MISSISSIPPI BANKERS ASSOCIATION

September 11, 2015

Delivered via email to comments@fdic.gov

Mr. Robert E. Feldman
Executive Secretary
ATTENTION: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20429

Re: Proposal on Small Bank Assessments (12 CFR Part 327); RIN 3064-AE37

Dear Mr. Feldman:

The Mississippi Bankers Association (MBA) is a statewide trade association whose membership includes banks and savings institutions operating in Mississippi. Virtually all of our 88 member institutions operate a community bank model. I am writing on behalf of these institutions to comment on the above-referenced Notice of Proposed Rulemaking (NPR), which proposes changes to the Federal Deposit Insurance Corporation's deposit insurance assessments for banks with less than $10 billion in assets.

A primary concern of MBA member banks is the treatment of reciprocal deposits under the proposed deposit insurance system. Under the proposal, reciprocal deposits would be treated as brokered deposits which would impose higher premiums on banks holding these deposits. Currently, 42 of our member banks offer reciprocal deposits to customers (utilizing Certificate of Deposit Account Registry (CDARS)), and these banks depend on these deposits as a stable, cost-effective source of funding. After analyzing the proposal, the MBA believes strongly that the FDIC should continue to exclude reciprocal deposits from the category of brokered deposits for assessment purposes.

We would submit that the proposal's view of core deposits is unnecessarily narrow – and represents a major departure from current rules. We are unaware of any justification for this change. Reciprocal deposits share three characteristics that define core deposits: (1) They are overwhelmingly gathered within a bank's footprint through customer relationships; (2) they have a high reinvestment rate; and (3) banks set interest rates on such deposits, based upon the bank's funding needs and the local market.

The new assessment system is required by law to be risk-based, as is the current system. Thus, premium assessments for each institution should reflect specific and measurable risks of loss to the Deposit Insurance Fund posed by the institution's assets and liabilities. We do not believe it has been demonstrated that reciprocal deposits increase a bank's risk profile. Because reciprocal deposits are built on established local customer relationships, they are generally insulated from

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rate volatility and are the functional equivalent of core deposits. However, the proposal would lump reciprocal deposits with traditional brokered deposits. This would tend to discourage community banks from holding reciprocal deposits, even though they are an important, stable local source of funding.

Another concern expressed by some of our member banks is the proposal's treatment of loan portfolio concentrations. While a number of Mississippi banks could potentially pay lower premiums under the proposal, based upon their business as agricultural lenders, other banks could be penalized because of their focus on commercial and industrial (C&I) and commercial and development lending. It is a serious concern that this could be true even for banks with a strong performance history, solid underwriting, and adequate risk mitigation in these lending categories.

The MBA encourages the agency to consider a broader approach in setting assessments than simply judging a bank's current loan portfolio. As written, the proposal would seem to punish banks for making certain kinds of loans – even if the subject loans are sound and not delinquent. If the FDIC decides that its final rule should base premiums on loan categories, we strongly suggest that a bank's charge-off and delinquency history should be taken into account and that factors such as underwriting, risk management practices, and loan portfolio management should be considered.

In conclusion, the Mississippi Bankers Association respectfully requests that the FDIC continue to exempt reciprocal deposits from the definition of brokered deposits in the proposed assessment rule. This would assure that banks in Mississippi and elsewhere can continue to utilize these deposits as a safe, stable funding source. Additionally, we urge the FDIC to reconsider and amend the loan portfolio concentration provisions in the proposal to ensure that banks with demonstrated records of sound management of risks in certain lending categories are not penalized through higher premium assessments.

Our association appreciates the opportunity to comment on this important proposal, and we thank you for your consideration of our views.

Sincerely,

McKinley W. Deaver
President