September 10, 2015

VIA E-MAIL ONLY TO comments@fdic.gov
Robert E. Feldman
Executive Secretary
Attn: Comments
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: RIN 3064-AE37
Federal Deposit Insurance Corporation Notice of Proposed Rulemaking regarding Assessments

Dear Mr. Feldman:

Thank you for the opportunity to comment on the FDIC's proposed assessment framework applicable to banks with assets of less than $10 billion. North Carolina is home to approximately 53 state-chartered institutions that may be affected by the proposal. As the primary state regulator for these institutions, I am writing to express my objection to the FDIC's proposed treatment of reciprocal brokered deposits in the assessment framework. The FDIC's proposed treatment will effectively discourage reciprocal brokered deposits by increasing the insurance cost for institutions that utilize them, despite the minimal risk they pose to the Deposit Insurance Fund ("DIF").

Many North Carolina institutions use reciprocal deposits as a source of stable, low-cost funding. In my experience, the benefits of reciprocal brokered deposits outweigh the perceived risk that these deposits pose to the DIF. Unlike high-rate brokered deposits, reciprocal brokered deposits share many of the characteristics of core deposits: they are "sticky" (*i.e*. they have a high reinvestment rate), they are linked to the originating institution's ongoing customer relationship, and the rates paid on them typically reflect the bank's local market rates. Academic research confirms my anecdotal conclusion: studies have shown that reciprocal deposits have had little to no effect on the probability of bank failure or on the loss to the DIF.

Moreover, the exclusion of reciprocal brokered deposits from the core deposits/total assets measure in the proposal is contrary to the FDIC's own previous recognition of the stability of this type of brokered deposits. For example, in its July 8, 2011 Study on Core Deposits and Brokered Deposits ("FDIC Study") (*available at*: https://www.fdic.gov/regulations/reform/coredeposit-study.pdf), the FDIC noted that "examiner guidance states that there should be no particular stigma attached to the acceptance by well-capitalized banks of brokered deposits per se and that **the proper use of such deposits should not be discouraged.**" (FDIC Study at 3 (emphasis added).) The FDIC also indicated that it has successfully distinguished among *types* of brokered deposits in the supervisory process and deposit insurance assessment system. (FDIC Study at 4.) I respectfully suggest that the FDIC continue to make this distinction in the proposed assessment structure and refrain from discouraging reciprocal brokered deposits.

Finally, while I recognize that in some cases, a high percentage of brokered deposits may increase the loss to the DIF in the event of default, this risk is better addressed by Prompt Corrective Action ("PCA") categories, than by a broad assessment structure change for all institutions under $10 billion. The PCA categories, together with the brokered deposit rule, currently mitigate the risk of increased loss flowing from brokered deposits by requiring adequately capitalized institutions to seek specific approval from the FDIC before accepting or renewing brokered deposits and by prohibiting undercapitalized institutions from accepting or renewing brokered deposits at all.

In short, the proposed approach to reciprocal brokered deposits fails to meet the risk-based assessment standard contemplated by the FDI Act. I respectfully urge the FDIC to re-evaluate its perception of reciprocal brokered deposits, to review the core deposit/total assets financial ratio, and to retain the current exclusion for reciprocal deposits from the definition of "brokered deposit" for assessment purposes.

Yours truly,

Ray Grace
North Carolina Commissioner of Banks

/kmrb

cc: U.S. Senator Richard Burr
U.S. Senator Thom Tillis
The Honorable Martin J. Gruenberg, Chairman, FDIC
John Ryan, Conference of State Bank Supervisors
Members, North Carolina State Banking Commission