Mountain 1st
Bank & Trust

September 22, 2006

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: RIN 3064-AD09
Proposal to Amend Deposit Insurance Assessments for Risk-Based Premiums
71 FR 41910 (July 24, 2006)

Dear Mr. Feldman,

Mountain 1st Bank & Trust Company appreciates the opportunity to voice an opinion and significant concern regarding the inequity of the above referenced proposal relating to the proposed additional premium to be assessed on de novo institutions. It is our understanding that the some of the premises upon which this aspect of the proposal are based include the following:

- De novos pose additional risk to the system due to higher failure rates.
- De novos pose additional risk as a result of difficulty in monitoring and assessing financial information.
- De novos pose additional risk due to rapid changes in scale and scope.
- De novos pose additional risk to the system due to unseasoned loan portfolios.

Our experience and that of virtually all the de novo institutions with which we are familiar is in sharp contrast to the conclusions drawn above. We believe that current data better supports our conclusions and positions.

- First, utilizing relevant and recent FDIC data relating to bank failures since 2000, I would like to point out that de novo institutions, defined as seven years old or less, comprise only two of the twenty nine institutions included in the FDIC's data set. This represents 6.9% of failed banks and only approximately ½ of 1% of the losses incurred by the insurance fund associated with these twenty-nine failures. Certainly, this does not indicate an undue or overweighted exposure presented by de novos.
- With respect to additional difficulty in the monitoring of de novos, we would assert that de novos are monitored more closely than seasoned institutions, at least in their first three years. In our opinion, this heightened scrutiny mitigates any difficulty posed in the monitoring and analysis of de novo performance. Furthermore, we would like to point out the fact that with

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the exception of niche or specialty institutions, de novos are often less complex with regard to their product menus, operations and lending activities than comparable established community banks, thereby simplifying their analysis.

- With regard to rapid changes in the scope and structure of de novos, certainly on a percentage basis, de novos generally would be expected to grow more rapidly than established community banks. However, on the basis of growth of outstanding assets, de novos often grow considerably slower than established institutions due to the absolute size of their balance sheets.
- A critical fact that is overlooked in the premise that the unseasoned loan portfolios of de novos present additional risk is the fact that many, if not most, of the loan portfolios of start up banks in the current environment are being moved from other existing banks. Typically, these loans have been underwritten multiple times by multiple banks. Often, these loans have previously been reviewed by examiners prior to becoming a part of a de novo’s loan portfolio. The primary point here being that while de novo’s loan portfolios are new to that particular institution, it is unusual for such portfolios to include a preponderance of loans or lending relationships which have not been previously underwritten and seasoned at another institution.

Another aspect of this proposal which seems counterintuitive to us is how assessing de novos with a higher rate can possibly assist in achieving the goal of the safe and sound operation of the banking system. If in fact, the FDIC’s assertion is that de novo institutions pose additional risk to the system simply due to their age, it would seem logical that insurance assessments should be lower rather than higher for this group of banks in order to aid rather than hinder this group in achieving profitability and enhanced strength as individual institutions thus strengthening the entire banking system while reducing reputational risk.

Specifically, we believe that there should be no penalty assessed due solely to the age of an institution, rather each should be judged and assessed on their overall performance. We believe our bank is an example in point. Mountain 1st Bank & Trust opened May 14, 2004. In less than thirty months our institution has grown to over $450 million in assets and has already become significantly profitable in this, our second full year of operation. We have a very strong capital position, zero wholesale borrowings or brokered CDs, good examination ratings and have experienced virtually no charged off loans to date. We do not believe that we pose any higher risk to the insurance fund than comparable “mature” institutions which happen to have been in existence for more than seven years. Accordingly, we deem the proposed penalty assessment relating to de novos to be arbitrary, unwarranted and patently unfair. We strongly encourage you to reassess relevant data, reevaluate your assumptions and eliminate this bias against new banks from your proposal.

Sincerely,

Greg Gibson
Chief Executive Officer

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