The Farmers State Bank

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Executive Secretary Robert Feldman
FDIC, 550 17th St NW
N.W., Washington, D.C. 20429

Dear Executive Secretary Feldman:

I am responding to the March 2, 2009 letter from Ms. Sheila C. Bair, Chairman of the Federal Deposit Insurance Corporation (FDIC) in reference to assessments for 2009. It should be noted, the restoration of the reserve ratio for the Deposit Insurance Fund (DIF) is important to all financial institutions as it is the foundation for consumer confidence in the banking industry and our institution fully grasps that reality.

It is apparent the FDIC acknowledges the challenges facing our industry at this time and the stress a special assessment will place on organizations. Not only in earnings, but also on our ability to lend within our communities at a very critical time in our economy. Additionally, I agree all institutions should participate in the restoration of the DIF even though many of us did not create the problem.

Ms. Bair's candor is greatly appreciated, however a few items should be considered in relation to the smaller banks in this great nation. First, profits for the smaller community banks have been under a great deal of pressure for the last several years. Insurance companies, credit unions and government-sponsored entities (GSE) have all been eroding market share and profitability of the smaller community banks; especially the ones located in non-metropolitan areas. In many cases, these community banks offer stable employment, with excellent benefits to residents in these areas along with being an active corporate citizen. The special assessment will change the role of the small bank within their community.

The potential impact to earnings of our bank this year is fairly significant. Based on the 2009 budget presented to and approved by our Board of Directors (BOD) in December of 2008, the special assessment will reduce our 2009 projected profits by fifty-eight percent (58%). This will lower our projected return on average assets (ROAA) from .41% to .17%. In a normal year the impact would not be as great, but our institution is opening a new office in another community. The expenses to commence operations combined with the slow growth of a new banking office placed negative pressure on earnings. However, our institution created seven new positions within that community.

Since this event poses a grave challenge to our profits, steps must be taken to increase income and reduce expenses. This will come in the form of higher interest rates and fees for our loan customers. Our deposit customers will suffer a similar fate with lower deposit rates and higher account fees. However, these are not the only areas suffering from the impact of the special assessment.

Our employees will face reduced hours, benefits, increased employee costs for health insurance and in some cases reductions in force (RIF). These are realities and will not have a positive impact on our local economies. This appears to be counter productive for the goal of economic recovery as a nation and in our area.

All banks should participate in the replenishment of the DIF and our institution fully supports the concept. However, all institutions are not equal in size, profits and composition of deposits. For example, some of our larger competitors have a great deal of deposits from abroad and only pay an assessment on a little over fifty percent (50%) of their total deposits. Our institution has no foreign deposits and will pay the assessment on all applicable amounts. In essence, we are being penalized for core banking activities. within the United States.

The twenty-basis point (BP) special assessment appears fair with all institutions being levied the same percentage. However, this is not fair to the smaller institutions, as the impact to profits is far greater than our larger counterparts. Is there a more fair and equitable way to assist in the DIF restoration? I believe so.

First, many of the small community banks have opined our larger counterparts and Wall Street investment banks enabled the situation. In large part this is a true statement and evidence for a more equitable distribution of the special assessment. A starting point is all financial institutions that have received Troubled Asset Relief Program (TARP) funds must pay the twenty basis point special assessment. This should account for a large percentage of the deposits within the United States, since many of the mega banks participated in the program. The rationale for this statement is many of these institutions engaged in the activities responsible for this situation. The of record date for inclusion in this group should be the date of the letter from Ms. Bair, March 2, 2009.

For the remaining institutions, the special assessment should be five BP in 2009 and five BP in 2010. This would allow a minimal impact to profits in 2009 and afford the opportunity to budget the 2010 assessment expense. Furthermore, it will allow these institutions the opportunity to maintain elevated capital levels, lend within their communities, protect employment levels, preserve benefit levels along with eliminating the need to assess their customer base with fees and interest rates.

In closing, I want to reiterate this is not an attempt to renege on our responsibility in the restoration of the DIF. It is an attempt not to impact small business in our non-metropolitan communities. A chance to level the playing field for an advancement of economic recovery is the objective.

Sincerely,

J. Anthony Brown
President and COO