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April 14, 2009

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

cc: Carter McDowell; Chief Legislative Counsel; American Bankers Association

Dear Mr. Feldman:

Please note our opposition to the FDIC's interim rule that would impose a special assessment of 20 basis points in the second quarter. The FDIC special assessment represents a significant, unexpected expense which may severely cripple already weakened banks.

This special assessment will have the following negative effects:

- The cost of the special assessment will erode bank margins and negatively impact bank sponsored community reinvestment and charitable expenses.
- The special assessment expense will unintentionally and adversely impact bank margins because prior pricing decisions regarding certificate of deposits did not factor the cost of the assessment.
- Banks will be less apt to acquire deposits and thus hinder their ability to lend. The result will be increasingly tightened credit markets.
- Those banks operating in troubled areas will be forced to cut programs and staff which will further stress already depressed local economic environments and might compromise the solvency of these institutions.
- Banks that have maintained superior credit standards and remain profitable will be punished for the reckless behavior of others.

Although we appreciate the FDIC's concern that losses may total more than those anticipated, it is essential that we find a balance to assure that there are adequate funds to meet obligations without impairing the Bank's ability to revive and rebuild its community. There are currently more reasonable funding alternatives.

More reasonable funding alternatives to consider include the following:

- The FDIC should petition to increase its current $30 Billion line of credit with the US Treasury to $100 Billion to cover short-term contingency capital.
- Redirect a portion of the revenue collection from the Temporary Liquidity Guarantee Program, instituted on March 17; to the Deposit Insurance Fund should the FDIC determine that revenue is exceeding the expected losses of the guarantees.

- Redirect a portion of the revenue collection from the Public-Private Investment Program Legacy Loan Program which mandates an obligation to the industry to cover losses, should they be realized.

- Structure the increase as a convertible debt option, which would allow debt to be recognized only when it is utilized by the FDIC. With this structure in place, banks will only have to recognize a loss when incurred.

- Recapitalize debt over a longer timeline, thereby reducing the immediate losses realized by financial institutions.

These funding alternatives will ease the capital requirements of the FDIC insurance fund and ensure that troubled financial institutions aren't driven further into distress with unreasonable expenses. Please consider these funding alternatives versus the proposed FDIC special assessment.

Please feel free to contact us should you have any questions on our comments.

Sincerely,

Kent A. Steinwert
President & Chief Executive Officer
Farmers & Merchants Bank

Director American Bankers Association
Director California Bankers Association
Past-Chairman California Bankers Association

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Chairman of the Board
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