From: Mike Bresnahan [mailto:mbresnahan@ssbhibbing.com]
Sent: Tuesday, December 16, 2008 10:43 AM
To: Comments
Subject: RIN 3064-AD35

December 16, 2008

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To Federal Deposit Insurance Corporation (FDIC):

I appreciate 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 I support changes to the premium calculation that truly reflect the risk of loss to the FDIC. However, as a healthy bank that had nothing to do with the current problems, I believe that the aggressive recapitalization as proposed would be counterproductive and would limit my bank's ability to meet local credit needs.

The proposal would significantly raise premium 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 I have available to lend in my community. 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.

Two areas of the proposal that I would like to focus my comments on are the treatment of the CDARS program deposits and Federal Home Loan Bank Advances.

<u>CDARS:</u> While I too am 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. We are considering joining the CDARS network to satisfy the needs of our depositors that want the surety of deposit insurance protection, but maintain the relationship with our bank. CDARS will allow us to meet that need and to keep the funding within our community. Without this, these depositors are likely to withdraw money from our bank and spread it on their own or through brokers to banks that truly are higher risk and paying high interest rates. Moreover, some of our depositors will use the internet to find high rates around the country – and these types of volatile deposits are not even covered by the proposed rule. Thus, the FDIC should exclude CDARS from the calculation of brokered deposits. This method of funding is not risky 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 this type of stable funding.

Federal Home Loan Bank Advances: I am also writing to comment particularly on the penalty assigned to use of Federal Home Loan Bank advances greater than 15 percent of deposits without regard to how those advances are being deployed. We use advances for several reasons. Most importantly, it is a stable source of liquidity that allows us to manage the overall cost of funding. In this volatile environment, there are often weaker institutions or institutions with extremely high loan-to-deposit ratios that have bid up the cost of local retail deposits. FHLB advances often provide a lower cost of funding than local deposits. Without advances, we would be forced to rely on these high rate deposits more heavily during these periods. In fact, the availability of advances was particularly useful during the last six months. If the FDIC added a significant penalty, this would do nothing more than raise the cost of funding – with no change in the risk of the assets that I fund – and end up reducing my bank's profitability. Thus, raising the cost of funding by FDIC is not consistent with safe and sound banking.

We also use advances to match-fund longer term loans. This allows community banks like mine to effectively manage our interest rate risk. This type of funding is not available elsewhere. Adding an additional cost is not consistent with safe and sound banking.

The 15 percent threshold does not differentiate from banks that need funding to stay viable from a liquidity standpoint from those that are using advances to actively manage their interest rate risk. This would simply be reconciled by adding a second factor to make this distinction – the loan-to-deposit ratio. In terms of the risk to the insurance fund, a bank with a loan-to-deposit ratio greater than, say, 85 percent is far more dependant on these advances than a bank with less than 85 percent loan-to-deposits. The former must have them to sustain their high level of riskier assets and/or fund their rapid growth of the same riskier assets while the latter is using them judiciously to manage its risk by also maintaining a larger, less-risky investment portfolio. The 15 percent threshold is capturing normal use of advances and unduly penalizes banks that have used advances in a safe and sound manner.

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. Moreover, the Federal Home Loan Banks themselves police the use of advances so that the exposure does not become excessive. The FDIC should either remove the use of Federal Home Loan advances from the rule or, at a minimum, add the loan-to-deposit ratio to the threshold criteria to truly capture those banks that are truly dependent on advances to fund higher levels of riskier assets as compared to deposit levels or rapid growth of the same.

Sincerely,

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