



Community Development Bankers Association

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November 14, 2008

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

Re: FDIC Notice of Proposed Rulemaking, RIN 3064-AD35

Dear Mr. Feldman:

On behalf of the Community Development Bankers Association (CDBA) and our communities, we write to comment on the Federal Deposit Insurance Corporation (FDIC) Notice of Proposed Rulemaking, RIN 3064-AD35. We strongly urge the FDIC to exclude from its definition of brokered deposits those “*deposits received through a network on a reciprocal basis that meet the statutory definition of a brokered deposit.*” The FDIC’s proposed rule unfortunately defines “brokered deposits” in such a manner as to include reciprocal deposits received through services such as the Certificate of Deposit Account Registry Service (CDARS). Without such an exemption, we are very concerned about the possibility that the FDIC may penalize such transactions with a surcharge on deposit insurance premiums under certain circumstances.

Who We Are

The Community Development Bankers Association represents Federal and state chartered banks and thrifts that are Community Development Banks (CDBs, a.k.a. CDFI banks). Our members serve as engines of economic inclusion throughout the United States. We share a common mission of improving communities and lives. All of our members are certified by the U.S. Treasury Department’s Community Development Financial Institutions (CDFI) Fund as targeting 60% or greater of our total business activity to low income communities and people.

CDBs make a difference – perhaps the difference – in the lives of tens of thousands of people in the communities we serve. Our members are often the only source of credit and financial services in these communities. We make loans to build and renovate housing so that people have a decent place to live. Our housing lending, in turn, sparks revitalization of other housing in our neighborhoods. We make loans to small businesses so that people will have jobs. The businesses we lend to, in turn, act as magnets that draw other businesses into

the community. Our lending has a ripple effect throughout the community far beyond our direct customers, changing a community's dynamic. We are the leaven that lifts up entire neighborhoods by empowering people, individually and collectively, with the resources they need to effect positive change where they live.

Why CDARS is Different from Brokered Deposits

CDBA members serve our nation's most distressed and credit starved communities. We operate in places with modest discretionary income and insufficient means to raise deposits to meet the demand for credit. As an integral part of our strategy, we raise deposits from civic-minded and socially-motivated individuals and institutions within our defined market areas. Our experience demonstrates that investors are willing to invest much larger deposits in a CDB if they are assured those deposits are secured. CDARS provides that assurance.

Without access to large institutional deposits, many of our loans could not be made. In communities we serve, one half billion dollars in deposits is a tremendous resource. Most of CDBA's members participate in Promontory Interfinancial Network. Today, our members collectively hold more than \$500 million in CDARS Reciprocal deposits. The vast majority of these deposits are made by local customers that want to invest in their communities – rather than seek the highest available return. In the case of some of our members, more than 40 percent of their deposits are held through the CDARS Reciprocal deposit service. Without CDARS as a magnet for attracting socially motivated investors, we will not be able to originate loans at a scale sufficient to have a positive social impact. We urge the FDIC to ensure CDARS can continue to play this critical role.

CDARS Reciprocal deposits made within a CDB should not be considered "hot money." Our CDARS Reciprocal deposits share the same characteristics as our other core deposits. We experience very high reinvestment rates with an average rate of 83% across the CDARS network. We rarely pay interest rates above other local banks in our markets. Nationally CDARS deposits are 20-40 basis points less than the cost of traditional brokered deposits. A real "hot money" depositor would be highly unlikely to find a deposit in a CDB as attractive. You do not find our banks on any of the Internet rate boards advertising high rates and likely never will. In most cases, the CDARS Reciprocal customer of a CDB is a civic minded individual or institution that is already a customer or is located within our market area. Nationwide 80% of CDARS placements are within 25 miles of a branch location. Our CDARS Reciprocal customers are social motivated institutions, including state and municipal governments, foundations, local businesses, educational institutions, churches, nonprofits, and others that choose to invest with their values by placing capital in a bank that will use it serve their local community and neighborhoods that need capital. Finally, for depositors in which CDARS is their first engagement with our banks, we are often able to cross selling these clients other bank products and cultivate a stronger commitment to our mission and activities.

Without an exemption, we are very concerned about the proposed rule's mandate for higher premiums on brokered deposits in the case of institutions experiencing significant growth. Recent financial turmoil has catalyzed a withdrawal by traditional banks from low income markets. As a consequence, CDBs are experiencing a surge in credit demand. To meet demand, CDBs will need to raise more deposits which will, in turn, catalyze growth. As small institutions (generally less than \$200 million in total assets), such growth makes the FDIC's proposed premium plan, with its inclusion of CDARS in its definition of a brokered deposit, highly problematic. The proposed rule mandates higher premiums on brokered deposits in the case of "institutions whose total assets were more than 20 percent greater than they had been four years previously, after adjusting for mergers and acquisitions." We strongly believe such surcharges will have a disproportionately negative impact on CDBs and our communities.

Furthermore, by defining CDARS Reciprocal deposits as brokered funds, it will likely stigmatize such deposits in the eyes of our institutional depositors. The proposal, as drafted, will cause the media and industry financial analysts to focus on the brokered line of the Call Report. As long as CDARS Reciprocal deposits are not differentiated from the more volatile and costly "hot money," we will have a problem.

Why CDARS is Important to Our Low Income Communities

Our collective goal is to help people help themselves. Over the past several years, CDARS reciprocal deposits have enabled us to significantly scale up our lending and better achieve our collective missions. CDARS deposits allow us to underwrite loans for affordable housing, small-business, and community projects, including charter schools, day care centers, community health clinics, neighborhood revitalization projects, and other facilities that provide critical community services. We strongly believe that CDARS Reciprocal deposits are an invaluable tool to help CDBs meet the needs of their communities. Absent an explicit and formal exemption, there is a danger that CDARS and the CDBs that rely on CDARS will end up as collateral damage in the FDIC's broader effort to restrain the use of traditional brokered deposits.

Please help us help our communities. We strongly urge you to exempt CDARS Reciprocal deposits from the definition of brokered deposits in this rule. We also urge the FDIC to support exempting CDARS Reciprocal deposits from the definition of brokered deposits in the FDI Act to eliminate the possibility that CDARS might be swept into future efforts to discourage the use of traditional brokered deposits.

If you have any questions, please feel free to contact Jeannine Jacokes (Chief Executive Officer) at 202-689-2635 ext 22, Robert McGill (Immediate Past Board Chairman) at 619-789-4416, or Robert McKean (Board Chairman) at 503-288-7280.

Thank you for your consideration of our views on this important matter.

Sincerely,



Robert McKean
Board Chairman
On Behalf of the Members of Community Development Bankers Association

Albina Community Bank — *Portland, OR*
Carver Federal Savings Bank — *New York, NY*
Central Bank of Kansas City — *Kansas City, MO*
Citizens Savings Bank and Trust Company — *Nashville, TN*
City First Bank of DC — *Washington, DC*
City National Bank of New Jersey — *Newark, NJ*
Community Bank of the Bay — *Oakland, CA*
Delta Southern Bank — *Ruleville, MS*
Elk Horn Bank & Trust — *Arkadelphia, AR*
First American International Bank — *Brooklyn, NY*
First Bank of the Delta — *West Helena, AR*
Franklin National Bank — *Minneapolis, MN*
Guaranty Bank and Trust Company — *Belzoni, MS*
International Bank of Chicago — *Stone Park, IL*
Legacy Bank — *Milwaukee, WI*
Louisville Community Development Bank — *Louisville, KY*
Mission Community Bank — *San Luis Obispo, CA*
Mission Valley Bank — *Sun Valley, CA*
Native American Bank, NA — *Denver, CO*
Neighborhood National Bank — *National City, CA*
OneUnited Bank — *Boston, MA*
Pan American Bank — *Chicago, IL*
Park Midway Bank — *St. Paul, MN*
ShoreBank — *Chicago, IL*
University National Bank — *St. Paul, MN*