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October 1, 2015

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Dear Chairman Gruenberg:

The Federal Deposit Insurance Corporation (FDIC) issued a proposed rule on June 16, 2015, that would revise the way small banks are assessed for deposit insurance. Specifically, the proposal, if implemented, would assess reciprocal deposits at a higher rate than they are currently being assessed. I am concerned that the FDIC is modifying its treatment of reciprocal deposits without justification.

Congress amended the Federal Deposit Insurance Act (FDIA) in 1989 to address problems associated with high interest rate "hot money" that contributed to bank failures by allowing banks to accelerate growth with deposits that have less franchise value than core deposits. Reciprocal deposits are a type of brokered deposit that historically have been considered less risky than traditional brokered deposits. For example, in 2011, the FDIC submitted a report to Congress required pursuant to Dodd-Frank that said, "reciprocal deposits based upon real customer relationships, deposits swept from affiliated broker-dealers, and referrals from affiliates appeared likely to pose fewer problems than other brokered deposits, although they should not be considered core deposits." [1] The report also said, "[t]he FDIC has recognized for some time in the examination process that reciprocal deposits may be more stable than other brokered deposits if the originating institution has developed a relationship with the depositor and the interest rate is not above market." [2]

In addition, the FDIC, the Office of the Comptroller of the Currency, and the Board of Governors of the Federal Reserve system stated in the final rule establishing a liquidity coverage ratio that "[r]eciprocal brokered deposits generally have been observed to be more stable than typical brokered deposits because each institution within the deposit placement network typically has an established relationship with the retail customer or counterparty making the initial over-the-insurance-limit deposit that necessitates placing the deposit through the network." [3]

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[1] (Federal Deposit Insurance Corporation, Study on Core Deposits and Brokered Deposits, submitted to Congress pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, July 8, 2011).
[2] (Federal Deposit Insurance Corporation, Study on Core Deposits and Brokered Deposits, submitted to Congress pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, July 8, 2011).
[3] 79 Fed. Reg. 61440 (October 10, 2014).

The FDIA specifically requires the FDIC to establish deposit assessments based on risk. Unfortunately, the proposal provides no justification for increasing the assessment on reciprocal deposits and goes against the FDIC's prior positions.

Sincerely,

Tom Emmer

Tom Emmer
Member of Congress