Thayer County Bank
MEMBER FDIC

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

Dear Mr. Feldman:

I would like to comment on the proposed FDIC Deposit Insurance assessment methodologies. First, and in general, it seems from my observation of the exposures that the FDIC has had recently that it should look at asset quality and composition as the basis of risk rather than the source of funding. The source of funding has not caused losses but rather the use of those funds.

Our community bank utilizes both FHLB advances and brokered deposits of various forms to support our business operation. In a rural community of 1,500 people in the 10th Federal Reserve District you can find that deposit growth has not kept pace with the rising costs of health insurance. If a bank does not grow we will have a risk that I don't often see on the exam reports, that being the risk of failing to keep pace with overhead costs. If we can't get deposits in the front door there has to be a source of funding.

We utilize our FHLB advances to fund many low to moderate income housing projects which we use matched funding to eliminate our interest rate risks. We utilize the FHLB's discounts on these programs to pass on these savings to make the financing affordable. We also have relied upon the FHLB to provide our day to day liquidity cushions so that we could keep our funds invested in loans and investments rather than sitting idle as cash reserves.

We found in the last interest rate cycle of low interest rates that the brokered market allowed us to obtain very short-term money market funds that our customer base simply does not have. We could buy 14 day to 60 day funds at rates below 1%. When New York Prime was 4.25% and we do have many prime based loans, we were still able to maintain a nice interest spread in that environment. Had we not had the comfort of knowing we could obtain money other than through our front doors we would likely have been funding with 3% to 3.5% longer term CD's. The access to the national market allowed us to maintain a reasonable interest rate spread in all interest rate environments. It seems that there remains a phobia that brokered money is "hotter" than local money. Our findings are quite the opposite. With brokered funds we know that we will have to pay a market driven rate. We often have to pay not only comparable market rates on local funds but often have to meet the "specials of the day" of competitors who may have different risk profiles than our bank. We would prefer to go to a true marketplace for funding rather than competing against sometimes unreasonable pricing of some competitors.

As we feel the pressure from the regulatory circles to increase liquidity we are moving away from the utilization of these funding sources and are keeping our bank more liquid. Unfortunately, even in our small 65 million dollar bank, this liquidity push has lowered the typical amount of loans and investments that we would make by a couple of million dollars. We have recently moved much of our public funds to a reciprocal deposit program (CDARS) so that we can have improved balance sheet liquidity with

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increased unpledged bonds. At the same time as we do this to improve liquidity we now face paying more deposit insurance for achieving improved liquidity.

In terms of asset/liability management there is no comparison of the ease of managing the bank when so many tools provided both by the brokered market and the FHLB are available. When our only source of funding is that which comes in the front door we are limited in serving our communities and customers needs with the maturity terms of our depositors. We are presently working on two community facility projects with the USDA in our area because we are able to provide long-term fixed rate funding provided through the FHLB. Has this nice growth opportunity for our bank and community increased the risk to the deposit fund? I suggest that with FHLB funding, funding that mitigates our interest rate risk, that we can assist a couple of rural communities with critical community facilities which will provide long-term economic stability to these two communities. Economic stability leads to community stability which leads to bank stability. Having to pay increased FDIC premiums just doesn't make sense in this instance.

I understand that we all need to pay the price of our very valuable deposit insurance. We need a strong and stable fund. We are certainly willing to pay our fair share. From a community bank perspective I would suggest that the assessment be based upon an asset base and an asset quality factor rather than simply making the assumption that funding from brokered deposits or FHLB advances is higher risk and that increased premiums should be assessed on those liabilities.

Sincerely,

Patrick W. Kenner
President