LAKE
National Bank

September 3, 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:

Lake National Bank is a community bank headquartered in Mentor, OH. We have $143,382,000 in assets and 2 branches.

Over the years, we have found it harder and harder as a community bank to compete with large, national financial institutions. As a group, the very largest banks attract a growing percentage of the industry's deposits every year, thanks in part to the "too big to fail" perception fostered by the Federal government. We have found reciprocal deposits to be among the few tools available to community banks to enable us to compete effectively with them. Reciprocal deposits account for nearly 8% percent of our total deposits. All of these deposits represent existing local customer relationships we have established over the years.

We welcome this opportunity to comment on the Federal Deposit Insurance Corporation (FDIC) Notice of Proposed Rulemaking (NPR) RIN 3064–AE37, which proposes changes to the FDIC's deposit insurance assessment regulation for small banks, that is to say banks with assets of less than $10 billion. In short, the proposal would penalize small banks that use reciprocal deposits by, in effect, taxing them. Why does the FDIC propose this treatment that is a complete reversal of current practice?

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."

To reflect this lower risk, it 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

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number of ways, including the fact that traditional brokered deposits represent "hot money" that flows 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. We have found that once deposited the funds tend to stay in the bank because they represent stable, long term relationships.

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. 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).

Several post-crisis studies have, in fact, shown the opposite: reciprocal deposits did not increase risk of failure. Nor did they increase losses in the event of failure, as can collateralized funds.

It is easy to see why we as a community bank value reciprocal deposits. They enable us to retain our large-dollar depositors in the face of competition from the country's largest banks. Why would the FDIC want to penalize us for using them without even giving a reason? Hundreds of community banks would feel the burden of the unjustified 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, 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,

Andrew L. Meinhold

Andrew L. Meinhold
President and CEO

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cc:

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The Honorable David Joyce
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The Honorable Martin J. Gruenberg
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