UTAH BANKERS
ASSOCIATION

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September 8, 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 ("the Notice")

Dear Mr. Feldman:

On July 13, 2015, the Federal Deposit Insurance Corporation (FDIC) published for comment a Notice of Proposed Rulemaking (NPR) proposing changes to its deposit insurance assessment regulation for small banks, which were defined as banks having assets of less than $10 billion.

I am writing on behalf of the members of the Utah Bankers Association. Of the 55 FDIC-insured institutions in our state, 16 offer reciprocal deposits to their customers. These banks rely on reciprocal deposits as a stable source of cost-effective funding.

Many of our members have expressed strong objections to how reciprocal deposits would be treated under the proposed deposit insurance assessment system. This is a very important issue for them, as well as for community banking as a whole. After analyzing the proposal, the Utah Bankers Association urges the FDIC to continue treating reciprocal deposits as it does under the current system, and not classify reciprocal deposits as brokered deposits for assessment purposes.

If the proposal were to go into effect as written, reciprocal deposits would be treated as brokered and banks holding reciprocal deposits would have to pay premiums higher than would otherwise be the case. In other words, they would be subject to a significant new tax. We do not understand why the FDIC is proposing this change in direction.

Just as with the current system, the new system is required by law to be risk-based. In our view, that means premium assessments for each individual institution should reflect the specific and measurable risks of loss to the Deposit Insurance Fund (DIF) posed by the bank's assets and liabilities. Increasing a bank's deposit premium is justified only if reciprocal deposits do in fact increase an institution's risk profile.

Nowhere in the proposal does the FDIC present any empirical data or analysis – any evidence at all – that they do. With no explanation or justification, the agency simply proposes treating reciprocal deposits in the same way as traditional brokered deposit.

We are not aware of any data showing that reciprocal deposits increase the risk of loss to the DIF. On the contrary, the studies we have reviewed conclude that reciprocal deposits have either no effect or a salutary effect on the probability of bank failure – and for good reasons.

Reciprocal deposits share three characteristics that define core deposits. One, reciprocal deposits are overwhelmingly gathered within a bank's geographic footprint through established customer relationships. Two, they have a high reinvestment rate. Three, banks set their own interest rates on reciprocal deposits, rates that reflect a bank's funding needs and local market conditions. More broadly, reciprocal deposits help alleviate imbalances within a local market. One bank may have too many deposits while another needs deposits. The reciprocal system allows funds to flow efficiently between banks and helps them maintain a healthier balance of assets and liabilities, and because the funds originate and are loaned out locally, it helps support a healthy supply of credit locally.

Based on the studies we reviewed, we have concluded that because reciprocal deposits are built on established local customer relationships, they are as "sticky," as a core deposit, and are insulated from rate volatility, they are the functional equivalent of a core deposit and they do not increase an institution's risk profile beyond what any core deposit would.

The current assessment system in fact recognizes 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 also reflects a trend that Utah bankers object to when FDIC stigmatizes brokered deposits generally and does not distinguish between safe and unsafe uses of those deposits. Throughout the nation's history, a core principle of banking policy has been to ensure that adequate credit is available to support economic development everywhere in the nation. Ideally, there should be sufficient credit available to fund loans to every creditworthy borrower. Brokered deposits are useful in achieving that goal when loan demand exceeds funds available through direct deposits. Because they are a highly efficient source of funds, brokered deposits can be used to support both sound and unsound growth. To properly address risks, the FDIC should be focusing on the use of funds, not the source of funds. The only meaningful difference in evaluating risks is good loans versus bad loans. That has nothing to do with the source of funds. On the funding side, the only risks relate to liquidity and rates. Brokered deposits do not increase liquidity risk, they only reduce it. In addition, they do not present cost risks. The data clearly show they are normally a more cost effective source of funding when all expenses relating to marketing and servicing direct deposits are factored in.

In conclusion, the Utah Bankers Association requests that the FDIC exempt reciprocal deposits from the definition of brokered deposits in its proposed assessment rule. Furthermore, we respectfully urge the FDIC to support legislation to exempt reciprocal deposits from the definition of brokered deposits in the Federal Deposit Insurance Act to avoid imposing unnecessary and unjustified restrictions on the efficient use of these deposits.

Sincerely,

Howard Headlee
President

cc:
The Honorable Orrin Hatch
The Honorable Mike Lee
The Honorable Mia Love
The Honorable Martin J. Gruenberg