

From: Charles Shultz  
Sent: Wednesday, October 04, 2006 11:00 PM  
To: Comments  
Subject: RIN 3064-AD09 Designated Reserve Ratio

Dear Sir or Madam,

As a director of three De Novo banks in the State of Georgia, I wish to register my concerns regarding the proposal to establish a higher Federal Deposit Insurance premium for new banks. I believe that the logic of the proposal is flawed and that it would create an unjustified burden for De Novo institutions. It is further counterproductive to fostering the orderly and sound growth of the banking system in the United States.

Rather than looking at tangible factors to assess risk, such as a bank's CAMELS rating and financial ratios, it appears that outdated or inaccurate statistics as well as subjective factors have been used to support the conclusion that De Novo banks pose an inherently higher risk to the insurance fund than established institutions. For example, the report notes that De Novo banks 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.

Recent statistics in the state of Georgia, for example, do not support the conclusion that De Novo banks generally have a higher rate of failure than established institutions. While several other factors cited above may technically be accurate they must be viewed in the appropriate context. De Novo banks are subject to a great deal of oversight by the regulatory authorities during the first three years of operation. And individual regulators providing this oversight are trained professionals skilled at evaluating De Novo institutions. The senior management of De Novo banks also must meet with the approval of regulatory authorities thus helping to ensure high quality management at De Novo banks. Furthermore, if there are problems at a De Novo institution, they are likely to be identified by regulators in a more timely fashion than at older, established institutions. Board oversight at De Novo banks is also likely to be quite good inasmuch as directors have likely invested their own money in the bank and are vitally concerned for the welfare of the institution, and their investment in it, in addition to that of other stockholders. Independent review by outside loan review firms and outside internal audit firms is a fact of life with De Novo banks while these functions may be less independent in larger more established institutions.

I find it difficult to accept the premises on which the proposal is based and believe that increasing the premium for De Novo institutions is counterproductive to orderly growth of the banking system. I urge you to re-evaluate the proposal and to ensure that De Nova Banks as a group are not unjustly penalized.  
Thank you.