

August 31, 2015

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: FDIC Notice of Proposed Rulemaking (RIN 3064–AE37) – Treatment of
Reciprocal Deposits for Assessment Purposes

Dear Mr. Feldman:

I am very concerned about the impact this proposal will have on deposit insurance assessments for small banks utilizing reciprocal deposits. Our institution, Bank of Eastern Oregon, uses reciprocal depository products to serve public and non-public organizations which provide services to rural communities throughout eastern Oregon. These organizations include municipalities, counties, and special districts, in addition to quasi-public service entities which are a recipient of public funds but who do not qualify for public funds treatment.

Headquartered in Heppner, OR., Bank of Eastern Oregon has \$339 million in assets and operates 13 branches in primarily rural markets. We have participated in a reciprocal placement network since 2008 and, depending upon the time of year, have 10% or more of our total deposits being reciprocated. As I write, we currently have \$31 million in reciprocal deposit out of our current \$331 million in deposits. Not only are reciprocal deposits an important source of funding for our cyclical Ag based lending portfolio, but our ability to utilize the one-way sell feature of the service allows us to manage capital levels during low borrowing seasons.

In my opinion, the changes outlined in the Notice of Proposed Rulemaking, RIN 3064–AE37, (NPR) continues the misrepresentation of reciprocal deposits as being in the same class as brokered deposits. In our last half dozen exams we regularly have the discussion about this regulatory misclassification, with regulators agreeing that reciprocal deposits, though classified as brokered, are the same as our other deposits on the books. Conversely, in the same classification mess, regulators consider deposits purchased through Quick Rate and other services as being Core deposits. What?!? A deposit by our customer is called high risk brokered funds, when a purchased deposit is Core? Someone has their hat on backwards.

As noted in the NPR, the Federal Deposit Act specifically calls for a risk-based assessment system “for calculating an insured depository institution’s assessment based on the insured depository institution’s probability of causing a loss to the DIF due to the composition and concentration of the IDI’s assets and liabilities....” In other words, the premium assessments for each individual institution are to reflect the specific, measurable risks posed by its assets and liabilities. It is inconceivable that reciprocal deposits placed with Bank of Eastern Oregon present any additional risk to the DIF than their remaining on the books at another institution other than the potential risk of loss to the DIF if the placing institution should fail. In this case wouldn’t the DIF assessment rates at the ‘bad’ bank have already been set at a level which would adequately fund the DIF? Why punish the reciprocating bank?

When it established the current assessment system in 2009, the FDIC recognized 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 recognition was accurate and the fact that a customer’s core deposit was later reciprocated out did not change the inherent characteristic that made it a core deposit in the first place.

Like most institutions which utilize reciprocal deposits, ours come from local customers and the relationship we have with those customers are long term and complex. Not only do these deposits add to Bank of Eastern Oregon’s franchise value, they are a fundamental source of liquidity and earnings. We fully stand behind our conviction that reciprocal deposits do not present any of the risks that traditional brokered deposits do, especially in the areas of instability, risk of rapid growth, and high cost. Our customers ask for a reciprocal product to ensure FDIC insurance coverage, not to gain higher earnings. All of our reciprocal deposits carry, at a maximum, the same rate as available to other customer deposits of the same type. In practice, these customers generally select a reciprocal product which pays a lower rate than can be found elsewhere in our product lines.

We ask the FDIC to reconsider the treatment of brokered deposits as presented in the current NPR. We support either the current system in which reciprocal deposits are excluded from the “adjusted brokered deposit ratio” which penalizes banks for reliance on brokered deposits, or, preferably, that the FDIC support legislation which revises the assessment definitions and removes reciprocal deposits from the definition of brokered deposits completely.

Thank you for the opportunity to comment on this proposal.

Sincerely,

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