March 3, 2009

Ms. Sheila Bair, Chairman
FDIC
550 17th St, NW Room MB6028
Washington DC 20429
Comments@FDIC.gov

RE: FDIC Deposit Insurance Fund Restoration Plan & Special Assessment (RIN 3064-AD35)

Chairman Bair:

These comments are submitted in response to Friday's announcement by the FDIC that it is raising the deposit premiums for the second quarter, imposing an 'emergency special assessment' of 20 basis points and reserving the right to charge an additional 10 basis points as needed to "…maintain public confidence in federal deposit insurance."

As a conservative community banker I am outraged that the FDIC Board of Directors has decided that it is our responsibility to pay for the sins of the unregulated mortgage brokers and investment banks on Wall Street. Our Bank has observed conservative underwriting standards and exercised prudent lending decisions, while the brokers and 'mega-banks' chose to put people in homes they could never hope to afford using products few could understand. As a result, while they are posting record losses and turning to the U.S. Taxpayer for bailout funds, we remain well capitalized with no risk to our depositors. While the large banks have now restricted lending and the credit markets have dried up, we remain open for business to serve our customers and loan them the funds they need. We have implemented several deposit garnering programs to increase deposits in order to meet the increased loan demands in our communities, now to learn that CFSB will be penalized for those increased deposits by proposed assessment increases that equal 25% of our projected annual income!

The FDIC's actions will cause a ripple effect through the credit markets and the economy as banks are forced to raise fees and rates in an effort to raise the funds necessary to pay this "one-time" assessment. At a time when the American consumer needs access to affordable credit this will accomplish the opposite.

Many banks are already suffering from increased losses as a result of the national economic conditions as well as much smaller margins resulting from historically low interest rates. When earnings are already under pressure from multiple directions, it is not the time to double and triple assessments amounts. This higher assessment level and the 'special' one-time assessment will impede earnings and potentially deplete capital at institutions that are already facing unprecedented challenges. Will banks whose earnings suffer come under regulatory criticism for failure to raise enough capital and maintain loan loss reserves?

Finally, I believe that your comments on October 7th, 2008 were a dark portent of what was to come. In your statement (PR-94-2008) you said that "The entire capital of the banking industry stands behind the fund…" In a capitalist based economy such as ours the socialistic redistribution of capital on such a scale as this should be unthinkable. How much capital must be taken from safe and sound community banks such as ours before those who actually caused this crisis are brought to task? The Government is entrusting taxpayer bailout funds to the very mega-banks that caused the problem and who are still managed by the same executives and directors that endorsed risky and fraudulent lending practices.

Those banks that have become too large to manage, too large to regulate and too large to fail should be broken apart into more manageable units. Chairman Bair stated in her letter yesterday that "our statute restricts us from discriminating against an institution because of size". I submit to you that all community banks who do not fall into the too big to fail category have been discriminated against for years! Our depositors have never been insured on their total deposits putting us at a distinct disadvantage to those banks. ICBA has consistently asked for a number of years that the too big to fail banks pay an additional fee for their systemic risk to the insurance fund. This fee should be levied on those banks that are:

1. Too big to fail
2. Too big to regulate – obviously this has been true!
3. Too big to manage – again obviously this has been true!

Congress should move immediately to impose this fee instead of taking the easy way out and slapping our community banks in the face for performing as they should!!!!

In summary, I find the FDIC plan to be short-sighted and naive as it underestimates the substantial negative impact on the already fragile credit markets and economy. It punishes those who have played by the rules and rewards those that did not, and it will result in a higher cost to the consumer as fees and rates are increased. I fear that the 'special' assessment announced today is merely the down-payment on a bill our local community banks cannot afford and are not responsible for incurring.

Sincerely,

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