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June 23, 2010

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

Re: The Federal Deposit Insurance Corporation's ("FDIC") Notice of Proposed Rulemaking and Request for Comment, RIN 3064-AD57

Dear Mr. Feldman:

We are writing in response to the FDIC's request for comments on its Notice of Proposed Rulemaking and Request for Comment (the "Notice"), RIN 3064-AD57. The Notice proposes changes in the current assessment system by, among other things, eliminating risk categories for "large institutions." Instead, a large institution would be subject to a scorecard method for determining its initial assessment rate. These changes would eliminate for large Risk Category I institutions the adjusted brokered deposit ratio financial measure, which excludes reciprocal deposits.[1] Such institutions would now for the first time become subject to the brokered deposit adjustment, which would not exclude reciprocal deposits. Our comment focuses on this aspect of the Notice. We believe that the calculation of the brokered deposit adjustment for "eligible" large institutions should exclude reciprocal deposits. The proposed elimination of risk categories for large institutions does not preclude the FDIC from applying scorecard measurements or alternative risk metrics to determine which large institutions have the risk characteristics of Risk Category I institutions and could therefore become "eligible" for such treatment.

As the FDIC acknowledged in its 2009 rulemaking on assessments, "reciprocal deposits may be a more stable source of funding for healthy banks than other types of brokered deposits and…may not be as readily used to fund rapid asset growth.[2]" Indeed, reciprocal deposits provide insured depository institutions with a way to attract and retain valuable customer relationships, enhancing the institutions liquidity and franchise value. There is no broker involved in soliciting CDARS reciprocal deposits and, unlike traditional brokered deposits, reciprocal deposits are "sticky" relative to deposits originated through third-party brokers (or through internet rate boards, which are not subject to regulation as brokered deposits). For example, CDARS reciprocal deposits have an average reinvestment rate of approximately 81%, and approximately 85% of these reciprocal deposits are from local depositors (located within 25 miles of a branch of the institution originating the deposit). [3]

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[1] As described at 75 FR 23517 n. 9 (May 3, 2010).

[2] *See* 74 FR 9532 (March 9, 2009).

[3] Data reflects all CDARS reciprocal placements from 1/1/10 through 5/31/10. These data are consistent with previous figures provided to the FDIC from prior time periods.

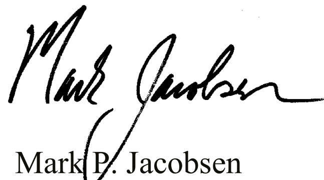
A critical feature of reciprocal deposits is that the originating institutions set their own rates within the context of their own local markets. Of the "large" institutions that have utilized CDARS since January 2009, on average, more than 50 percent have priced their CDARS reciprocal deposits at rates *below* their standard posted rates for similar maturity certificates of deposit.[4] The proposed exclusion of reciprocal deposits from the brokered deposit adjustment would reinforce this prudent deposit management – and would avoid unintended (and undesirable) incentives for institutions to replace their reciprocal deposits with more expensive, less stable funding.

The proposed scorecard method for large institutions includes in the calculation of the performance score a funding related stress measure that calculates a ratio of core deposits to total liabilities. Reciprocal deposits are not considered core deposits for purposes of this calculation. In light of this scorecard measure and given the demonstrable positive attributes of reciprocal deposits, we believe that the FDIC should permit large institutions with risk profiles consistent with Risk Category I institutions to exclude reciprocal deposits in calculating the brokered deposit adjustment. Such exclusion also would bring a measure of parity to assessment calculations – "small" institutions in Risk Category I are permitted to exclude reciprocal deposits in calculating their adjusted brokered deposit ratio and are not subject to the brokered deposit adjustment. Institutions that pose the same low risk to the deposit insurance fund should benefit from some similarity in setting assessments.

We appreciate the concerns that have prompted the FDIC to propose eliminating risk categories for large banks, but we urge the FDIC for the reasons described above to permit large institutions with low risk profiles to exclude reciprocal deposits from the calculation of the brokered deposit adjustment.

Thank you for your consideration of these comments. Please let us know if you would like additional information.

Sincerely,



Mark P. Jacobsen
President & Chief Executive Officer

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[4] Based on a comparison of each bank's CDARS reciprocal rates and their posted CD rates from 1/1/09 through 5/31/10, as reported by RateWatch (a division of Bankers Financial Products Corporation), for the same week and deposit maturity.