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September 10, 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:

The Amalgamated Bank welcomes the opportunity 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, which are defined as banks with assets of less than $10 billion. In particular, we would like to comment on the impact of this proposal on reciprocal deposits.

Amalgamated Bank is headquartered in New York, NY. We have $3,790,282,000 assets and 17 branches. We are part of a reciprocal placement network. Nearly 6% of our total deposits are reciprocal. We have found reciprocal deposits to be an important source of funding.

As noted in the NPR, the Federal Deposit Act specifically calls for a risk-based assessment system "for calculating an insured depository institution's assessment based on the insured depository institution's probability of causing a loss to the DIF due to the composition and concentration of the IDI's assets and liabilities...." In short, the premium assessments for each individual institution are supposed to reflect the specific and measurable risks posed by its assets and liabilities.

The proposal also states that it would improve the current system "by incorporating newer data from the recent financial crisis" … to … "more accurately reflect risk."

When it established the current 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."

That recognition was based on the characteristics that reciprocal deposits share with core deposits, characteristics that traditional brokered deposits lack. In particular, the majority of our reciprocal deposits come from customers with strong ties and long relationships with the Bank.. The Bank sets the interest rate based on local market conditions. The deposits add to a Bank's franchise value. Reciprocal deposits held by Amalgamated, therefore, generally do not present any of the concerns that traditional brokered deposits do: instability, risk of rapid asset growth, and high cost.

Specifically, under the current system, reciprocal deposits, except under certain circumstances, are excluded from the "adjusted brokered deposit ratio," which penalizes banks for reliance on brokered deposits. The proposed assessment system would no longer exclude reciprocal deposits from the definition of brokered deposits.

In the proposal, the FDIC gives no justification for this shift, which would result in reciprocal deposits being treated like any other form of brokered deposit or wholesale funding. It simply and arbitrarily lumps reciprocal deposits in with traditional brokered deposits.

We disagree with the proposed rule's treatment of reciprocal deposits for two reasons.

First, it is contrary to what the proposed rule is trying to accomplish. The primary purpose of the proposed rule, as stated in the FDIC's discussion of the proposed rule, is to adjust the assessment formula to more accurately capture the risks faced by an institution and the likelihood of failure (80 F.R. 40837 at 40842). As noted above, the FDIC recognizes that reciprocal deposits are often as safe as other core deposits and do not generally carry the risks associated with brokered deposits that the FDIC is concerned about. For that reason, reciprocal deposits are generally not considered in calculating an institution's brokered deposits ratio, which itself comes into play in very limited situations and applies to few banks. (See id at 40843, fns. 29, 30.) But the proposed rule would expand greatly the circumstances in which, and the institutions for which, reciprocal deposits will be treated as brokered deposits. That cuts directly against the proposed rule's primary purpose by use of a formula which increases assessments in situations in which no additional risk is presented. If anything, the proposed rule should eliminate totally any situation in which reciprocal deposits are treated as brokered deposits.

Second, the proposed expansion of treatment of reciprocal deposits as brokered deposits would penalize banks that use them by, in effect, taxing them, when there are better ways to address the concerns associated with brokered deposits.

A solution is simple: retain the current system's exclusion of most reciprocal deposits from the definition of "brokered" for assessment purposes.

Further, we strongly urge the FDIC to support legislation to explicitly exempt all reciprocal deposits from the definition of brokered deposit in the FDI Act.

Thank you for the opportunity to comment on this proposal.

Sincerely,

Keith...

cc:
The Honorable Charles Schumer
322 Hart Senate Office Building
United States Senate
Washington, D.C. 20510

The Honorable Kirsten Gillibrand
478 Russell Senate Office Building
United States Senate
Washington, D.C. 20510

The Honorable Carolyn Maloney
2308 Rayburn House Office Building
United States House of Representatives
Washington, D.C. 20515

The Honorable Martin J. Gruenberg
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