MONARCH
BANK

September 1, 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:

Monarch Bank is a community bank headquartered in Chesapeake, VA. We have $1.18 billion in assets and 12 branches.

Over the years, we have found it difficult 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 and with the changes with regard to their holding public funds that can only escalate. We have found reciprocal deposits to be among the few tools available to community banks to enable us to compete effectively with them. At various times reciprocal deposits have accounted for more than 2% percent of our total deposits.

We are taking 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 banks with assets of less than $10 billion. We believe the proposal would penalize small banks that use reciprocal deposits by, in effect, taxing them. Why does the FDIC propose a 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." This was achieved through the exclusion of reciprocal deposits from the "adjusted brokered deposit ratio" that increased 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. We have found that once deposited the funds tend to stay in the bank; they are "sticky."

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. Is this a possible oversight in the proposed change? The proposal gives no explanation for the change in treatment. It does not present an argument 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.

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. Hundreds of community banks would feel the burden of the unjustified tax on a stable, nonvolatile source of funding.

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,

Lynette P. Harris
Chief Financial Officer

cc:

The Honorable Mark Warner
475 Russell Senate Office Building
United States Senate

Washington, D.C. 20510

The Honorable Timothy Kaine
231 Russell Senate Office Building
United States Senate
Washington, D.C. 20510

The Honorable J. Forbes
2135 Rayburn 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