From: Jim Bedsole [mailto:jbedsole@tidelandsbank.com]
Sent: Friday, September 22, 2006 9:52 AM
To: Comments
Subject: RIN 3064-AD09 Assessments

September 22, 2006

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 Seventeenth St., NW
Washington, DC 20429

Re: RIN 3064-AD09 Assessments

Dear Mr. Feldman:

Tidelands Bank is a three year old de novo bank headquartered in Mt. Pleasant, SC. We currently have $305 million in assets and two branch offices and two loan production offices in addition to our main Mt. Pleasant office. We welcome the opportunity to comment on the proposed rulemaking regarding FDIC insurance assessments.

Specifically, we will comment on two points in the proposal. First, we will provide comment on the treatment of new financial institutions. Second, we will comment on the proposed treatment of FHLB advances.

In the proposal, the FDIC proposes to assess new banks at the ceiling rate in the healthy bank category. As justification for assigning these banks to the ceiling rate, the FDIC states that new institutions:

- Have a higher failure rate than established institutions;
- Have financial information that is harder to interpret and is less meaningful;
- Undergo rapid changes in the scale and scope of operations, often causing their financial ratios to be fairly volatile; and
- Have unseasoned loan portfolios, making it difficult to assess credit risk based solely on current financial ratios.

While it may be true that in total new institutions have a higher failure rate than established institutions, that fact does not establish a cause and effect link between the two events. If we were to do an analysis and derive the fact that banks headquartered in South Carolina have a lower failure rate than banks in New York does that mean that banks in South Carolina should get a credit on the assessment rate? The answer is "no" because there is no cause and effect relationship to dictate that the geographic location fact caused the difference in failure rates. By similar argument, there is no proof that the fact that the bank was "new" was the cause of a higher failure rate.

We also disagree that the financial information for new banks is harder to interpret and is less meaningful. While it is true that the financial information for new banks should be viewed and interpreted differently than for more established institutions, “different” does not necessarily translate to “harder.” As to whether the information is meaningful, our opinion is that regardless of size or age, the financial reporting information is meaningful. There may be some ratios or analyses that would be more meaningful in an older institution than for a new bank, but by the same token there are some ratios and analyses that are much more meaningful in a newer bank than in a more established bank.

Some new banks do experience rapid changes in scale and scope of operations. A subset of that group may experience volatile financial ratios as a result of the rapid changes. But that doesn’t mean that this is then a factor that should be applied to all new banks. Some new banks are better positioned and capable of managing change than others. New institutions that seek out and develop talented management teams capable of effectively managing rapid growth should not be penalized because other new institutions don’t necessarily take the same steps.

New banks, as a general rule, have higher capital levels than established institutions. In addition, new banks, and especially rapidly growing new banks, receive a higher level of regulatory scrutiny than established banks at a stable asset level. That level of regulatory scrutiny is reflected in the CAMELS ratings assigned, and a new institution undergoing rapid growth that still scores a “1” or “2” CAMELS rating is one that in our opinion is doing far better than the average new bank at managing risk and controlling the company and is far less likely to experience failure than the general population of new financial institutions.

In conclusion on this point, it is our opinion that whether an institution meets the definition of “new” could be a valid point dictating closer scrutiny of the institution’s capability to manage risk in assigning assessment rates. But it should not be used as an arbitrary measure to lump well-managed new institutions into the same assessment rates as other new institutions with less management skill and ability.

The FDIC is seeking comment on whether FHLB advances should be treated as volatile liabilities. In our opinion, FHLB advances are a much less volatile funding source than other options available, especially in the current rate environment and level of disintermediation. Consumers have many more options for their investment dollars and the competition for core deposits is intense. FHLB advances provide a lower cost funding source with established documented maturities that can be effectively predicted and managed by the institution. In many cases, these liabilities could be considered less volatile than money market accounts and certificates of deposit, especially in today’s intensely competitive deposit market.

In addition, the FHLB serves a specifically mandated mission of providing low-cost funding to its member institutions in order to facilitate the meeting of community credit needs, home ownership, and community development. To assess institutions who take advantage of this a higher assessment rate would seem to be counterproductive to that Congressionally mandated mission.

We appreciate the opportunity to provide these comments and again urge the FDIC to revise the proposal accordingly.

Jim Bedsole, CRCM, CBA, CFSA
SVP / Chief Risk Officer
Tidelands Bank
875 Lowcountry Blvd.