in our situation.
- Since municipal deposits are already fully collateralized and, therefore, the assets are not available to the FDIC if needed, we would like to see municipal deposits covered in full by FDIC

insurance. This increase in protection would not increase FDIC liability since the assets would be available to the FDIC versus being pledged to the municipality.

Regarding the increased premium due to the use of brokered deposits, we would like to point out the benefits this funding source is to enhancing the Asset/Liability management of community banks. By using the reciprocal deposit program through the CDARS network, we are able to service more of our local customers at interest rates that are representative of our local economy. This enhances our existing customer relationships and reduces the need for us to turn to the national brokered market. When we do turn to brokered CDs, it is always with a focus on managing our interest rate risk (IRR) within the bank. Many times our local market will not produce the desired CD maturities we need. This avenue of funding has certainly strengthened our ability to mitigate potential IRR risks for many reasons, not the least of which is the stability of the funding; normally death is the only reason for an early withdrawal from these CDs. Once again, your new formula for assessment seems to be penalizing banks for using safe and reliable sources of funding in the management of risks.

Related to the above brokered deposit issue is the level at which the FDIC has set as "accelerated growth." We feel strongly that 5% growth per year is quite prudent. Under your scenario, we would be considered growing aggressively if we added $16.3MM to our balance sheet; we do not believe that this represents excessive growth nor would it increase the risk to the FDIC. Addressing asset growth is an excellent idea, but we believe your approach may be flawed. We believe the bigger risk lies in what assets are being added rather than in how fast the growth is occurring.

Also, we would like to respectfully suggest that the FDIC is focusing on the wrong side of the balance sheet. Although deposits may become your responsibility, the assets being purchased or generated with those deposits will dictate the size of your loss as well as the franchise value of each bank. Recent events have shown the devil is in the asset details (or off-balance sheet assets). Your program of up-charging for perfectly acceptable funding vehicles will certainly hurt banks like Tioga State Bank, which have very strong assets and will most likely never cost the government one penny.

As a final note, if these increased costs, laid on top of other costs due to government mandates (AML, BSA, Privacy, FinCen, OFAC) continue to hit the community bank network, we will certainly see less of these institutions in the future. Not because they were not well managed or because they took undue risks, but because the government burdens were too costly. This would be a sad loss for local communities throughout the country. Again, we appreciate the opportunity to be heard. Thank you for the very difficult, yet important services, you and your office provide to our country.

Respectfully,

Robert M. Fisher

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