Capital Bank
OF NEW JERSEY
P.O. Box 690, Vineland, NJ 08362
voice 856.690.1234
www.capitalbanknj.com

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submitted via email to comments@FDIC.gov
Robert E. Feldman, Executive Secretary
Attn: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

re: FDIC RIN 3064-AE89
Comments on de novo institutions and reciprocal deposits

Mr. Feldman, Ladies and Gentlemen,

Thank you for the opportunity to comment on the Proposed Rulemaking Regarding Reciprocal Deposit Treatment.

My comments are focused on the fifth question posed in the Notice:

> The FDIC seeks comments on how the regulations should apply to de novo institutions that lack four prior quarters of reciprocal deposits to calculate the *special cap.*

I suggest that de novo institutions should be granted maximum flexibility on their ability to accumulate and maintain reciprocal deposits without them being deemed brokered, and that de novos should be expressly carved out of the *special cap*, so that they be no more restricted than the *general cap*, 20 percent-of-liabilities limit during their initial three years of operation.

I make these suggestions because (i) reciprocal deposits likely represent the very sort of relationship-based deposits the FDIC most wants to see de novos accumulate, (ii) reciprocal deposits tend to be slow for a bank to cultivate, meaning they are unlikely to contribute to rapid asset growth, (iii) a de novo's ability to include reciprocal deposits amongst its product offerings will be conducive to its success and competitiveness, (iv) categorizing a de novo's reciprocal deposits as brokered could lead to issues with its Business Plan; and (v) the existence of a *special cap* on a de novo's reciprocal deposits would be through no fault of a de novo institution itself.

I elaborate on each of these points below:

Reciprocal deposits likely represent the very sort of relationship-based deposits the FDIC most wants to see de novos accumulate.

At my institution, the depositors we have with reciprocal deposits are, without exception, local customers with long-term and multi-faceted banking relationships. The other elements of their relationships include conventional deposit accounts, credit facilities, and/or bank ownership as a stockholder. The interest rates we pay on their reciprocal deposits tend to be less than we would otherwise pay them. They represent local, loyal, low-cost depositors.

I don't believe that my bank's experience with reciprocal depositors is unique. And I suggest the type of depositor described above is exactly the sort of customer the FDIC would most like to see de novo institutions attract.

Reciprocal deposits tend to be slow for a bank to cultivate, meaning they are unlikely to contribute to rapid asset growth.

I understand and appreciate the FDIC's recent history with brokered deposits at some de novos fueling rapid growth, which in certain cases ended poorly and at not-small cost to the Deposit Insurance Fund.

But reciprocal deposits aren't easily or quickly accumulated. The customer-attraction cycle for reciprocal deposits is the same slow, deliberate process as it is with any other conventional deposit. And unlike true brokered deposits, the decision to open a reciprocal deposit account resides with the customer, not a third party reacting to the best interest rate on offer. Because of that slow and customer-focused process, reciprocal deposits are unlikely to be a contributor to rapid, risky growth.

A de novo's ability to include reciprocal deposits amongst its product offerings will be conducive to its success and competitiveness.

I applaud the efforts made by the FDIC under former Chairman Gruenberg to welcome de novo interest, to better explain the de novo application process, and to view de novos as important to the nation's banking system. And it is already clear that under Chairman McWilliams' leadership de novos will be no less a focus of emphasis and support.

But of course, in order to see more de novos form, they need to be able to succeed. To be successful, they need to be able to compete effectively. And a de novo's ability to offer reciprocal deposits can be very important to certain prospective depositors, including municipal entities which by statute must have their deposits guaranteed, and local individuals or business owners who may need an extra level of assurance to give 'the new bank in town' a shot.

Categorizing a de novo's reciprocal deposits as brokered could lead to issues with its Business Plan.

I know, from personal experience, that de novo organizers may not have had the foresight to include brokered deposits in their Business Plan. Even if they did, it's likely that brokered deposits were included to only a limited extent. Bankers and (I believe) regulators alike would prefer to avoid changes to Business Plans, especially ones that could be caused by rulemaking that is unnecessarily-restrictive to de novos as a class.

The existence of a *special cap* on a de novo's reciprocal deposits would be through no fault of a de novo institution itself.

As I understand it, the *special cap* contemplated by this Rulemaking would be imposed on de novos by virtue of being not well rated, which in their case is purely a function of their newness. It's through no error or mismanagement of their own.

While I can understand the logic of assigning cautionary ratings to a new financial institution, it's also true that de novos have some offsetting factors in their favor – they've just had their new Business Plan closely scrutinized; they'll tend to be very well capitalized during their first three years of operation; and their performance will be closely monitored during that time period.

It would seem fair to me that, as far as reciprocal deposits go, de novos be given the 'benefit of the doubt' during their initial three years of operation, and be permitted to use reciprocal deposits up to the *general cap*, just like most other banks. We should want to give them every reasonable means of being successful.

Though the bank I run is no longer a de novo, my memories of doing so are fresh. Please consider my comments from that very recent, first-hand perspective.

Again, thank you for the opportunity to comment.

[redacted]

Sincerely,

[redacted]

David J. Hanrahan, Sr.
President and CEO

cc: via email
Kenneth L. Burgess, Jr., Chairman
American Bankers Association

Rob Nichols, President and CEO
American Bankers Association