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 ("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.

The Vermont Bankers Association would like to offer the following comments on the proposed rules. First, we do not believe a mathematical formula based on a few items from the Call Report can gauge the performance and condition of a bank, and the potential for it to fail as compared to supervisors during on-site examinations. Said supervisors take into consideration the business model and unique characteristics of each institution and assign CAMELS ratings corresponding to the degree of risk taken on. We believe the CAMELS ratings should be given the highest weight, much more than proposed.

Second, the increase in weighting for the tier 1 leverage ratio in the proposed assessment formula, as compared to the current formula, would unfairly penalize many banks that meet all the regulatory standards of well capitalized. Increasing the weighting for tier 1 leverage may be appropriate for banks that are less than well capitalized, but for those that have reached the standard; the weighting should be more in line with the current formula.

Third, it appears the proposed loan portfolio distribution factor was derived based only on the performance of banks that have failed while disregarding the performance of banks that did not fail. It seems to overlook the quality of loan underwriting, portfolio management, and risk hedging in a bank. Supervisors can best measure asset quality and market risks as components of CAMELS. This policy would also seem to encourage banks to concentrate in certain loan categories, which we believe the FDIC should avoid.

Fourth, members have expressed concern regarding how reciprocal deposits would be treated under the proposed deposit insurance assessment system. We believe 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. We do not understand why the FDIC is proposing this change in direction.

Just as with the current system, the new system is required by law to be risk-based. In other words, premium assessments for each individual institution 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. The key question, therefore, is whether reciprocal deposits do in fact increase an institution's risk profile.

To our knowledge, data that show that reciprocal deposits increase the risk of loss to the DIF does not exist. Studies that have been conducted on the issue conclude that reciprocal deposits have either no effect or a salutary effect on the probability of bank failure – and for good reasons.

Reciprocal deposits share three characteristics that define core deposits. One, reciprocal deposits are overwhelmingly gathered within a bank's geographic footprint through established customer relationships. Two, they have a high reinvestment rate. Three, banks set their own interest rates on reciprocal deposits, rates that reflect a bank's funding needs and local market.

The proposed core deposits factor overlooks the risk mitigation effects of diversification of funding sources. Banks that balance long-term assets against Federal Home Loan Bank advances and termed brokered CDs, in place of lower balance deposits, should not be punished for sound rate risk management.

In conclusion, the key issue is the ability of an assessments formula to differentiate the risk of failure among banks through future economic cycles. There are doubts as to whether the proposed factors for loan portfolio distribution and core deposits will perform reliably over time when compared to supervisory evaluations that adjust to fitting the times. We therefore ask reconsideration of the new factors as proposed and that the CAMELS components should count more in any revised formula.

Sincerely,

Christopher D'Elia
President