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FAX & EMAIL DELIVERY

Sheila C Bair, Chairman
Federal Deposit Insurance Corporation
Washington, DC

RE: TARP-CPP: Intended or Unintended Consequence?

The TARP-CPP program announced on October 14 has the positive capacity to stabilize and strengthen the entire banking system and the nation's economy.

However, it is important to also understand the negative message bank regulators will be sending boards, managements, employees, depositors, public shareholders, potential acquirors and potential institutional investors <u>when any bank is denied CPP participation</u>.

- CPP denial indicates that regulators believe the <u>institution is too risky for government investment and not worth saving</u> – essentially a pre-announcement of closure.
- CPP denial is a <u>material event</u> for any SEC registered institution. <u>Bank regulators need to discuss disclosure requirements with the SEC.</u>
- CPP denial <u>creates immediate liquidity risk</u> of depositor withdrawals.
- CPP denial <u>eliminates the potential for new capital</u> from institutional investors – if the bank is too risky for the CPP then it will be considered too risky by institutional investors.
- Non-SEC reporting community banks do not currently qualify for CPP participation today and they will find it very difficult to explain to their depositors why they are not eligible.

If the intent of the CPP program is the closure and consolidation of banks that are denied participation then <u>events will unfold very rapidly in the next few weeks</u>. The FDIC will need to be prepared to close such institutions promptly to avoid unnecessary market disruption.

If the intent is to stabilize the economy then <u>CPP participation must be open to a wide range of banking institutions</u>, including banks that might eventually fail if the economy continues to deteriorate. CPP investment will provide the FDIC with time to evaluate; and if necessary, close and liquidate institutions in an orderly manner rather than reacting to a series of liquidity crisis created by CPP-denial.

<u>Time is of the essence</u> as we understand banks are being informed that they are not eligible for inclusion in the program.

The AABD is also providing specific recommendations for community banks in a separate letter and we are prepared to discuss this issue with you or your staff.

Sincerely,

/s/ *Charles J Thayer*

Charles J Thayer, Chairman
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