From: Joe Fazio [mailto:jfazio@commercestatebank.com]
Sent: Monday, September 11, 2006 5:34 PM
To: Comments
Cc: 'Dave Borchardt'; 'Tom Hopp'; jchessen@aba.com
Subject: RIN 3064-AD09 Designated Reserve Ratio

As the CEO of Commerce State Bank, which recently celebrated its first anniversary of business, I can say unequivocally that we welcome the FDIC's evaluation of our bank's performance and believe the FDIC should charge the bank insurance premiums commensurate with their evaluation, CAMELS rating, and capitalization. Commerce State bank prides itself on delivering positive results to all its constituents: regulating/examining bodies, customers, and shareholders. We want to be measured on our performance, not a category of banks, which we cannot influence, or control. Perhaps using the categorization as a starting point, with credit(s) for better performers would afford the FDIC, and top performing de novos, with the best of both worlds.

The FDIC should reward banks focused on delivering solid financial results, while meeting or exceeding regulatory requirements, regardless of the age of the institution. Arbitrarily charging higher premiums to banks less than 7 years old, automatically puts them at a financial disadvantage to their competitors (mostly established banks), and essentially puts all new banks in the 'underperforming' or 'troubled' institution category. The FDIC further encourages safety and soundness with lower premiums as a reward for good management practices.

Although it is true that de novo banks have rapidly changing financials and operations, the comparatively small number of transactions and simple mathematical analysis makes it easier to determine if management is making sound decisions in deploying capital. Examiners can review nearly every credit. Loan portfolios may be unseasoned initially, but capital is generally very strong to more than compensate for this early risk. In addition, premiums will increase if the bank's CAMELS or capitalization fall. Paying higher premiums prior to any experiential data justifying them, penalizes all new banks, not just the underperformers. Just as long time operating banks pay based on their individual ratings and capitalizations. Loan loss reserves for new banks tend, initially, to be well over funded because of they lack the seasoned portfolio and have not yet experienced any losses, and because they are directed to make minimum levels of contributions by regulators, which are typically higher than they require of established banks (perhaps 1.35% vs. 1%). New banks also experience a more frequent exam schedule, which should assist in more quickly identifying potential problems.

With regard to the length of time the FDIC considers a bank new. Seven years appears to be onerous. Banks rarely make loans with rate locks of more than 5 years, and more commonly 3 years. In addition they are annually reviewing credits and covenants. Therefore, it is likely a bank will have a well seasoned portfolio in a much shorter period of time; something like 3 years. In addition, banks are started by experienced banking professionals. It is likely their practices, experiences, philosophies and policies developed over their professional careers will stay with them.

Finally, when established institutions merge/buy/sell, the track record of the two institutions, prior to their combination, should be an important factor in determining the level of premium to charge, rather than the age of the new organization.

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

Joe

Joseph Fazio

Chief Executive Officer
Commerce State Bank
Phone (262) 247-2802
Fax (262) 247-2888