Community Bank
of the Chesapeake

September 14, 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 Community Bank of the Chesapeake 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.

Community Bank of the Chesapeake is headquartered in Waldorf, MD. We have $1,086,838,000 assets and 12 branches. We are part of a reciprocal placement network. More than 5% of our total deposits are reciprocal. We have found reciprocal deposits to be an important source of funding. Our reciprocal deposits are funded by local long-term customers. These relationships include other products and services and are important customers of the Bank. Unlike wholesale brokered funds, we set the interest rates on reciprocal deposits with our customers based on local market conditions.

Reciprocal deposits are a critical product a Community Bank uses to more fully participate in the local economy. A real world perception exists that larger banks are too big to fail. Reciprocal deposits partially even the playing field and provide opportunities for community banks to remain competitive with larger institutions in garnering local deposits with individuals, small businesses and local non-profit and municipal relationships, that would otherwise only consider larger institutions. These deposits open the door for our Bank to provide core banking services and products to a diverse group of customers and actually reduce funding risks for the Bank.

3035 Leonardtown Road • Post Office Box 38 • Waldorf, Maryland 20604 • 1-888-745-2265 • cbtc.com

Our Bank's reciprocal deposit customers are local and we typically provide multiple services and products to these customers. In our experience they are a stable source of funding and are core deposits.

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, reciprocal deposits typically come from a bank's local customers and the relationship the bank has with the customer is long term and includes multiple services. The bank sets the interest rate based on local market conditions. The deposits add to a bank's franchise value. Reciprocal deposits, therefore, 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 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. Lumping reciprocal deposits in with traditional brokered deposits would penalize banks that use them, when there is clearly evidence that the risks associated with funding risks are clearly much lower for reciprocal relationships.

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. Thank you for the opportunity to comment on this proposal.

Sincerely,

William Pasenelli
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 Steny Hoyer
1705 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