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By S69

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 Seventeenth Street, N.W.
Washington, D.C. 29429

Re: RIN 3064-AD09; proposal to Amend Regulations for Risk-Based Premiums; Federal Register 41910; July 24, 2006.

Dear Mr. Feldman:

The Federal Deposit Insurance Corporation (FDIC) has issued a Notice of Proposed Rulemaking to amend its regulations on risk-based assessments by creating a new risk scoring system for banks that are well capitalized and well managed. I am particularly concerned about one aspect of the proposal: assignment of all banks that are in their first seven years of operation ("*de novo*" banks) to the top risk rating within the category of well capitalized and well managed banks. I disagree with this provision because it fails to consider the scrutiny of *de novo* banks by examiners, does not encourage sound operations among *de novo* banks, and would discourage chartering of new banks in the future.

My bank, First America Bank, was chartered in 2004. It is a young and dynamic competitor in our community. I unequivocally welcome the FDIC's evaluation of the bank's performance so that deposit insurance premiums commensurate with the soundness of the bank can be assessed. The bank prides itself on delivering top performance for all constituencies, including customers, shareholders and supervisors. We deserve to be rated based on our performance, rather than a categorization that is out of our control.

De novo banks like ours do not warrant separate treatment by the FDIC. The FDIC risk rating system stipulates that a bank with strong capital, a healthy loan portfolio, few volatile liabilities, decent earnings, and a good examiner rating warrants a lower premium. I agree, and my bank is prepared to be judged by this test. To arbitrarily ignore the system's results based on a bank's age suggests that the system is missing something and needs to be fixed.

The proposal defends ignoring the financial performance of *de novo* banks' by stating that "financial information for newer institutions tends to be harder to interpret and less meaningful" (page 41927). On the contrary, the financial statements of *de novo* banks are generally more reliable than those of older banks because *de novo* banks are examined more frequently and closely than other banks. A young bank has to prove itself to examiners; our financial results are put under very close inspection.

Due to this examiner bias, it is very difficult for a young bank to get a good CAMELS rating. If a *de novo* bank gets a rating of II (or better) so that it qualifies for the risk rating system, it has earned the right to be measured by that system. The examiner prejudice inherent in CAMELS ratings already penalized these banks. There is no justification for additional penalty.

More importantly, the proposed treatment penalizes all *de novo* banks, not just the underperformers. Instead, the FDIC should encourage safe and sound bank operations by rewarding good management practices with lower premiums, regardless of the age of the bank.

The proposal defends disparate treatment for *de novo* banks by citing past data that "new institutions have a higher failure rate than established institutions" (page 41927). This evidence is out of date and does not relate to today's *de novo* banks. Many of the *de novo* banks were chartered by experienced bankers in markets where they had operated for years, bankers who became available following acquisitions of their former institutions. And many, following the 1994 federal interstate banking legislation, were chartered by long-seasoned banking firms. It is not surprising that today's de novo banks achieved profitability and mature performance faster than in the past. Over 900 banks were chartered in the last seven years, and not one of them has failed.

Finally, there are important public policy reasons not to apply separate treatment to *de novo* banks. If the public is told that the FDIC believes that all banks chartered within the least seven years are less safe, confidence in all de novo banks will be undermined. Moreover, requiring *de novo* banks, regardless of condition, to pay higher premiums would put them at a competitive disadvantage relative to older banks. Both of these considerations would present challenges to younger banks and deter the chartering of new banks in the future.

Thank you for the opportunity to provide input on this issue.

Sincerely,

Michael L. Hogan

Michael L. Hogan, C.P.A.
Executive Vice President
Chief Financial Officer