MainStreetBank

OC15-164

FDIC

AUG 17 2015

OFFICE OF THE CHAIRMAN

August 10, 2015

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

Re: FDIC Notice of Proposed Rulemaking (RIN 3064–AE37)

Dear Mr. Feldman:

I am the Chairman, President & CEO of MainStreet Bank, located in Fairfax Virginia. We have approximately $455 million in assets and 5 branches. The FDIC has issued a Notice of Proposed Rulemaking that would establish a new assessment formula for banks with assets of less than $10 billion. Of concern to us is the treatment of reciprocal deposits under the proposal.

My best deposit customer happens to also be a member of our Board. She brings millions of stable deposits into our institution simply because we can offer her FDIC coverage on the entire amount using the reciprocal deposit program. She finds this service to be invaluable, as she doesn't need to worry about maintaining deposit relationships with a multitude of banks. Why on earth would you make a financial institution pay more just to maintain that relationship?

As far as reciprocal deposits go, the proposal ignores both the statutory requirement to be fact based and data driven and the proposal's own regulatory intent to incorporate the experience of the crisis.

The FDIC proposal gives no justification for imposing a tax on reciprocal deposits. It does not show through data and analysis that reciprocal deposits increase the risk of loss to the DIF and with good reason: no such data exists. Further, data from academic studies that do exist show the use of reciprocal deposits during the crisis had either no effect or a salutary effect on the probability of bank failure, the reason for losses to the DIF.

The tax would arise from a shift in the way the FDIC treats reciprocal deposits in the assessment formula. Under the current assessment formula, reciprocal deposits are excluded from the "adjusted brokered deposit ratio," which increases assessments for banks that rely on brokered deposits. The proposed assessment system would no longer exclude reciprocal deposits from the Federal Deposit Insurance Corporation definition of brokered deposits, thus making the assessment on banks that use reciprocal deposits higher than it otherwise would be. That change in treatment would be a change in policy.

Further, in its Dodd-Frank Act mandated study on brokered deposits published in 2011, the FDIC said with respect to brokered deposits: "While the brokered deposit statute does not distinguish between [reciprocal deposits] and other brokered deposits, supervisors and the assessment system do. The FDIC has recognized for some time in the examination process that reciprocal deposits may be more stable than other brokered deposits if the originating institution has developed a relationship with the depositor and the interest rate is not above market."

Lastly, within the past year, the FDIC, along with the Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System, recognized that "Reciprocal brokered deposits generally have been observed to be more stable than typical brokered deposits because each institution within the deposit placement network typically has an established relationship with the retail customer or counterparty making the initial over-the-insurance-limit deposit that necessitates placing the deposit through the network." (79 Fed. Reg. 61440, 61493 [Oct. 10, 2014]).

In its proposal, however, the FDIC did not even bother to analyze how reciprocal deposits should be treated. Indeed, academic support for the liquidity measures in the proposal rests solely on a 1999 study. This study pre-dates the financial crisis, it is largely based on a prior regulatory and legal structure, and it pre-dates the creation of reciprocal deposits. The FDIC offers nothing else.

The proposal's treatment of reciprocal deposits is problematic, but the solution is simple: retain the current system's exclusion of reciprocal deposits from the definition of "brokered" for assessment purposes.

Further, we think the time has come for the FDIC to support legislation to <u>explicitly exempt</u> reciprocal deposits from the definition of brokered deposit in the Federal Deposit Insurance Act to end any uncertainty about the matter in the future. Tools that help community banks survive.

The banking arena is changing daily. We can stay the course as the taxi industry has, with our claims of stability, integrity, etc., or we can change course and defend our abilities so that the financial "Uber's" of the world don't take what has been so carefully protected by the joint efforts of regulators and financial institutions in the United States.

Thank you in advance for your attention to this request.

Sincerely,

Jeff W. Dick
Chairman, CEO & President

cc:

The Honorable Mark Warner
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United States Senate
Washington, D.C. 20510

The Honorable Timothy Kaine
231 Russell Senate Office Building
United States Senate
Washington, D.C. 20510

The Honorable Gerald Connolly
2238 Rayburn House Office Building
United States House of Representatives
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The Honorable Martin J. Gruenberg
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