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March 25, 2010

Mr. John C. Dugan
Comptroller of the Currency
Member of the Board of Directors
Federal Deposit Insurance Corporation
550 17th Street NW
Room MB-6028
Washington, DC 20429

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Dear Mr. Dugan:

Signature Bank would like to officially comment on two inter-related policy matters. The first issue is consideration of the continuation of the Transaction Account Guarantee ("TAG") program past June 30, 2010. The second issue is the FDIC's policy with respect to brokered CD's and in particular the CDARS program. We understand that there is a consideration of expanding CDARS and like programs to transaction accounts

Our view on TAG pivots upon the Too Big To Fail (TBTF) issue. Frankly, the TBTF doctrine has provided those institutions with TAG for free. Some TBTF banks freely advise clients that they are safer putting money into a TBTF bank than into banks without this explicit government banking of depositors. The TBTF effectively get "TAG plus" for free. Our view is that if TAG is to be continued then the TBTF banks should at least be compelled to pay TAG premiums. Already the TBTF competitive advantage has lead to astounding market concentration in our NY market. The TBTF banks hold 77% of New York metropolitan area deposits.

We view the financial overhaul bill approved by the Senate Finance Committee as enshrining TBTF in law. Even though the megabanks would pay fees under the bill, the benefits to the TBTF banks would vastly exceed the cost. Were the bill to become law, we would strongly urge TAG to be permanently extended and TBTF banks compelled to participate in recognition of the government guarantee on their deposits.

On a more fundamental level, the TBTF policy poses a potentially disastrous risk to the U. S. economy and the FDIC fund. We have all learned from the FNMA/FHLMC experience that when the U. S. government guarantees private party liabilities that the normal price signals (via needed increases in interest rate to attract funds) are turned off. Financial institutions so "blessed" can continue making risky investments without any market discipline. This puts too much responsibility on regulatory examinations to identify risk in place of market signals. Liability costs increase for these TBTF banks only when they are on the brink of failure, as happened with FNMA, FHLMC, Wachovia, Washington Mutual, National City and others. When these institutions are at the brink of the abyss, the sudden sky rocketing in interest costs and attendant bank run creates an instant crisis forcing the inevitable TBTF bailout. A better solution would be to permit continuous pricing signals as an early warning system.

With this background, it should be clearer why we consider brokered CD's and, even more worrisome, the CDARS programs to be second stage undiagnosed cancer within the banking system. Brokered CD's which allow 100% insurance coverage for non-client deposits have long been recognized as the fuel which allows troubled banks to expand beyond their local funding capabilities. Just as unrestrained borrowing capability tempted FNMA and FHLMC into the subprime and Alt-A securities market. This type of expansion has generally been used to invest in riskier assets since the 1980's and the Savings and Loan debacle. Sadly, nothing has changed.

CDARS and CDARS like programs are even more dangerous and harder to justify since bank clients' end up defunding their local relationship bank and spreading their money around a variety of banks with whom they have no relationship. The process of defunding the local bank allows for full insurance from FDIC. The FDIC ends up receiving the same total insurance fee as though the funds were in the original bank, except post CDARS, the FDIC insures the entire deposit and the CDARS organization receives a significant fee for this uneconomic reshuffling of the deposits. Thus a healthy and profitable deposit is converted into a net drain on the original relationship bank. Importantly, large depositors lose all incentive to monitor the health of their bank. If the goal is to allow for 100% insurance for concerned clients then the FDIC should put in place a program to charge an overage fee for larger deposits that is equivalent to the CDARS fee. We can see no public policy benefit in allowing this "FDIC arbitrage". Under the current system, at the end of the day Promontory ends up with the premiums and the FDIC ends up with the risk.

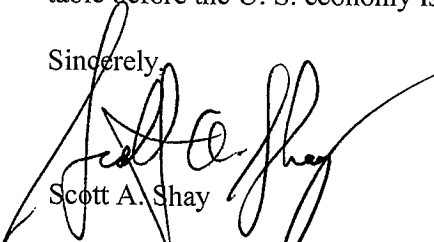
We would suggest that the overage fee to the FDIC should be formula driven based on capital adequacy and loan quality measures. Unlike brokered CD's and CDARS this would provide a positive incentive for banks to maintain higher capital ratios.

We are upset to hear that policymakers are considering proposals from Promontory and others to expand CDARS to transaction accounts to replace TAG. Again, if the FDIC wants to provide 100% insurance, the FDIC should at least earn the premiums. We further question what the incentive is for banks to hold excess capital if banks can offer 100% insured accounts via CDARS. The CDARS organization will become the effective unified federal regulator, if CDARS transaction accounts become the market standard.

We also find it particularly grating to read the op-ed pieces by high profile former regulators, who are now Promontory shareholders that piously argue for limiting FDIC insurance while simultaneously handsomely profiting from exploiting that very limitation.

CDARS is a thinly disguised "3 Card Monte" scheme. The deposits are shuffled at dazzling speed, no economic value is created, the spectators are mesmerized, and aren't quite sure of what to make of it. The results are almost guaranteed. The dealer gets the fees; the FDIC gets the risk. Let's walk away from this table before the U. S. economy is a big loser.

Sincerely,



Scott A. Shay

CC: Richard H. Neuman – Superintendent of Banks – New York State Banking Department
William C. Dudley – President, Federal Reserve Bank of New York
Senator Christopher Dodd
Senator Richard Shelby