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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)

Dear Mr. Feldman:

My name is Guy F. Stovall, III and I am the Chairman & CEO of the NewFirst National Bank, which has $600,523,000 in assets and 7 full service branches. We are headquartered in El Campo, TX. On July 13, 2015, the Federal Deposit Insurance Corporation (FDIC) issued a Notice of Proposed Rulemaking (the "Notice") proposing significant changes to its deposit insurance assessment regulation for small banks, which are defined as banks with less than $10 billion in assets. The Notice invites interested parties to submit comments and, on behalf of NewFirst National Bank, we welcome the opportunity to provide our views. We have held as much as $5,019,000 in reciprocal deposits, which we have found to be a valuable source of funding.
We are concerned that the proposal, unlike the current assessment formula, fails to differentiate reciprocal deposits from traditional brokered deposits. The result would be that, under the proposal, banks that hold reciprocal deposits would, in effect, be subject to a new tax. This tax is unwarranted.

Reciprocal deposits are, typically, much more like core deposits than they are like traditional brokered deposits. Characteristically, reciprocal deposits come from local, long-term customers. Customer relationships typically include other services. Reciprocal deposits pay local market rates of interest. They are stable – deposits do not flow from bank to bank chasing interest rates. Because they are stable, reciprocal deposits increase the market value of the bank. They can be some of the most valuable deposits from a bank's most valuable, large-dollar relationships. In short, reciprocal deposits provide a stable and cost-effective source of funds that we need to serve the credit needs of our community.

Most traditional brokered deposits are, in contrast, "hot money." Deposits are placed in banks by brokers. High interest rates are offered through the brokers to attract deposits from outside the bank's home market. Historically, these deposits sometimes fueled rapid growth in

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loans. Because the deposits run off when higher rates are offered elsewhere, they do not contribute to a bank's franchise value.

The FDIC has long recognized that reciprocal deposits do not present the concerns that traditional brokered deposits do: instability, high cost, and risk of rapid asset growth.

The current assessment formula for small banks takes the characteristics of reciprocal deposits into account and, as a result, treats reciprocal deposits fairly. When it approved the current system in 2009, the agency said: "The FDIC 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."

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]).

However, in contrast to the current assessment formula, the proposed assessment system would no longer exclude reciprocal deposits from the definition of brokered deposits. Reciprocal deposits would be treated like any other form of brokered deposit or wholesale funding, thus resulting in a higher assessment than would otherwise be the case. In other words, banks using reciprocal deposits would be subject to a new tax. The FDIC gives no justification for this abrupt change in treatment.

We have a problem with that.

For the above reasons, we strongly believe the FDIC should continue to exclude reciprocal deposits from "brokered" for deposit insurance assessment purposes.

Further, we call upon the FDIC to support legislation to explicitly exempt reciprocal deposits from the definition of brokered deposit in the Federal Deposit Insurance Act so that, once and for all, reciprocal deposits are accurately categorized as the stable source of funding that they are.

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We appreciate the opportunity to comment on this proposal.

Sincerely,

Guy F. Stovall, III
Chairman & CEO

cc:

The Honorable John Cornyn
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Washington, D.C. 20510

The Honorable Ted Cruz
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United States Senate
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The Honorable Blake Farenthold
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The Honorable Martin J. Gruenberg
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