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NBA Nebraska Bankers Association

Extraordinary Service for Extraordinary Members

September 2, 2015

Mr. 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)

Dear Mr. Feldman:

I contact you on behalf of the Nebraska Bankers Association (NBA) to comment on the recently issued notice of proposed rulemaking (NPR) that would establish a new assessment formula for banks with assets of less than $10 billion. The NBA is a professional non-profit organization representing 193 of the 199 commercial banks and nine of the 10 savings associations in the state of Nebraska.

While the proposal would appear to provide a short-term benefit for agricultural banks, which constitute a significant majority of the banks in Nebraska, we are concerned that changes in economic conditions will ultimately result in these same banks paying an assessment penalty for being concentrated in agricultural loans. While recognizing that the FDIC must be cognizant of experiences associated with the recent recession, history also reflects that the next "financial crisis" will be unlike the previous one and will be most difficult to anticipate.

The proposal allows banks to enjoy lower assessments to the extent that they fund with "core deposits," as defined by the FDIC. However, a shift in the assessment formula will result from the fact that the FDIC appears to be taking a narrower view of "core deposits" and a broader view of "brokered deposits," which reduces the category of deposits considered to be "core." For example, "reciprocal deposits" would be treated as "brokered deposits," and funding with Federal Home Loan Bank advances in place of deposits would also lead to higher assessments under the proposal.

Routine treatment of "reciprocal deposits" as "brokered deposits," represents a shift in the way the FDIC currently treats "reciprocal deposits" under the assessment formula. Under the current assessment formula, "reciprocal deposits" are excluded from the "adjusted brokered deposit ratio," which serves to increase assessments for banks that rely on brokered deposits. The proposed assessment system would no longer exclude "reciprocal deposits" from the definition of "brokered deposits," thus making the assessment on banks that use "reciprocal deposits" higher than it would otherwise be. As a result, we believe that the proposed change in treatment for “reciprocal deposits” reflects a change in policy that is unwarranted.

“Reciprocal deposits” represent a more stable source of funding than other types of brokered deposits. These deposits typically come from a bank’s local customers, who are utilizing the bank for a broad range of lending and deposit services. They generally do not possess the characteristics of traditional brokered deposits that give rise to regulatory concerns.

The NBA would encourage the FDIC to retain the current system’s exclusion of “reciprocal deposits” from the definition of “brokered deposits” for assessment purposes. In addition, we would recommend that the proposal place more emphasis on the quality of loan underwriting, risk management and portfolio management, and that individual banks should not be unduly punished for mistakes made by others in the past.

The NBA appreciates the opportunity to comment on this important proposal and would encourage the FDIC to give serious consideration to our recommendations.

Sincerely,

Richard J. Baier
NBA President and CEO
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