GRAND RAPIDS
STATE BANK
• est 1914 •
Serving the Community for Generations

October 24, 2009

The Honorable Sheila C. Bair
Chairman
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, D.C. 20429

Chairman Bair:

I am writing to you today to comment on RIN 3064-AD49, the proposal regarding prepaid assessment. As a fourth generation community banker, I believe it is imperative for the FDIC to remain industry funded for as long as it is feasible. My preference would be that the FDIC borrows from the healthy banks at a modest rate. I believe this approach would not only help restore needed liquidity to the deposit insurance fund it would also have the most positive impact for the industry, allowing healthy banks that would like to make the investment to do so with some assurance of return while banks that are struggling thought this difficult time would be able to avoid dramatic impacts to the their capital and earnings.

Understanding that the former is not the topic for comment, I generally support the FDIC's proposal to require all insured institutions to prepay, on December 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012, in order to address the liquidity needs of the Deposit Insurance Fund. This proposal is preferable to the FDIC imposing more one or more additional special assessments at a time when the industry is under stress and would ensure that the deposit insurance system remains directly industry-funded.

However, I have several recommendations concerning how the prepayment should be calculated and how it should be refunded.

Downtown Office
tel: 218.326.9414 fax: 218.326.3659
523 NW 1st Ave, Grand Rapids, MN 55744

Pokegama Office
tel: 218.326.9687 fax: 218.326.0707
1 SW 10th St, Grand Rapids, MN 55744

Financial Services Center
tel: 218.326.9415 fax: 218.326.8578
506 NW 2nd Ave, Grand Rapids, MN 55744

www.grsb.com • bank@grsb.com

First and foremost, the assessment base used for the prepayment calculation should be the same assessment base that was used for the second quarter special assessment—that is, an institution's total assets minus its Tier 1 capital. This broader assessment base would result in an assessment system that is fairer, with the larger banks paying a share of the assessments that is more proportional to their size rather than their share of domestic deposits. If the proposal is implemented and only domestic deposits are assessed, banks with less than $10 billion in assets will prepay approximately 30% of the total prepayment assessment although they hold approximately 20% of total bank assets. This would not only be unfair to community banks, but would not accurately reflect the risk that community banks pose to the Deposit Insurance Fund. The amount of assets that a bank holds is a more accurate gauge of an institution's risk to the deposit insurance fund than the amount of a bank's deposits. The FDIC has the authority to make this change and I urge this broader and more fair approach to be adopted.

Second, for purposes of calculating the prepayment, the FDIC should use a significantly lower estimated annual deposit growth rate for banks located in those parts of the country that historically have had slower deposit growth rates or even eliminate this altogether. Many community banks, particularly those located in small towns and rural areas, have not experienced a 5% annual deposit growth in recent years, especially in a low interest rate environment. In Itasca County Minnesota, the third poorest county in the state, several institutions have experienced negative growth in deposits. It would be an unfair burden on those banks if their prepayments were based on such a high annual growth rate.

Third, the FDIC must work to provide for fair tax treatment of the pre paid asset for community banks that are structured as Sub Chapter S banks, especially those that are using a cash basis of accounting. Current law for those institutions only allows proper tax treatment for a period up to 12 months. The potential for unintended tax consequence in subsequent years could put a strain on earnings and, in more unfortunate circumstances, capital of some banks. It would be unfair to force an unfair tax treatment situation on any of the banks that help to restore liquidity to the deposit insurance fund.

Finally, I recommend the FDIC establish an earlier refund method for those banks that have not exhausted their prepaid assessment by December 31, 2012. The proposal calls for refunds to be made after December 30, 2014. Refunds for the three year period should be made by June 30, 2013, and annual refunds should be made soon after the end of any year when a bank has significantly overpaid its prepaid assessment for that year. For instance, if a bank's prepaid assessment for 2010 exceeds by 20% the amount of its actual assessment for that year, then the FDIC should refund the excess soon after the end of 2010.

Thank you for the opportunity to comment on the FDIC's prepaid assessment proposal.

Sincerely,

Noah W. Wilcox
President/CEO
Grand Rapids State Bank
PO Box 409
Grand Rapids, MN 55744