August 21, 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:

Main Bank is a community bank headquartered in Albuquerque, New Mexico. We have approximately $108 million in assets and one office.

Over the years, following the last financial crisis, as a way to compete with the national financial institutions, 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 have accounted for up to 5% percent of our total deposits at times.

Please accept my 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 would the FDIC propose this treatment, which is a complete reversal of current practice? I might suggest that the very largest financial institutions, known by most industry observers and participants, as the Too-Big-To-Fail (TBTF) institutions, already have a funding cost advantage because of the common perception that the U. S. government will not let them fail. Your proposal just makes that funding advantage even greater.

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."

How?

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 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." Our customers are

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not chasing rates with these deposits. In fact, we typically offer lower rates on reciprocal deposits than we offer on non-reciprocal deposits. This confirms that our customers are not rate-chasers, also known as "hot money" depositors.

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. While there is a general calmness in the market now, I suggest that we will again see a time like we saw in 2008-2009 where depositors were extremely nervous. If we have to treat these deposits as brokered, there is a good likelihood that we and other similarly-situated banks will just not offer them. I believe this will stir up the market at a time when the FDIC would want to be calming it.

Why would the FDIC want to penalize us for using them? Worse, why would the FDIC want to destabilize the market at a time when it needs calming? 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, again, based on the TBTF perception.

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.

Respectfully,

Ronald J. Shettlesworth
President & CEO
NMLS #996593

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