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March 12, 2009

Ms. Sheila C. Bair
Chairman
Federal Deposit Insurance Corporation
550 - 17th Street N.W.
Washington, DC 20429

In re: **FDIC Assessment Increase/RIN 3064-AD35**

Chairman Bair:

On March 2, the FDIC Board of Directors took interim action to dramatically increase 2009 assessments on all FDIC insured institutions. This interim action affects all FDIC insured financial institutions and also their respective regulators, including Office of Thrift Supervision and Office of The Comptroller Of The Currency. Your letter to bank CEO's on this issue welcomed comments on the interim rule within thirty days. We have accepted your invitation to address our concerns about several serious collateral effects that will undoubtedly occur within the FDIC member banks and our national economy if the interim rule becomes final.

As a point of background, enclosed is a recent article from *The Wall Street Journal* March 4, 2009, which I am confident has been previously directed to your attention. The headline "Bank Robbery" accurately describes what is occurring through the FDIC announced intentions to not only substantially increase annual FDIC assessments on banks, but also impose a special assessment of substantial magnitude against insured banks for deposits of record June 30, to be collected September 30.

1st Community Bank is a small bank ($50 million in assets) located in western Illinois, south of the Quad Cities in Mercer County. An examination by the FDIC was recently completed and thereby the bank had a chance to share its economic thoughts, including current banking practices and the overall banking environment, with your local representatives. The examination results were positive from the perspective of both parties. At

the exit meeting with bank's management, your Examiner-in-Charge shared remarks that this bank's management team consistently attempts to achieve regulatory compliance at all levels. One of these compliance categories is, of course, profitability. Management at 1st Community Bank works diligently each year at expense containment and, of course, competitive pricing for deposits and loans for the benefit of all its customers and achieve a satisfactory level of profitability to enhance overall growth of the bank for expanded lending.

Congress and President Obama are mandating banks to increase lending - irrespective of the public's reticence and fear to presently expand business or consumer financial obligations. "Fear" concerning the safety of our financial institutions and job security, etc., are all major factors inhibiting the administration's attempts to improve our economy. Almost daily we read or hear about the alleged "frozen credit markets" from the news media. To provide easier credit for the public requires profitable bank operations and, in turn, continued high capital levels. The FDIC's interim plan to tax bank capital accounts excessively only reduces lending availability. 1st Community Bank maintains its capital at the "Well Capitalized" levels, as defined by FDIC regulatory policies. Your interim proposal to now impose a special assessment on all banks, combined with substantially increased annual assessments, lacks all logic, as referenced in the attached article. The concluding paragraph of that article emphasized this point stating, "*Banks should pay for their insurance over the course of a business cycle, rather than raiding their earnings when they desperately need the capital.*"

Your interim rule to partially restore the FDIC Fund balance by use of a special one year's assessment payable September 30, combined with a substantial annual increase taxing solely the FDIC insured financial industry, is entirely counterproductive to the goals that the Obama administration aspires to accomplish for the national economy recovery. If made final, the interim rule will be self-defeating to the consumer's financial recovery and resumption of normal spending habits. Higher immediate FDIC assessments will result in further curtailment of de-

sired expansions of bank lending. A uniform assessment in the amounts proposed also discriminates openly against small FDIC insured banks such as 1st Community Bank that strive to operate prudently and retain sufficient capital to lend to their customers without business interruptions in this very difficult economic environment. The enclosed article makes this point but with respect to a billion dollar institution versus that referenced in this letter.

The Agency's interim rule will mean, as an illustration for just 1st Community Bank in 2009, a bottom line charge of 30% of this year's budgeted net banking profits. Final implementation of this interim rule will then lead to criticism from bank regulators that insufficient profit levels exist to warrant favorable ratings on earnings. With this size of escalation in assessment costs, the FDIC will leave the banking community no alternative except to cut back areas of service to their customers. These alternatives will include higher costs for loans, lower deposit rates and potential employment reductions, all resulting in a further delayed economic recovery for the nation.

Your recent letter of March 2, 2009, to bank CEO's stated:

> "*...But banks - not taxpayers - are expected to fund the system, and I believe Congress would look skeptically on such a course of action. Moreover, turning to taxpayer funding could open up a whole new debate about the degree of government involvement in the affairs of insured banks...*"

Isn't taxpayer involvement exactly what is occurring in the various pending taxpayer funded bailouts? Of course it is. What business logic applies to single out banks as the sole "culprit" responsible for the media and administration directed blame to the banking industry? Focusing blame for resulting FDIC Fund expenditures, however, isn't our goal in this letter; rather it is to identify known effects that will result from the FDIC interim rule becoming final.

We as U.S. taxpayers, both present and future generations, are being mandated through recent and yet-to-be passed legislation to assume the responsibility to pay for the recently enacted fiscal stimulus package programs and budget deficits. No different principles should be applied to the banking industry as a whole than those businesses benefitting through taxpayer paid-for legislation to turn the economy around. Your proposed interim rule will also accelerate marginal banks into certain financial failure and thereby magnify the demands placed upon the FDIC fund *"at the worst possible time" (WSJ)*. The only viable alternative for immediate FDIC Fund restoration is through Congressional funding to permit an orderly future assessment of FDIC premiums to restore the FDIC Fund - and not in the form of immediate confiscation or excessive taxation, which is what the special interim assessment plan, as proposed, represents. Your March 2 letter reference to "extraordinary circumstances" as an FDIC finding supports a more orderly rebuilding of the Fund balance. Any number of analogies can be provided to support a progressive rebuilding of the FDIC Fund versus that proposed to be done through dramatic charges in 2009.

The economic problems of the larger banks also shouldn't be taxed uniformly against the entire banking community. Larger banking entities are not only more culpable to the subprime situation, but also have far more leeway for cost cutting and other economic alternative courses of prospective action than do their smaller banking counterparts. Community banks serve as bulwarks of deposit and borrowing safety for our communities and citizens. The FDIC's decision to dun the entire banking community as an act of "fiscal responsibility" for the banking fund replenishment is anything but that! As taxpayers, we all have to suffer the calamity of the banking losses - not just the banking sector. To assess fund rebuilding solely and uniformly upon banks of all sizes, including those that had nothing to do with the subprime and other financial solvency related problems, will result in a pass-through of this cost directly to bank customers, entire communities, and thus the general consumer public. These added costs to depositors and borrowers will only delay the recovery of our nation from the present and still-to-be-

experienced symptoms of higher unemployment, lower consumer spending, more foreclosures and all resulting economic consequences.

We in the banking industry all appreciate the importance, particularly in these trying times, of FDIC depository insurance benefits for customers' deposits, safety and peace of mind. You stated on March 2, *"We searched for alternatives but found none better"* to rebuild the insurance fund. To the contrary, we as a community bank believe there are, indeed, alternatives available for immediate FDIC action that would avoid the imminent damaging effects on insured banks of all sizes and the public (as referenced in this letter). These include the following:

1. The FDIC should first utilize its line of credit with the Treasury to fund any yet-to-be sustained emergencies created through Fund usage; and

2. If necessary, the FDIC should request Congress to expand its existing line of credit with Treasury from the current $30 billion amount to an amount sufficient to cover estimated immediate losses; and

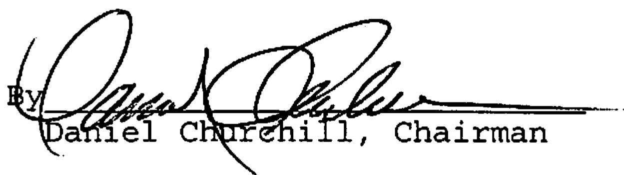
3. If all banks, including Community banks which did not cause the present economic crisis within the banking industry, are assessed increased FDIC premiums, then the FDIC should only assess those premiums based upon total assets rather than domestic deposits and levy those assessments over an extended number of years to avoid skewing bank earnings and unwarranted use of bank capital in these troubled times.

In conclusion, please consider modifying the FDIC interim rule in a manner consistent with the suggestions included in this letter to insure, as you concluded, "*that the deposit insurance system remain sound and that deposits remain a stable and affordable source of bank funding.*" We appreciate your

reviewing our comments, and if we can be of assistance to the FDIC in any way involving this, or any other matter, please do not hesitate to contact us.

Respectfully,

1ST COMMUNITY BANK



By Daniel Churchill, Chairman

DC:amm
Enclosure
xc: Gail A. Jagers, Field Supervisor
Federal Deposit Insurance Corporation

Honorable Richard Durbin
United States Senator

Honorable Roland Burris
United States Senator

Honorable Phil Hare
United States Representative

Janet L. Ladue, President
1st Community Bank

Board of Directors
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Bank Robbery

Depleting capital when it's most needed.

The Treasury and Federal Reserve continue to cook up creative ways to pump taxpayer money into troubled financial institutions. So we're having a tough time understanding why another federal agency, the FDIC, has announced plans to take $27 billion *out* of the banking system this year.

It's true that the FDIC's deposit-insurance fund has been shrinking, and that since the beginning of 2009 the FDIC has rolled up two banks a week, on average. It took over two more last Friday. The fund is now down to $19 billion from $52 billion a year ago and by law had to be replenished.

But the deposit-insurance fund is itself a legal fiction. There is no bank vault with those billions socked away for FDIC Chairman Sheila Bair to dip into when she seizes a bank. Like the Social Security Trust Fund, the insurance fund hands its money over to the Treasury to spend and draws it down as needed. Even if the fund falls to zero, the FDIC has an existing $30 billion Treasury line of credit, which may soon grow to $100 billion.

Ms. Bair painted Friday's decision to dun the banks for $27 billion this year as an act of fiscal responsibility, noting that unlike other rescue programs, the FDIC might not have to hit up taxpayers or tap that credit line this year. But this is a false economy if the money sucked out of the banking system to pay for deposit insurance drives more banks to the brink of failure.

That $27 billion levy against an insured deposit base of $4.76 trillion may not seem like much. But it could mean $2 million or more this year for a bank with $1 billion in deposits, which could in turn represent a substantial drain on earnings at a time when the economy needs banks to earn their way out of trouble. Money paid to the FDIC can't be leveraged to support new lending, so $27 billion in FDIC premiums could also take $150 billion or so out of lending in the coming year.

To be sure, the law under which the FDIC operates is perverse. For most of a decade beginning in 1996, bank failures were rare and the FDIC collected no premiums from most banks. That forbearance was required under the law, which was designed to make sure that the insurance fund never got too big or too small.

But the parameters are so narrow that, as we are now seeing, a slew of bank failures can force premium increases at the worst possible time. If we are going to have deposit insurance, then by all means let the banks pay for it. But the FDIC needs the flexibility to collect premiums in good times, and not wait until a crisis is under way to step in and start skimming from the banks.

Ms. Bair also has more flexibility than she claims. There is that Treasury line of credit. And Congress could have appropriated additional funds to cover deeper losses last year, as these columns urged. It could do so again now. The real problem here is political. A year and a half into this financial mess, the name of the game in Washington is still cover-your-assets, and neither the FDIC nor Congress wants to own up to the need for more taxpayer help to protect depositors.

Banks should pay for their insurance over the course of a business cycle, rather than raiding their earnings when they desperately need the capital. President Obama's budget foresees an additional $250 billion in financial-rescue funding, which means bank losses. When we're putting that kind of money into the banks to keep them solvent, why is the FDIC taking billions out?