From: Andrew Wang [mailto:Andrew.Wang@FENB-US.com]
Sent: Wednesday, December 17, 2008 4:43 PM
To: Comments
Cc: Cynthia Tseng; Eileen Lyon; Rick Copeland; Robert Sweeney
Subject: Assessments - RIN-3064-AD35

December 17, 2008

BY EMAIL – COMMENTS@FDIC.GOV

Robert E. Feldman, Secretary
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

Re: RIN # 3064-AD35

Dear Mr. Feldman:

The following comment letter is submitted on behalf of Far East National Bank, a national banking association headquartered in Los Angeles, California.

In response to the notice of proposed rulemaking published in the October 16 Federal Register, we are submitting these comments on the Federal Deposit Insurance Corporation's (FDIC's) proposal to, among other things, change the assessment system, primarily to ensure that riskier institutions will bear a greater share of the proposed increase in assessments, by altering the way in which it differentiates for risk in the risk-based assessment system and to recapitalize the insurance fund. Our comments will address the following parts of the proposed rule:

1. Definition of Brokered Deposits
2. The Adjusted Brokered Deposit Ratio
3. Adjustment for Growth Rates
4. Unsecured Debt Adjustment for smaller banks
5. Secured liabilities exceeding 15 percent of domestic deposits

Definition of Brokered Deposits

Under the proposed rule, both deposits received through a network (such as CDARS) on a reciprocal basis and sweep accounts are classified as brokered deposits. In the proposal, the FDIC states that including such deposits in the definition of "brokered deposits" is based on difficulties to separate these deposits from traditional brokered deposits, since they are not reported separately in Call Report.

In our view, neither deposit received through a network nor sweep accounts should be treated equivalently to traditional brokered deposits in that both types of deposits are **relationship-based** and provide **cheaper and more stable** funding than traditional brokered deposits.

In addition, it is not difficult to distinguish these deposits from traditional brokered deposits. Banks who holds these deposits should be able to provide the necessary information as long as the Call Report allows the depositories to report detailed information under brokered deposits. Therefore, we recommended that FDIC revise the definition of brokered deposits to exempt these deposits from the definition of brokered deposits.

The Adjusted Brokered Deposit Ratio

We concur that traditional non-relationship based brokered deposits can be a volatile and unstable funding source and should be heavily relied upon. However, in the current economic condition under which we have seen the dislocation of liquidity, brokered deposits provide banks with deposits from areas with an excess of liquidity at a reasonable cost. Further, participants in the brokered deposit market are subject to additional scrutiny of rating agencies such as IDC, Highline, etc., which will encourage the participating depositories to prudently manage their capital structure. Accordingly, the 10 percent brokered deposit ratio, in our view, is too low at present and for the foreseeable future, and we recommend that the ratio be raised to 20 percent.

Adjustment for Growth Rates

Another factor which the FDIC deems indicative of increased risk under the proposal is asset growth. On its face, this determination is reasonable. However, the proposal does not take into account economic growth rates in different regions of the United States. For example, twenty percent asset growth over the past four years, or 4.66% annually, is far from excessive especially for banks in economically expanding areas, such as California. We recommend the ratio be raised to 25 percent, or 5.7% annually.

Unsecured Debt Adjustment for Smaller Banks

Under the proposal, an institution's total base assessment rate could be reduced in several ways, including based upon its ratio of long-term unsecured debt and, for small institutions, certain amounts of Tier 1 capital (the unsecured debt adjustment). The unsecured debt adjustment for smaller banks thus acknowledges the fact that smaller banks rarely rely on unsecured debts instead of deposits for their long term funding. However, we believe, the requirement that banks hold to enjoy the benefit is confusing and explicitly recognizes the concept of "too big to fail".

A depository institution must maintain minimum 5% Tier 1 leverage ratio and 10% of risk-weighted capital ratio to be considered well-capitalized. The base assessment adjustment is meant to reward those with prudent banking practices, and not to create a new capital standard. Further, since smaller banks rarely rely on long term unsecured borrowing as funding source, not including capital higher than 5% rewards bigger banks. Under the FDIC's TLGP Debt Guarantee Program bigger banks have increased capacity and incentive to raise more long term unsecured debt, while smaller banks subject to lower cap may not be able to.

Further, capital ratios may be said to be artificially high as a result of capital infusions under the TARP's Capital Purchase Program. Many prudently managed smaller banks don't rely on, or are unable to receive,TARP capital. If the proposed rule doesn't distinguish financial institutions with TARP capital from those without, prudence is not encouraged and excessive risk appetite may in fact be rewarded, which is contrary to the concept behind risk adjusted base assessments.

Therefore, we recommend that financial institutions with TARP capital should be subject to a higher base assessment fee. For smaller banks without TARP capital, Tier 1 capital higher than 5% should be included in the calculation for the purpose of this adjustment.

Secured liabilities exceeding 15 percent of domestic deposits

The Federal Home Loan Bank (FHLB) provides an excellent liquidity source for smaller banks in the U.S. Unlike the Federal Reserve's discount window, reliance on FHLB advances shouldn't be considered risky in that member banks not only have to inject capital into the FHLB, but also post high-quality collateral for the advance. Besides, as above mentioned, smaller banks rarely have access to unsecured long term borrowing. In order to minimize their liquidity gap or provide match funding for all or part of long term assets, smaller banks can only turn to FHLB advances or Brokered Deposits. Therefore, simply looking at the ratio of secured liabilities without considering the banks' gap management practice is not a fair practice.

Accordingly, we highly recommend excluding FHLB advances from the secured liabilities calculation for this purpose. Alternatively, we recommend raising the ratio to 20% instead of 15%.

Sincerely,

Cynthia Tseng
Chief Financial Officer