INDEPENDENT COMMUNITY
BANKERS of AMERICA®

March 3, 2016

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

Re: Assessments: RIN 3064-AE37

Dear Mr. Feldman:

On July 13, 2015, the FDIC published a notice of proposed rulemaking in the Federal Register (the 2015 NPR) concerning its proposed new method to calculate deposit insurance assessments for insured depository institutions with total assets of less than $10 billion that have been federally insured for at least five years ("small banks"). The new method would revise the financial ratios that are currently used to calculate assessments and would eliminate the current risk categories. The revisions were intended to better capture the risk that an established small bank poses to the Deposit Insurance Fund.

In response to the comments of ICBA and others, the FDIC now proposes to revise the 2015 NPR by (1) using a brokered deposit ratio that treats reciprocal deposits the same as under current regulations, (2) removing the existing brokered deposit adjustment for established small banks, (3) revising the previously proposed one-year asset growth measure, and (4) providing that any future changes to the statistical model underlying the established small bank deposit insurance assessment system would go through notice-and-comment rulemaking. The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to comment on the FDIC's revised proposal.

[1] The Independent Community Bankers of America®, the nation's voice for more than 6,000 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education and high-quality products and services.

With 52,000 locations nationwide, community banks employ 700,000 Americans, hold $3.6 trillion in assets, $2.9 trillion in deposits, and $2.4 trillion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

ICBA's Comments

ICBA commends the FDIC for its proposed changes to the 2015 NPR. **All of the proposed changes are consistent with recommendations in our comment letter to the FDIC concerning the 2015 NPR dated September 11, 2015 (Comment Letter).**

For instance, in our Comment Letter, we stated our concerns about the new ratio of core deposits to total assets that would treat reciprocal deposits as *non*-core. The effect of this treatment would be to penalize those banks with reciprocal deposits.

ICBA recommended that, consistent with the recognized characteristics of reciprocal deposits and the current adjusted brokered deposit ratio, the ratio of core deposits to total assets in the new model should be adjusted by including in the numerator, along with core deposits, reciprocal deposits as defined at 12 C.F.R. § 327.8(q). Such an adjustment would preserve all the benefits that the FDIC attributes to the new model, but would do so without penalizing small banks that have reciprocal deposits.

The FDIC's revision to the 2015 NPR resolves this issue. Under the revision, the core deposit measure would be replaced with a brokered deposit ratio, measured as the ratio of brokered deposits to total assets. Under the proposed brokered deposit ratio, brokered deposits would increase an assessment rate only for an established small bank that holds brokered deposits in excess of 10 percent of total assets. For a bank that is well capitalized and has a CAMELS composite rating of 1 or 2, reciprocal deposits would be deducted from brokered deposits. For a bank that is less than well capitalized or has a CAMELs composite rating of 3, 4 or 5, however, reciprocal deposits would be included with other brokered deposits.

While ICBA would have preferred the FDIC to acknowledge that reciprocal deposits typically exhibit the same characteristics as "core deposits," we are satisfied with the FDIC's proposed changes to the 2015 NPR. The proposed brokered deposit ratio, which deducts reciprocal deposits for well capitalized, well rated banks, will not penalize most small banks that have reciprocal deposits. Furthermore, replacing the previously proposed core deposit ratio with a brokered deposit ratio would not change the current treatment of Federal Home Loan Bank advances in the small bank deposit insurance assessment system. We understand the FDIC's point that if reciprocal deposits were treated as core deposits in the core deposit ratio, this would have created an incentive for established small banks to switch from Federal Home Loan Bank advances and other funding sources to reciprocal deposit funding.

ICBA also concurs with the FDIC's proposed changes to the one-year asset growth measure in the 2015 NPR. In response to comments from ICBA and others that this measure would penalize small banks with normal asset growth, the FDIC is now proposing that the one-year asset growth measure increase the assessment rate for an established small bank that has had one-year asset growth greater than 10 percent. We agree with the FDIC that, with this modification, the measure will raise assessment rates

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for small banks that grow rapidly but will not increase assessments for normal asset growth.

Also, in response to ICBA's comments, the FDIC is proposing that any future changes to the statistical model underlying the established small bank deposit insurance assessment system would go through notice-and-comment rulemaking. This will give bankers a chance to review and comment on both the FDIC's statistical model and its assumptions including its failure and charge-off data. Furthermore, we would hope that the review process would also consider the impact of the proposal on small banks and any unintended consequences from such a change to the statistical model.

The other comments we made in our Comment Letter about the 2015 NPR remain the same. We are still concerned about the FDIC's proposed loan mix index and its potential impact on construction and C&I lending. We recommended that the **charge-off rates for the loan mix index be yearly averages over a period of time (i.e., average charge-off rates from 2001-2014) and not be weighted yearly based on the number of bank failures in that year. Furthermore, we also recommended that charge off rates reflect experiences from different regions of the country and also reflect a bank's ability to manage risks as well as its underwriting criteria.** The recession affected construction and C&I loan charge-off ratios much more severely than their long term historical charge-off ratios, and different banks and regions of the country were more or less severely affected than others.

We also remain concerned that the proposal essentially tries to pick winners and losers in the financial services industry based on historical data that will invariably change over time. As we stated in our Comment Letter, while the proposal is a legitimate effort to reflect the risk posed by small banks, if adopted, it will have the consequence of making certain types of loans and certain types of deposits less desirable than others based on general historical assumptions that may be flawed. For instance, although construction and development lending may have been instrumental in the failures of small banks during the recent crisis, in the future it may turn out to be a very high quality asset with relatively low past dues and low charge-off rates particularly in the hands of those banks that understand how to manage that risk.

In summary, while we still have concerns about the 2015 NPR, we believe the FDIC proposed changes establishing a brokered deposit measure in lieu of a core deposit measure and changing the one-year asset growth measure will significantly improve the proposal. We also applaud the FDIC for proposing that any future changes to the statistical model underlying the established small bank deposit insurance assessment system would go through notice-and-comment rulemaking. All of these changes help alleviate many of the potential adverse consequences of the 2015 NPR.

ICBA appreciates the opportunity to comment a second time on the FDIC's proposal to revise the method its uses to calculate deposit insurance assessments for insured depository institutions with total assets of less than $10 billion. If you have any questions or would like additional information, please do not hesitate to contact me by email at Chris.Cole@icba.org.

Sincerely,
/s/ Christopher Cole

Christopher Cole
Executive Vice President and Senior Regulatory Counsel