



State Bank OF SOUTHERN UTAH

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October 26, 2009

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

Subject: PREPAID ASSESSMENTS, 12 CFR Part 327

RIN: 3064-AD49

Dear Mr. Feldman and FDIC:

Thank you for the opportunity to comment on the Prepaid Assessment Proposal by the FDIC, RIN # 3064-AD49. My comments will be opposed to the prepaid assessments for the following reasons:

1. Prepaid assessments use three years future income and cash flow that will be due to the FDIC without any guarantee that it will solve the failed bank problem without more assessments. Our bank is also concerned that the agency will use the funds too quickly if they receive all the funds at once. If the FDIC has the \$45 billion available in a lump sum they may close banks too quickly and not maximize the liquidation value of the failed bank assets.
2. The assessment punishes our bank and its shareholders along with other well capitalized banks because we have been conservative in dividend payments and compensation to build a strong capital base. Now that we have sub-standard loan and earning problems the FDIC wants us to supply them with an interest free loan to help liquidate banks that were not as responsible as our bank. If a prepaid assessment is mandated, the FDIC should pay a reasonable interest rate for the prepaid part of the assessment. State Bank of Southern Utah needs the earnings to survive the

current downturn and we deserve the earnings because of our past management practices. State Bank of Southern Utah paid no more than 20% of earnings or 3% of book values as dividends for many years and also has reasonable compensation policies for both executives and Board Members. Management has set a minimum of 10% capital to assets policy even though many consultants recommended the bank should leverage to “earn” a higher return for our shareholders. It would be unfair for the FDIC to take three years of assessments from the good managers and waive it for the poor managers.

3. The assessment is also unfair to small banks like ours that received no government bailout funds but may now be required to send three years of assessment without any return.

I will now address your request for comments as outlined in the PREPAID ASSESSMENT document:

1. *As an alternative to prepaid assessments, should the FDIC meet its liquidity needs by imposing one or more special assessments?*

Special assessments are not the first choice but one special assessment per year is more palatable than a 3 year prepaid assessment.

2. *Should the FDIC pursue one or more of the other alternatives to the prepaid assessments, such as borrowing from Treasury or the FFB?*

State Bank of Southern Utah believes that pursuing other alternatives is far superior to a 3 year prepaid assessment. For example, the FDIC could borrow ten to twenty billion dollars from the Federal Treasury and do a one year prepaid assessment to meet the FDIC cash needs in 2010. They should also aggressively pursue maximizing the liquidation value of failed bank assets.

In addition, the FDIC should join with other financial institution regulators to suspend or modify mark to market accounting rules on real estate until the market stabilizes or there is a market of competing buyers. Forcing banks to write down loans, especially those that have interest

payments being made, when appraisers cannot find stable market sales creates a downward spiral of values and an abnormal market. Presently, investors know banks must “sell” or write off loans and this forces sales at even lower prices. If the FDIC, other regulators, and accounting boards would work with financial institutions on mark to market to allow longer holding periods until there is a market, some bank failures could be averted and losses minimized.

- 3. Should prepaying assessments be voluntary rather than mandatory as currently contemplated, and, if so, how would the FDIC ensure that it receives sufficient cash to fund resolutions of failed insured depository institutions? (If prepayment of assessments were optional, the FDIC believes that it would affect the accounting treatment as a prepaid expense.)*

It may not be possible to make it voluntary but the FDIC should pay a reasonable interest rate on the prepaid assessment to be fair to those who have the cash to prepay. Those are not just “available cash or excess reserves” as the FDIC claims on p. 15 of the proposal. They are carefully earned assets that are available because of prudent management practices. If they are “excess” reserves, why is the FDIC now asking some community banks to maintain a 9% to 10% minimum capital ratio? To save interest costs the FDIC could only require a one year assessment until more cash was needed and then determine if they wanted to prepay more or tap the Treasury line.

- 4. For purposes of calculating the prepaid assessment, should the FDIC estimate the growth in the assessment base at a rate other than 5 percent for 2009, 2010, 2011 and 2012? Should the FDIC use different assessment rate assumptions than those proposed?*

State Bank does not have any method of judging whether 5 percent is a good figure. That is why we suggest only doing prepaid assessments for one year at a time and using the Treasury line for part of the funding needs.

5. *As proposed, the FDIC would require prepayment of estimated assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012 based on its current liquidity needs projections. Should the FDIC require prepayment of estimated assessments over a different period or in installments?*

The FDIC should definitely shorten the prepaid assessments. Draws should be in installments of not more than year at a time. If the FDIC gets the funds all at once the tendency will be to liquidate banks quickly and not manage cash prudently. To avoid that temptation the money should come in installments and the FDIC should pay interest on the prepaid part of the assessments. If funds are not sufficient to cover FDIC needs then the Board can consider a special assessment or borrow from their Treasury line.

6. *Should the FDIC's Amended Restoration Plan incorporate a provision requiring a special assessment or a temporarily higher assessment rate schedule that brings the reserve ratio back to a positive level within a specified time frame (one year or less) from January 1, 2011, when the FDIC projects industry earnings will have recovered?*

Not until it is determined markets have stabilized and institutions can pay higher fees without killing lending or causing more bank failures.

I hope the FDIC will carefully read and consider these comments. I believe that collecting three years of FDIC assessments up-front, without paying interest of any kind, is a bad precedent and will encourage banks not to build capital and be prudent in the future.

Sincerely,

A handwritten signature in blue ink that reads "Ronald W. Heaton". The signature is fluid and cursive, with the first name being the most prominent.

Ronald W. Heaton
President and CEO