VERMONT BANKERS ASSOCIATION, INC.

VBA

CHRISTOPHER D'ELIA
President

CITY CENTER
89 MAIN STREET, P.O. BOX 587
MONTPELIER, VERMONT 05601-0587
TEL (802) 229-0341
FAX (802) 223-5078
VTBANKER@SOVER.NET
WWW.VTBANKER.COM

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

Dear Chairman Bair,

I am writing on behalf of the 21 banks that have operations in Vermont to express their concern about interim rule 3064-AD35, which would impose a 20 basis point emergency special assessment in order to recapitalize the Deposit Insurance Fund.

Please understand our members are very aware of the difficulties facing the fund and are in full support of it being on sound financial footing in order to maintain the confidence depositors have in the system. Allowing the fund to go to a zero balance is not an option. That said, our bankers are angry at having to pay for the sins of others. We take great pride in Vermont at having the second lowest foreclosure rate in the country. Our banks did not embrace the alternative mortgage products or adopt unsound lending practices that others within the financial services industry clearly abused.

As you and the Board are well aware, this assessment, as contemplated under the interim rule, comes at a very difficult time for our industry. By many accounts, Vermont banks have faired well since the fall of 2008. We have seen an increase in customers coming back to their local community bank; deposits have increased; loan requests have been steady and increasing as a result of other sources of capital leaving the market; and the quality of the borrow has been reasonably strong. However, despite these positive signs, there is still a great deal of pressure on these institutions, whether it is accounting rules; the reassessment of portfolios which may result in the need for higher loan loss reserves; the potential of an increased tax burden to help backfill the shortfall in our state budget; a higher assessment being imposed by our Vermont Department of Banking on state chartered institutions; and a deepening recession. Now, we add to this list, the 20 basis point emergency special assessment from the FDIC.

When the interim rule was released three weeks ago, the Association began assessing what the potential impact would be on our banks. Out of 21 banks, to date 15 of the small community banks have reported, and we estimate they will pay approximately \$9.6M to the insurance fund. Taking into consideration the banks that have not reported, we believe a conservative estimate of the impact of the special assessment on Vermont banks will be $18M - $22M in 2009. It is important to note this estimate does not include additional monies that will be paid into the fund under the higher annual assessment formula.

Beyond the financial burden, how will Vermont banks, but perhaps more importantly the communities we serve be impacted? Most of the banks that have corresponded with the Association have indicated that lending will continue in the market place. Vermont institutions are well capitalized and will continue to play the role of the oil that keeps the engine running. As for charitable contributions, the majority of the banks have decided to cut the level of contributions made to organizations in their community. This comes at a time when many of them are already experiencing a loss of revenue from other individual contributors. Finally, at least three of our banks have indicated the special assessment will have a serious detrimental impact on their earnings for the year. As a result, these banks have begun to look for ways to trim their budgets including the number of staff.

With this in mind, the banking community in Vermont is asking the FDIC to consider alternatives that would reduce our fiscal burden. One option could be implementing a FICO model similar to the one that was used in the late 1980's to address the savings and loan crisis. Under this scenario, FICO like bonds could be sold to the public and the proceeds used to recapitalize the insurance fund.

A second option could be using a convertible debt approach where by the FDIC could convert debt borrowed from the banking industry into capital to offset losses if it needs the funds. This would allow banks to write off the expense only when the funds are actually needed.

A third option might be spreading the cost of the assessment over a longer period of time. However, we understand recapitalization of the fund may not happen quickly enough to address fund losses.

These are just a few of the many creative ideas the FDIC will be gathering during this comment period. It is our hope the Board will find reasonable alternatives to the current proposal that will ensure the fund remains secure and allow banks to continue to play a leading role in helping their customers and communities come out of this economic recession.

Sincerely,

Christopher D'Elia

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President