Security State Bank
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Arthur J. Murton
Director
Division of Insurance and Research
550 17th Street NW
Washington, DC 20429-9990

RE: FIL-1-2010 Employee Compensation ANPR comments

Dear Mr. Murton:

Thank you for the opportunity to comment on the ANPR referenced above. Is there any empirical data that demonstrates that employee compensation programs have caused or significantly contributed to the failure of a bank? If no such data exists, then the FDIC should not even be considering this issue as being meaningful. If such data does exist, it should then be easy to quantify the risk dollars and thus the assessment dollars required to offset that risk.

In a general sense, it would seem that any increase in the assessment fee would fall far short of compensating the fund for any increased risk from a bank closure. Also, the additional assessment expense might pale when compared to potential income from a high risk compensation program, such as a lending incentive program. This would curtail any possible influence an assessment increase might have on management's decision to continue or curtail such a program. Perhaps a different focus would be more productive in influencing the risk appetite of banks, such as a significantly higher risk based capital ratio requirement for those institutions that foster high risk programs, whether it is compensation, trading, derivatives, growth strategies, etc. If the risk based capital ratio were to be increased by 100 basis points for each high risk program, the capital would have to be in place to absorb the risk should an adverse situation occur. This type of structure would have more impact in influencing the risk configuration of a bank than an increase in assessment expense. If additional capital were being maintained to support high risk programs, shareholders would also be weighing in because of the impact on their return on their investment.

Finally, one of the main concerns with the proposal as advanced is the third feature stating that the compensation program should be administered by independent directors with input from independent compensation professionals. If this were required, every small bank would have additional expense in hiring outside professionals to allow the bank to satisfy the attestation requirement. Such additional expense would be unnecessary and burdensome to small community banks.

Thank you again for the opportunity to comment on this issue.

Sincerely,

David W. Summers

David W. Summers
Sr. Vice President, Cashier & CFO

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