Dedham Co-operative Bank

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MARK R. WHALEN
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

September 19, 2006

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

Re: FDIC Assessments – RIN-3064-AD09

Dear Mr. Feldman:

The Dedham Co-operative Bank (DCB) was established in 1886 to serve Dedham and the surrounding communities. Our mission remains the same today: to give our neighbors and customers a safe, reliable and convenient place to bank.

DCB is a member of the Co-operative Central Bank, and is proud of the fact that the co-operative bank industry in Massachusetts is one of the best capitalized and healthiest banking systems in the country. Our industry manages $12.8 billion in assets, with over $1.2 billion (10.7%) in tier 1 capital, and DCB has a capital ratio of nearly 15%. Our member banks range in asset size from $14.5 million to over $540 million with average assets of $185 million. We are truly small community banks; none are over $1.0 billion in asset size and DCB is approximately $87 million.

Senior management of DCB has reviewed the proposed rules regarding FDIC assessments (RIN-3064-AD09). We generally support the use of both financial ratios and supervisory ratings to determine premium assessments but submit the following comments for your consideration:

Risk Weighting for 30-89 Day Delinquencies

It could be argued that loan delinquencies are counted twice when determining a bank's deposit insurance assessment. They are a factor in both the financial ratios and in the "A" and "M" components of the overall CAMELS rating. This double counting could result in a bank being charged a higher deposit insurance risk weighted assessment than might otherwise be

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the case. We would, therefore, recommend that 30-89 delinquencies be excluded from the financial ratios or netted from the "A" and "M" CAMELS component of the risk weighting assessment.

In addition, we note that a large portion of Massachusetts co-operative bank assets are held in 1-4 family, owner-occupied mortgage loans. These assets are generally well secured and present reduced risk of insurance loss when compared to other types of loans. We strongly suggest that, at a minimum, 1-4 family, owner-occupied real estate loans with an 80% or less loan-to-value ratio be excluded from this risk weighting factor. Please consider this change for all insured banks or at least for those banks under $1 billion in asset size.

Camels Component Weightings

Capital and management elements each have a weighting of 25%. However, the management rating in examinations contains a certain amount of subjectivity. Well-capitalized community banks, while posing no significant risk to the insurance funds, sometimes find themselves with a lower management rating than they may feel they deserve. Because capital is the most important defense against unexpected losses, we recommend that the capital weighting be increased to 35% to 40% and the management weighting be reduced to 10% to 15%.

The Minimum Assessment Rate

Based on a preliminary analysis by the Co-operative Central Bank, most of its member banks would be in Risk Category 1. Using your proposed formula, many of these should be assessed a risk-based premium of between 1 and 2 basis points, but their actual assessment is rounded up to 2 basis points. The banks that theoretically pose the least insurance risk shouldn't pay a higher price. We recommend that 1 basis point be used as a minimum for all institutions in Risk Category 1.

The Maximum Assessment Rate (Alternative Proposal)

We are concerned about examination subjectivity and the higher likelihood that a small community bank might receive an "M" component rating of 3, and yet not pose a high degree of insurance loss risk due to the conservative nature of its asset mix, operating profile and capital.

From the proposed formula, a .25 or .50 basis points higher assessment would already result in comparison to either a 2 or 1 "M" rating respectively. Therefore, we would recommend that an "M" component rating of 4 or higher be used before the maximum assessment rate is considered.

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Term Deposit Certificates in excess of $100,000

The inclusion of TDC's greater than $100,000 in the volatile liability category should be reconsidered. Term deposits are an important source of deposits for community thrift institutions such as Massachusetts co-operative banks. These TDC's are local deposits and tend to be very stable.

In the case of certain Massachusetts-chartered thrift banks, deposit balances in excess of FDIC limits are insured by the Co-operative Central Bank's Share Insurance Fund (for co-operative banks) or Depositors Insurance Fund (for savings banks). We recommend that term CD's at all state-chartered co-operative and savings banks in Massachusetts be excluded from the volatile liability category.

Deposit Insurance Assessment and Reserve Ratio Replenishment

We believe that the legislative intent of Congress in providing the broader reserve ratio range for the FDIC was to allow for a gradual replenishment of the reserve ratio over time. We are concerned that a higher average assessment rate may be considered for 2007 to more quickly restore the reserve ratio.

We recommend that the FDIC assess lower average annual premiums over a longer period of time. This should make the reinstatement of deposit insurance premiums more manageable for member banks and would seem to be appropriate given the low loss rates of recent years. Also, it would keep assessment credits from being used up too rapidly. At the time of assessment credit passage, assessment credits were expected to last for 2-4 years and not be wiped out by a single year's assessment. A fairer distribution to the free riders since 1997 should be developed and additional legislation may be necessary. We recommend that the FDIC work with bank trade associations to seek further legislation to increase the amount of assessment credit that pre-1997 insured banks might have available to offset any larger annual assessments.

The Dedham Co-operative Bank appreciates the opportunity to comment on the FDIC's proposal to revise the deposit insurance assessment system.

Very truly yours,

Mark R. Whalen
President and CEO

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