FOUR OAKS BANK

August 27, 2015

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

Re: Federal Deposit Insurance Corporation Notice of Proposed Rulemaking, RIN 3064–AE37 ("the Notice")

Dear Mr. Feldman:

On July 13, 2015, the Federal Deposit Insurance Corporation (FDIC) published for comment a Notice of Proposed Rulemaking (NPR) proposing changes to its deposit insurance assessment regulation for small banks, which were defined as banks having assets of less than $10 billion.
Four Oaks Bank relies on reciprocal deposits as a stable source of cost-effective funding which would be subjected to harmful provisions should this change occur.

We are deeply concerned regarding how reciprocal deposits would be treated under the proposed deposit insurance assessment system. This is a very important issue for our bank and community banking as a whole. We strongly believe that the FDIC should continue to treat reciprocal deposits as it does under the current system, which is to say excluding reciprocal deposits from the category of brokered deposits for assessment purposes.

If the proposal were to go into effect as written, reciprocal deposits would be treated as brokered and banks holding reciprocal deposits would have to pay premiums higher than would otherwise be the case. In essence, we would be subject to a significant new tax. We do not understand the purpose or reasoning for proposing this change in direction.

Since the proposed new system is required by law to be risk-based, premium assessments for each bank are supposed to reflect the specific and measurable risks of loss to the Deposit Insurance Fund (DIF) posed by the bank's assets and liabilities. Therefore the premise of the proposal would be that reciprocal deposits do in fact increase an institution's risk profile. However, we can find no evidence to support that premise in this proposal.

As a community bank, we have experienced the various uses of reciprocal deposits in our markets. Primarily, there are customers that have a fiduciary responsibility to maintain full FDIC insurance coverage of their deposits and wish to have the convenience of using one account. Public deposits of local municipalities also use reciprocal deposits to maintain FDIC insurance coverage, to simplify their accounting processes, and to enjoy the convenience of using one account for large balances.

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Member FDIC

Reciprocal deposits share three characteristics that define core deposits:

- Reciprocal deposits are gathered within a bank's geographic footprint through established customer relationships,
- They have a high reinvestment rate, and
- Banks set their own interest rates on reciprocal deposits, rates that reflect a bank's funding needs and local market.

Because reciprocal deposits are built on established local customer relationships, are highly "sticky," and are insulated from rate volatility, they are the functional equivalent of a core deposit and they do not increase a bank's risk profile beyond what any core deposit would.

The current assessment system in fact recognizes that "reciprocal deposits may be a more stable source of funding for healthy banks than other types of brokered deposits and that they may not be as readily used to fund rapid asset growth." The proposed system would not.

In addition, not only would the FDIC's assessment proposal unfairly penalize banks that hold reciprocal deposits with a new tax, it would also unfairly stigmatize reciprocal deposits as a class. The stated purpose of the proposal is to more accurately match the perceived risk to the DIF of certain banking practices with a premium that better reflects that perceived risk. Clearly, the FDIC perceives traditional brokered deposits, at least in some circumstances, to be of greater risk than core deposits, and is thus trying to discourage significant reliance on traditional brokered deposits. We understand the FDIC's intent, but by lumping reciprocal deposits in with traditional brokered deposits the proposal would discourage bankers from holding reciprocal deposits, which are essentially just "core deposits" which should be encouraged and promoted.

We request that the FDIC exempt reciprocal deposits from the definition of brokered deposits in its proposed assessment rule. Furthermore, we respectfully urge the FDIC to support exempting reciprocal deposits from the definition of brokered deposits in the Federal Deposit Insurance Act, in part to eliminate the possibility that reciprocal deposits might become unintended collateral damage in future regulatory efforts to discourage the use of traditional brokered deposits.

Sincerely,

Ayden R. Lee, Jr.
Executive Chairman

cc:
U.S. Senator Richard Burr
U.S. Senator Thom Tillis
North Carolina House of Representative Members
The Honorable Martin J. Gruenberg Chairman Federal Deposit Insurance Corporation 550 17th St., NW
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