

From: Wilcox, Noah [mailto:Noah.Wilcox@grsb.com]
Sent: Monday, April 25, 2011 6:28 PM
To: Comments
Subject: RIN 3064AD78 (unprotected email)

I am writing to you today regarding the Notice of Proposed Rule Making (NPR) as it relates to Interest on Deposits; Deposit Insurance Coverage, RIN 3064-AD78. Specifically, I am writing to comment on the repeal of the Regulation Q provision that, today, prohibits banks from paying interest on commercial demand deposits.

The repeal of this long standing rule will create a highly uneven competitive playing field and is likely to yield severe unintended consequences. Personally, I believe in some small rural areas it may even lead to potential bank failures. Community banks, like mine, have many tools at their disposal to employ with appropriate customers to reward stable deposit balances without creating a situation where the funds become illiquid. For example, sweep agreements with interest bearing deposit accounts and repurchase agreements are used throughout the community banking sector routinely. However, these products do not fit all customers.

Allowing banks to pay commercial businesses interest on demand deposits will create and foster an environment that will make it increasingly difficult for community banks across the country to serve the needs of small business. With severe liquidity issues at the largest banks, they are expected to move to "buy" the market. However, the biggest banks in our nation have demonstrated an inability and/or an unwillingness to lend to small businesses in America. And, community banks have demonstrated time and again that they are the lending institutions that are working with small businesses, those very same businesses that that create and employ a majority of the work force in our country. A significant fact when we consider today's current unemployment rate. As these mega banks capture small business deposits the ability and willingness for community banks to make the loans that they are used to with small business customers will be placed in severe jeopardy, if not negated entirely. In this scenario, I have assumed that the community banks do not pay interest on commercial demand deposits and imagine the outcome. The liquidity issues that this scenario creates are the result of poor policy attempting to fix what is not broken.

If, on the other hand, community banks feel compelled to compete with the largest banks to retain their small business deposits and thus their small business loans (I.e. Earning Assets and income generation) then the community bank markets, due to their size will experience a disproportionate negative impact on their margin. In some cases it is conceivable that this compression could lead to net earnings losses, negative retained earnings, capital erosion etc.

As you already understand the financial industry as a whole has been through a very traumatic few years. The playing field has never been even, but there has never been a worse time to create a greater disadvantage for community banks in this nation. I urge you to cease your effort to repeal Reg. Q, or at a minimum delay this repeal until the full impact to the industry, with particular attention on the community bank market can be understood.

Respectfully,

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