



SHERMAN COUNTY BANK

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10-16-2008

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

RE: Comment Letter RIN 3064-AD35

Dear Mr. Feldman:

As President of Sherman County Bank of Loup City, Nebraska, I would like to make several comments relative to above-referenced Notice of Proposed Rulemaking.

We are a small community bank with approximately \$100 million in total assets located in a community that is primarily dependent on agriculture. This area has been highly affected by drought for the majority of the last ten years. The bank is located in one of the 100 poorest counties in the United States.

As an Ag bank, we experience a seasonal loan demand. As such, we either need to carry a significant volume of Fed Funds sold into each Spring season or fund the needed liquidity through the commercial markets. Our primary sources for this excess funding include the Federal Reserve, Federal Home Loan Bank, larger Correspondent banks through Fed Funds purchased, or the Internet time certificate market. My practice has been to meet our funding requirements from the cheapest source available. Over the years, each of the sources mentioned has had the honor of being the cheapest; therefore, we utilize that source first.

The primary source of my angst with your proposal to re-capitalize the deposit guaranty fund is your excess charge on 'brokered CD's' and on 'collateralized liabilities'.

As a practical consideration, I need both of these sources to enable this bank to fund the level of lending that we find available in the community. Admittedly, we do have some collateralized liabilities with which we have funded asset purchases as a method of enhancing the bank's return on capital. These liabilities are directly paired off and collateralized, in large part, by the assets

purchased with the funds. These liabilities are no threat to the insurance fund, except to the extent that we need to add additional assets to collateralize the liability. Chances are that the underlying asset would pay off the loan, if necessary, and no additional asset support would be required. Therefore, I believe they should be netted out of the secured liabilities you wish to charge for. The bulk of our 'collateralized liabilities' fund our Ag loan demand during the crop season. We are currently borrowing approximately \$7 Million, however, a month or so from now, we won't need any funds. As the borrowing goes up and down during the quarter, I feel that you need to use average borrowed as opposed to a one-time measure. I see that you are comfortable with 15% of domestic deposits in secured liabilities before you charge us extra. If you use the average, and subtract the balance that is secured by Agency bonds, I am quite comfortable we will be under the threshold.

Another area of concern is your desire to charge extra for brokered deposits. I use brokered deposits, from time to time, if they are the cheapest source of liquidity, or if we have a special requirement that needs funded for a particular term. As I mentioned earlier, a significant portion of our deposit liabilities are municipal deposits. These are core deposits which we have been able to keep over many years by pledging bonds or deposit guaranty bonds. We have a special concern at this time because of Kansas Bankers Surety pulling out of the deposit guaranty business. When the bond market interest rate curve is very flat, we use the deposit guaranty bond to cover our municipal deposits. Now that the curve is better, we will be able to purchase some bonds as our liquidity improves. We have been able to retain a portion of our municipal deposits utilizing the CDARS program. As they are truly core deposits, I strongly feel that CDARS money should be netted out of the brokered deposits you wish to charge us on. The large banks have 'too big to fail' to protect large depositors. We need to have these CDARS time certificates and they shouldn't be charged a surcharge. You currently have approximately ten thousand entries on your call reports, just add a line for CDARS funds and we can give you that number.

I believe our brokered deposits, minus CDARS deposits, were only about 3.4% of total deposits of the end of Q3. Also, our growth is well below the 20% for the four year period. I still believe that it is imperative for you to exempt CDARS deposits from your brokered deposit calculation.

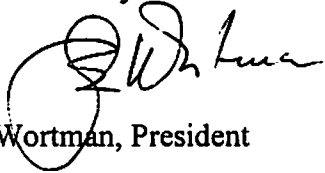
I agree that large amounts of brokered and collateralized liabilities can and do lead to problems in the banks you close. You must also concede that these avenues of funding are also good business in many instances. At the very least, the excess earnings from the assets purchased with these funds are creating earnings and bolstering capital for the banks that use them wisely. I would suggest that perhaps a little wider allowance percentage for these two categories of liabilities may be prudent and more equitable.

The additional expense of rebuilding the deposit reserve fund is also coming at a very inconvenient time. Thanks to our friends at the Federal Reserve blowing us out of our preferred

stock positions at FHLMC and FNMA, both of which have carried the 'implied' guarantee of the U.S. Government forever, our earnings are not what we would like them to be and capital is weaker than we would like it. We want to pay our way and will pay what you require. We only request that you give our thoughts on the two issues raised some thought and perhaps provide us with a little lenience on these issues.

Sincerely,

Sherman County Bank

A handwritten signature in black ink, appearing to read "G. E. Wortman". The signature is written in a cursive style with a large, looping initial "G".

G. E. Wortman, President