



# Mountain Heritage Bank

*One Bank Can Make A Difference!*

October 17, 2008

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

Re: Federal Deposit Insurance Corporation Notice of Proposed Rulemaking,  
RIN 3064-AD35

Dear Mr. Feldman:

I am the Chief Financial Officer of Mountain Heritage Bank, which has \$129,920,000 in assets and 2 branches. We are a member of the Promontory Interfinancial Network and offer CDARS Reciprocal Deposits to our customers. Our bank relies on CDARS deposits as a stable source of core funding. For the reasons discussed below, CDARS deposits should not be included in the FDIC's definition of a brokered deposit for purposes of the Notice's assessment rule.

We are concerned with how CDARS Reciprocal deposits would be treated under the new deposit insurance assessment proposal.

CDARS is a deposit placement service that allows us to place our customers' funds in FDIC-insured certificates of deposits at other banks and, at the same time, receive an equal sum of funds from the customers of other banks in the CDARS Network. We rely on CDARS Reciprocal Deposits as a stable source of funding. Due to our local market consisting of many retired, high-wealth individuals the CDARS network allows our bank to provide peace of mind and confidence for many of our customers who would prefer to bank with one bank but want to be certain their deposits are insured by FDIC coverage.

CDARS Reciprocal deposits have the three characteristics that define core deposits. One, CDARS CDs have a high reinvestment rate. This year, the average reinvestment rate for CDARS deposits across the network has exceeded 83 percent. Two, CDARS deposits are overwhelmingly gathered within our geographic footprint through established customer relationships. All of our CDARS deposits have additional ties to the institution which solidify that the arrangement is a core relationship of the institution. Three, we set our own rates on our CDARS deposits, rates that reflect our funding needs and our local market. As a result, depending on maturity, CDARS deposits are gathered at a cost of 20 to 40 basis points less than the cost of traditional brokered deposits. We are able price our CDARS deposits the same or less than our local market CD pricing.

Because CDARS deposits are built on established customer relationships, they demonstrate a high degree of "stickiness" and are insulated from the rate volatility in the national certificate of deposit market.



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Moreover, CDARS Reciprocal deposits actually reduce the FDIC's exposure to bank failures and minimize the costs to the deposit insurance fund when a failure occurs. CDARS deposits reduce the likelihood of bank failures by enabling banks to better accept and retain large-dollar deposit accounts. And through CDARS, banks can hold large dollar customers without having to pledge collateral, leaving banks in better positions to handle liquidity emergencies that can arise in times of stress.

CDARS deposits lower the FDIC's cost in the event a bank fails because they have genuine franchise value, being based on solid customer relationships with significant cross-sell potential. The FDIC can easily market these relationships in the event of a bank failure. Also, CDARS deposits can be terminated by the FDIC without prepayment penalty.

The Notice appears to justify its treatment of CDARS deposits by pointing out that call reports do not distinguish between CDARS deposits and brokered deposits. It would be a simple matter for the Bank to separately report its CDARS deposits if this would address the FDIC's concerns. Our institution already separates the two on our internal general ledger and would make reporting the two differently on a call report simple.

In conclusion, CDARS deposits should be excluded from the Notice's definition of brokered deposits. In fact, CDARS Reciprocal deposits should not be considered brokered deposits for any purpose. We therefore request that the FDIC give its support for legislation that would exclude CDARS deposits from the definition of brokered deposits in the Federal Deposit Insurance Act.

Thank you for your consideration of these comments that address why deposit placement services, such as CDARS, should be exempted from the definition of brokered deposits. Clearly, such an exemption is called for in the interest of fairness, as well as for practical reasons.

Sincerely,

Steven S. Nutt  
CFO & SVP

cc: Sen. Johnny Isakson

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Washington, DC 20510

Sen. Saxby Chambliss

416 Russell Senate Office Building  
Washington, DC 20510

Rep. Paul C. Broun

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