



First Bank of Highland Park

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:

First Bank of Highland Park is a \$1.4 billion community bank serving mainly Lake County and Cook County Illinois. We welcome this opportunity to comment on the Federal Deposit Insurance Corporation (FDIC) Notice of Proposed Rulemaking (NPR) RIN 3064-AE37. This NPR proposes changes to the FDIC's deposit insurance assessment regulation for small banks (banks with assets of less than \$10 billion).

This FDIC proposal seems unduly harsh and is a reversal of current practice. This proposal would penalize small banks that use reciprocal deposits by, in effect, taxing them. Additionally, it would likely have the effect of reducing deposits at community banks and therefore reducing the amount of local investment.

Over the years, we have found it increasingly difficult to compete with the big banks for deposits. As a group, the very largest banks attract a growing percentage of the industry's deposits. Reciprocal deposits are among the few tools available to community banks to enable us to compete effectively. Our current balance of reciprocal deposits is over \$100 million. Absent this tool, we would likely have \$100 million less to invest in our local communities.

When the FDIC established the current small bank assessment formula system in 2009, it explicitly 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."

The FDIC excluded reciprocal deposits from the "adjusted brokered deposit ratio" that increases assessments on banks that rely on traditional brokered deposits for funding. It recognized that reciprocal deposits differed from traditional brokered deposits in a number of ways. Traditional brokered deposits are "hot money" that flow from bank to bank in search of the highest interest rates in a national market. In contrast, reciprocal deposits typically come from a bank's local customers at local interest rates. In our experience, many of these deposits

have come from local municipalities that were existing long term clients. **These entities are fiduciaries that must protect taxpayer funds. Reciprocal deposits have allowed us to meaningfully expand our relationship with these clients, provide an improved yield for taxpayer funds, all while reinvesting the funds in our community.**

The proposed assessment system would no longer exclude reciprocal deposits from the definition of brokered deposits. It would fold reciprocal deposits in with traditional brokered deposits and other wholesale funding. Unfortunately, the proposal gives no reason for doing so. It does not argue that reciprocal deposits are as risky as traditional brokered deposits, nor does it show data that reciprocal deposits increase the risk of loss to the Deposit Insurance Fund (DIF).

Reciprocal deposits enable us to retain our local large-dollar depositors in the face of competition from the country's largest banks. We are concerned that the FDIC wants to impose this burden on us and hundreds of community banks across the country, ultimately reducing access to capital for locally based borrowers. **It seems inconsistent with the mission of the FDIC to both reduce the incentives to invest in our communities while imposing a tax on a stable, nonvolatile source of funding.**

Wholesale funds can adjust to the new assessments by simply shifting prices downward. Reciprocal deposits, with rates based on local markets, cannot. Faced with the new tax the proposal would impose, community banks will lose their safe, stable, local large-dollar deposits to the largest banks that can attract the funds without providing deposit insurance.

We urge you to retain the current system's exclusion of reciprocal deposits from the definition of "brokered" for assessment purposes.

Further, we strongly encourage the FDIC to support legislation to explicitly exempt reciprocal deposits from the statutory definition of brokered deposit as well.

Sincerely,



Randy L. Green
President & CEO



Eric A. Ephraim
Executive Vice President / Finance

cc:

The Honorable Richard Durbin
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United States Senate
Washington, D.C. 20510

The Honorable Mark Kirk
524 Hart Senate Office Building
United States Senate
Washington, D.C. 20510

The Honorable Bob Dold
221 Cannon House Office Building
United States House of Representatives
Washington, D.C. 20515

The Honorable Martin J. Gruenberg
Chairman
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