



Ronald D. Paul  
Chairman of the Board

September 11, 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:

EagleBank 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. We would like to comment on the impact of two aspects of this proposal; the first is regarding the treatment of reciprocal deposits, and the second is how the proposed changes evaluate the risk profile of a small community bank.

By way of background, EagleBank is a commercially oriented community bank serving the Washington, DC metropolitan area. We have \$5,476,287,000 in assets and serve about 12,000 customers through 22 branch offices. We are part of a reciprocal placement network. Nearly 12% of our total deposits are held in fully FDIC insured reciprocal deposit accounts, which have been placed with us by our local customers. These accounts include checking accounts, money market accounts and certificates of deposit. These reciprocal deposit accounts are very attractive to our customers including individuals, small and medium sized businesses, non-profit organizations and local government agencies. Our customers use these deposit products because they present very low risk, due to the FDIC insurance feature, and also provide a competitive rate of return. Because of this, these customers and deposits have proven to be a very stable, dependable local 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.

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. We have seen that reciprocal deposits do come from our bank’s local customers. Our relationship with these customers is long term and includes multiple services and products. The bank sets the interest rate based on local market conditions. Because the FDIC insurance coverage reduces the customer’s risk, these deposits are stable and are an important ingredient of our relationships with our core customers. Reciprocal deposits do not present any of the concerns that traditional brokered deposits do: instability, risk of rapid asset growth, and high cost. Having these deposits allows us to make loans to local businesses, which are often not able to obtain credit from large regional or national banks..

Specifically, under the current system, reciprocal deposits 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. In doing so, it would penalize the the customers that use them and the banks.. The likely outcome is that a higher assessment level on these deposits would would result in a reduction of the interest rates paid on these products, making them less attractive to current and prospective customers. This would clearly have a negative effect on the customers as well as potentially reducing the funding levels for the banks.

A solution is simple: retain the current system’s exclusion of reciprocal deposits from the definition of “brokered” for assessment purposes.

Further, we strongly urge the FDIC to support legislation to explicitly exempt reciprocal deposits from the definition of brokered deposit in the FDI Act. We would emphasize again that these accounts are not “hot money” but are a key ingredient of of relationships with core customers. The bottom line is that these customers are using these products because of the safety offered by the FDIC insurance. If unlimited FDIC insurance was available to all customers, there would be no need for reciprocal deposit products.

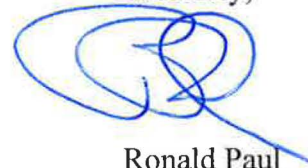
The second topic upon which we would like to comment is the proposed new formula for calculating the assessment rate for each member bank. This proposed formula, reduces the amount of consideration given to the Banks CAMELS rating and increases the weighting on certain arbitrary factors such as growth rates and composition of a bank’s loan portfolio. In its publications, the FDIC has not given any justification for weightings assigned to of the newly proposed formula factors. In addition, we feel that the focus in the analysis on certain “high risk categories” of assets does not adequately consider the risk mitigation strategies that are adopted by properly managed, well capitalized banks.

Why should a strong bank, with a high CAMELS rating, be penalized under the new system because of its growth? The CAMELS rating has already considered that issue. If a bank has proven ratings for asset quality and consistently low levels of net charge-offs, why should the asset mix increase the level of the assessment factor?

The FFIEC regulatory agencies have a proven system for evaluating their members, and all members are examined on a frequent, regular basis. Given the resources dedicated to the examination and review process, the regulatory agencies have the ability to measure the overall performance and risk of a bank. That is a proven system, especially in regard to smaller community banks as compared to the more complex mega banks. Therefore, we feel that the weighting in the assessment calculation should be placed more heavily on the Bank's CAMELS rating, and less on the newly created, arbitrarily chosen factors.

Thank you for the opportunity to provide these comments. We would be pleased to discuss these issues with you at any time.

Sincerely,



Ronald Paul  
Chairman, President & CEO

cc:

The Honorable Barbara Mikulski  
503 Hart Senate Office Building  
United States Senate  
Washington, D.C. 20510

The Honorable Benjamin Cardin  
509 Hart Senate Office Building  
United States Senate  
Washington, D.C. 20510

The Honorable Chris Van Hollen  
1707 Longworth House Office Building  
United States House of Representatives  
Washington, D.C. 20515

The Honorable Martin J. Gruenberg  
Chairman

Federal Deposit Insurance Corporation  
550 17th St., NW  
Washington, DC 20429