Citizens Bancorp of Virginia, Inc.

Citizens Bank & Trust COMPANY

October 1, 2009

Mr. Arthur J. Murton
Director – Division of Insurance and Research
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, D.C. 20429-9990

Subject: Prepaid Assessments – Notice of Proposed Rulemaking
FIL-58-2009
September 30, 2009

Dear Mr. Murton,

This letter is to offer comments on the FDIC's proposal for prepaid insurance premium assessments that is outlined in the above mentioned FIL. I serve as the Senior Vice President and Chief Financial Officer of Citizens Bank & Trust Company, a subsidiary of Citizens Bancorp of Virginia, Inc. and this letter is written to express concern over some of the aspects of this new rule and to hopefully offer some constructive suggestions for changes to the proposed rule.

Comments on FDIC-requested issues

For questions 1 and 2: The concept of prepaid assessments, as is outlined in the FDIC's NPR, is more efficient and will provide the FDIC with the liquidity to meet the demands of the Deposit Insurance Fund, right away. The volatility of cost estimates to resolve bank failures may force the FDIC to make repeated requests for special assessments which is less efficient than going to the banks for a single prepayment request.

Special assessments, unlike the prepayment plan, will negatively impact financial institutions' earnings, further eroding capital levels and gives the general public less confidence that the industry is strong and recovering from the recession.

If additional funding of the DIF is needed, beyond the prepaid assessment, then the FDIC should utilize its already approved option of issuing bonds to the banking industry. The current economic climate often makes it difficult for many institutions, like Citizens Bank & Trust Company to find acceptable investments for purchase. Most banks are likely to be very receptive to purchasing 5-year term notes from the FDIC; especially if they are guaranteed by the Federal government, provide a minimum return of 4% and they are a zero-risk rated security for capital ratio purposes.

The FDIC should retain the option of borrowing from the U.S. Treasury only as a last resort.

For question 3: The proposal of making the prepaid assessments mandatory is very sound. The proposed rules provide the FDIC with the necessary latitude for dealing with financial institutions that may have immediate problems in meeting the payment requirements. However, the final rules must require that ALL institutions must ultimately pay all assessment payments in full.

For question 4: This question deals with two terms, the "assessment base" and the "assessment rate", which we find need further details in the final rule. For the June 2009 Special Assessment, the FDIC used an assessment base that was based upon "total assets". The FDIC indicated that using total assets as a base for the Special Assessment was more equitable for all financial institutions as opposed to using

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"deposits" as a base. Why wouldn't the FDIC consider using "total assets" as an assessment base going forward, if it is more equitable? We are not opposed to maintaining the current deposits-based assessment methodology, especially if it will be quicker and more efficient for the FDIC to implement. However, in deciding between equitable-treatment of all banks and efficiency, let equitable treatment reign!

Our greater concern on this issue is the assessment base growth rate. The proposed growth rate of 5 percent needs to be strongly reconsidered. The FDIC through the use of either the annual "Summary of Deposits" reporting or through the use of Call Report/UBPR data should develop an assessment growth rate for each institution. Using the average annual deposit growth in deposits for the last 5 years for each institution would be a more equitable rate to use than just an arbitrary number.

For Citizens Bank & Trust Company the average annual deposit growth from June 2005 to June 2009 was 1.97%. To impose a 5% annual growth for the next 3 years would be terribly overstating the deposit base of the Bank by over 2½ times! In fact, from June 2007 to June 2008 deposit "growth" was negative, shrinking by 1.70%. The Prepayment Rule is already asking banks to absorb another non-earning asset onto our books for 3 years; but in Citizens Bank's case (and many other community banks, like us) the additional assessment would be unnecessarily burdensome on our earnings. Therefore, it is highly recommended that the proposed rules be changed to have the rate of deposit growth for 2010 through 2012 be computed using an institution's individual average annual deposit growth for the last 5 years.

For question 5: The public's confidence in the safety and soundness of the Deposit Insurance Fund should be a paramount concern at this time. Therefore, we believe that if the FDIC has determined that the DIF is in need of the liquidity from the Prepaid Assessment, then financial institutions should pay it now. Financial institutions should plan accordingly and be ready for a single payment at year-end. Accommodations will be available from the FDIC for banks that may have difficulty in making this installment and this should be the only exception made for the Prepaid Assessment proposal.

For question 6: Most experts cannot come to a consensus on when the economy will begin to recover from the recession and since much of the banking industry's earnings relies in part on a healthy economy, it is unlikely to expect the industry to be in a better financial position prior to January 1, 2011. Our recommendation would be not to consider higher assessment rates until after January 1, 2012. (Please remember that the financial services industry is already providing assessments at par for a 3-year period in December 2009 – the time-value of money forfeited by the banks should be considered by the FDIC when looking at delaying the assessment rate increase by one year!)

We sincerely appreciate the opportunity to provide these comments to the FDIC, hopefully you will find these recommendations to be constructive and of value as you arrive to the final rules. Please contact me at 434-292-8119 or Ron.Baron@cbtva.com if you have any questions or need additional information.

Best regards,

Ronald E. Baron

Ronald E. Baron
Senior Vice President & Chief Financial Officer