From: Robert Schick [mailto:RSchick@lyonsbank.com]
Sent: Monday, March 30, 2009 10:19 AM
To: Comments
Subject: Assessments - Interim Rule - RIN 3064-AD35

While we at The Lyons National Bank (LNB) understand the severity of the issues facing the FDIC and the insurance fund, your proposal to increase ALL banks' insurance premium by the same 20 basis points is unfair and unsafe!

It is unfair for the obvious reasons. Most (not all) community banks like Lyons National Bank did not participate in the unscrupulous and unsound banking practices that most of our larger banking brethren did. We did not stray from the time tested safe and sound banking practices that have guided this Bank since its inception in 1852. We do sell many of our residential mortgages into the secondary market for interest sensitivity and liquidity reasons via the Federal Home Loan Bank and the Federal Home Loan Mortgage Corporation (Freddie Mac). But we underwrite each and every mortgage as if we maintain the credit risk on our balance sheet. We follow this practice because it is good for the Bank AND our mortgage customers. Furthermore, our main mission is to be a financial intermediary, not to own a portfolio of residential homes. Our foreclosure record is testimony to our underwriting standards. Since, and including the year 2000, LNB has foreclosed on a total of 11 residential mortgages. This includes our on-balance sheet portfolio of $56 million as well as our off-balance sheet servicing portfolio of $60 million. Most of the 11 were a result of an individual family crisis such as a divorce or family member death.

We took our lumps during the so-called "mortgage for everyone boom" days. More than once, when we prudently turned down a mortgage request because we knew it was not in the best interest financially for the borrower, we bore the brunt of the name calling when that same borrower received funding through a broker or a larger regional or money center bank. Terms like stodgy, old fashion, passé and a few others, were thrown back at us. We stood our ground and let a few customers walk out the door, even though we could have passed the risk onto a third party.

We also understand and take our fiduciary responsibility to our depositors very seriously.

Long story short, maintaining our sound banking principles cost us some easy profits. Now, all that is forgotten and we are being punished equally along with the "bad actors"!

Your proposal is unsound because the assessment is excessive for most community banks. In 2008, we made $3.1 million in net income. We ended the year with approximately $357 million in deposits. The 20 basis points increase in premium would equate to almost $500,000 after tax or 16% of last year's earnings. That's $500,000 in less capital! If the economy was growing we may be able to make that up in new business. If interest rates were higher, we may be able to reduce the rates we pay to depositors (by the way, depositors are a synonym for tax payers) to offset the increased expense and preserve capital. Neither is an option today. While the 20 basis points increase will have a drastic affect on us, it will be catastrophic for other community banks that are less profitable. The end result: the FDIC will have more troubled banks to address. What am I missing?

Again we understand the severity of the crisis. We know life is not fair. But your original proposal will only exacerbate an already serious problem. We suggest the following alternatives.

1. Initiate a one-time assessment (not an annual increase) of X for community banks. Then allow those banks to treat the assessment as a pre-pay and amortize the premium over a longer period of time. As an example, if we were assessed a one-time 30 basis point

special assessment, that would equate to $1.07 million, based on our 2008 deposit level. However, if we could account for the assessment as a pre-paid and amortize it over 7 years, our annual after-tax expense would be a little over $100,000. This is much more palatable. For the “bad actors” and TARP recipients, keep the annual assessment at the 20 basis points for at least 10 years.

2. Since most of the large brokerage houses chose to become bank holding companies to be eligible for the bailout money, assess all money market mutual funds the same assessment as the “bad actors”.
3. Since credit unions want the same powers as banks, bring them into the fold also and assess them the same as the community banks. It’s time to level the playing field for all institutions that want to be in the banking business. (An aside – the next banking crisis – credit unions!)

We ask that you seriously consider our alternative options. Community banks are small businesses struggling like all other small business. Small businesses are the backbone of the American economy. However, we do not have the resources and options available to us as those of our larger bank brethren. Your proposal will mean the demise of more than one of these banks and seriously cripple many others.

Thank you,

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