CommunityOne

September 9, 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:

This letter is being submitted to comment on the Federal Deposit Insurance Corporation (FDIC) Notice of Proposed Rulemaking (NPR) proposing changes to the FDIC's deposit insurance assessment regulation for small banks. In particular, we would like to comment on how this proposal would affect reciprocal deposits.

CommunityOne Bank, N.A. (the "Bank") is a national bank headquartered in Asheboro, North Carolina, with approximately $2.3 billion in assets and __ billion in deposits, operating 45 branches in the Piedmont and Western areas of North Carolina and loan production offices in Raleigh, North Carolina and Charleston, South Carolina. The Bank, which is "well-capitalized", is a relationship based community bank that predominately lends in the market areas in which it operates branches. Among its funding options, the Bank accepts reciprocal deposits primarily in order to accommodate its customers and has found that this funding option preserves customer goodwill while not materially increasing the Bank's deposits costs. These deposits are just one of the Bank's funding options, which include core deposits, Federal Home Loan Bank advances, some wholesale funding, and other borrowings.

The FDIC's proposal appears to treat reciprocal deposits the same as other brokered deposits for deposit insurance assessment purposes, which is a significant change from current regulation. However, the FDIC does not discuss the change in the proposal: no facts, no figures, no analysis. Rather, it seems to arbitrarily lump the two together and in doing so, it would penalize banks that use them by, in effect, taxing them, thus discouraging their use. Such a tax would seem unnecessary and unfair. Indeed, the FDIC's proposal would punish our Bank for using one of the few tools we have to compete against the mega-banks doing business in our area.

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We would ask the FDIC to reconsider its proposal and continue to separate the treatment of reciprocal deposits from that of traditional brokered deposits in setting deposit insurance assessments. We recognize that the FDIC considers reciprocal deposits as "brokered deposits" for other purposes, but has to date separated their treatment for insurance assessment purposes. In fact, when it established the current assessment system in 2009, the FDIC recognized 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," and thus declined in the final rule to treat reciprocal deposits the same as other brokered deposits for assessment purposes.

Nothing has changed since then for the FDIC to change this approach. Indeed, the FDIC's 2011 deposit insurance study found that in analyzing the impact of reciprocal deposits on bank behavior, "the analysis finds no statistically significant correlation between reciprocal deposits and failure probability or loss given default." Other studies of reciprocal deposits cited by the FDIC in its study also found no statistically significant effect on probability of default over a one to three year time horizon. While the FDIC study cautioned that these studies were based on limited data, the study also recognized the FDIC's belief 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.

That is the case with the reciprocal deposits held by the Bank. We typically have a relationship with our customers who use reciprocal deposits that goes far beyond merely accepting their deposits. We set reciprocal deposit interest rates based on local rates. Our experience is that reciprocal deposits "stick" with the Bank. For these reasons, they add to our Bank's franchise value, allow us to compete against large banks, and do not pose the same risks as traditional brokered deposits.

Thus, we ask the FDIC to retain its current exclusion of reciprocal deposits from the definition of "brokered" for deposit insurance assessment purposes.

Thank you.

Sincerely,

Angus M. McBryde, III
Treasurer

cc: Robert L. Reid, President