Hometown
Community Banks
Divisions of Morton Community Bank Member FDIC

September 9, 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:

Thank you for considering our comments in relation to the Federal Deposit Insurance Corporation (FDIC) Notice of Proposed Rulemaking (NPR) proposing changes to the FDIC's deposit insurance assessment regulation for small banks. In particular, we would like to comment on the impact of this proposal on reciprocal deposits.

Morton Community Bank (MCB), headquartered in Morton, IL, is a regional economic leader in Central Illinois. The Bank has $2,887,699,000 in assets and 32 branches, serving both rural and urban communities. MCB has participated in a reciprocal placement network for approximately ten years, offering Certificate of Deposit, Money Market and Demand Deposit products to our local customers.

Reciprocal funding, which enables us to invest local deposits back into the local economy, is a critical component of our community bank business model. The reciprocal arrangement is truly a win-win; Central Illinois cities, counties, and school districts appreciate that their funds will have a positive impact on the local community and tax base, rather than being used to fund national government agencies (via the purchase of agency bonds to pledge as security).

More than 20% of the Bank's total deposits are reciprocal, with reciprocal relationships including consumer, commercial and municipal accounts. Our reciprocal portfolio is well-diversified (several hundred customers), well-anchored (average relationship has 5.2 bank accounts) and well-seasoned (average relationship age of 13.5 years.)

From our experience, the liquidity risk presented by our reciprocal depositors is no greater than if we had arranged security for these customers using other financial instruments (pledging bonds, repurchase agreements, etc.) In part because of our experience with reciprocal customers, our regulators also embraced this view and began referring to these types of deposits as "core-ish", acknowledging the conflict between the strict regulatory definition and the functional reality. For banks like MCB, it's hard to argue that reciprocal deposits are anything but core deposits.

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." This is absolutely true. If we were experiencing rapid asset growth, which we are not, MCB could add $100 million of true brokered funding within the week, simply by making a phone call. But to add a new $3 million local relationship takes months, if not years, of relationship development.

As a participant in the reciprocal network, we determine the interest rate based on local market conditions. In general, the rates we offer on reciprocal products are very similar to those we offer on non-reciprocal accounts. Reciprocal deposits, therefore, do not present any of the concerns that traditional brokered deposits do: instability, risk of rapid asset growth, and high cost.

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. This seems to run contrary to the fact that the reciprocal deposit networks have become more mature, more broadly accepted, and inherently less risky since your last assessment in 2009.

In the proposal, the FDIC provides no rationale or quantitative evidence to support this shift, which results 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 banks that use them by, in effect, taxing them.

As a community bank with extensive experience in reciprocal funding, we are suggesting that you retain the current system's exclusion of reciprocal deposits from the definition of "brokered" for assessment purposes.

In addition, 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,

Ben Craig

Benjamin Craig
Deputy Chief Risk Officer

cc:

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