

HOUSE OF REPRESENTATIVES
19TH DISTRICT, FLORIDA



COMMITTEE ON
FOREIGN AFFAIRS

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THE JUDICIARY

COMMITTEE ON
FINANCIAL SERVICES

ROBERT WEXLER

CONGRESS OF THE UNITED STATES

December 19, 2008

The Honorable Sheila C. Bair
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

Re: FDIC Notice of Proposed Rulemaking RIN 3064-AD35

Dear Chairman Bair:

More than 900 Florida bankers have found it necessary to write the FDIC on an agency proposal that could make it significantly more difficult for community banks to attract funding for local lending. I join them in their concern.

The proposal would impose a higher insurance assessment on a type of deposit that is currently included in the definition of "brokered deposits," although these deposits are not invested by a traditional deposit broker, but rather are exchanged among banks on a fully reciprocal basis.

The Promontory Interfinancial Network provides such reciprocal placement through the Certificate of Deposit Account Registry Service (CDARS). I am informed that almost all of the Network's 2,750 members are community banks. Of the 312 FDIC-insured institutions in Florida, 140 – or 45 percent – are members of this Network.

Florida bankers are worried about this proposal for two reasons. First, the proposal does not distinguish these reciprocal deposits from standard brokered funds, even though they behave nothing like standard brokered deposits. CDARS deposits come from local depositors; 80 percent of all CDARS placements are made by customers within 25 miles of their bank's location. Also, the cost to banks for CDARS Reciprocal deposits is substantially less than standard brokered funding – 20 to 40 basis points on average, depending on maturity. CDARS deposits also have a high reinvestment rate – more than 83 percent across the Promontory Network, quite unlike a standard brokered deposit. In short, CDARS Reciprocal deposits cannot fairly be considered "hot money." Second, as a result of the potential imposition of a premium surcharge on CDARS reciprocal deposits, bankers fear these deposits will be unnecessarily stigmatized by the market, impeding their efforts to raise capital or other funds.

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This proposal could have broad consequences.

The CDARS Reciprocal service keeps local money local. Recent events – the effective failure and near failure of some of our country's largest financial institutions - have only confirmed that capital allocation decisions are best made locally. If our local community banks cannot attract large deposits, however, their role will deteriorate.

The importance of keeping capital local is also reflected in the laws of Florida, where the state legislature in early 2005 passed a law that enables local governments there to invest in CDARS to keep local money local. Cities, towns and counties prefer to keep money in the community, where it can be used to fund economic growth.

In addition, the CDARS service is particularly essential to the Community Development Bank (or CDFI) sector, which also relies on the Network to bring much-needed capital to some of the nation's most economically distressed and credit-starved communities. The Community Development Bankers Association and several of its individual members have written the FDIC to discuss their specific concerns.

Finally, I hope the FDIC also will take into account today's extraordinary economic circumstances when finalizing its rule on deposit assessments. Depositors are fearful. They know well that community banks are *not* too big to fail. Yet every day, community banks must compete against large institutions that are favored with implicit and explicit government support. This is, therefore, also an issue of fairness. Reciprocal deposits help community banks compete with the large banks that are now being favored with direct, and enormous, government assistance.

In conclusion, I urge the FDIC to exclude reciprocal deposit services such as CDARS from the definition of brokered deposits in its pending assessment proposal, and I thank you for your thoughtful consideration of my comments.

With warm regards,

A handwritten signature in black ink, appearing to read "Robert Wexler", with a long horizontal flourish extending to the right.

Robert Wexler