September 9, 2015

Mr. 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:

I am writing today to provide comments on the Federal Deposit Insurance Corporation's (FDIC's) proposal to modify deposit insurance premiums, based on risk.

The Minnesota Bankers Association is the largest trade group representing Minnesota banks. We represent 95% of the Minnesota banks, from the largest to the smallest. The vast majority of our 345 member banks are community banks. Our median-sized bank is roughly $95 million in assets, and we have 50 banks with less than $30 million in assets. These true community banks are doing everything they can to remain viable, in the face of extreme regulatory pressures and competition from financial providers that have significant tax and regulatory advantages.

While the concept of modifying deposit insurance based on risk makes a lot of sense, in one important instance, this proposal will have a very negative impact on a significant number of Minnesota banks. We are very concerned about the fact that reciprocal deposits, like deposits that are part of the CDars program offered by Promontory Interfinancial Network, will now face higher deposit insurance premiums.

We understand that the FDIC has taken the position that reciprocal deposits meet the technical definition of brokered deposits. Our banks do not necessarily agree that these deposits have the characteristics of brokered deposits, and we may in fact support efforts to change that designation.

However, until the FDIC issued this proposal, designating reciprocal deposits as brokered deposits did not cause a major problem for our banks. This proposal changes everything. Charging higher FDIC insurance premiums for reciprocal deposits is a poor policy, and we urge you to reconsider that part of the proposal.

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It may well be that the FDIC can show that there is increased risk associated with true brokered deposits. Some aggressive growth banks may have used true brokered deposits to fund aggressive, risky loan growth. The FDIC may have data showing that particular formula has caused losses to the insurance fund and therefore warrants higher FDIC insurance premiums.

If the FDIC has proof that reciprocal deposits have directly caused bank failures, we have not seen that proof. Our banks generate reciprocal deposits from local customers who want to bank locally. They have strong relationships with these depositors who are generally not rate sensitive, so these deposit relationships have staying power. These deposits have none of the characteristics of true brokered deposits. Rather, in practice, they function much more like core deposits. Forcing a community bank to pay higher FDIC insurance premiums for reciprocal deposits does not make sense.

Our community banks are under serious stress. Nationwide, we are seeing industry consolidation among the smallest banks. Back on June 30, 2000, Minnesota had 512 bank charters. As of June 30, 2015 we had just 332. The rate of consolidation is accelerating, as 107 banks merged out of existence in the ten years from 2000 to 2010 while 74 banks merged out of existence in the five years from 2011 to 2015. Losing community bank charters at a clip of 5% per year cannot bode well for our economy, as community banks serve local small business and agricultural customers so well.

This proposal will further harm the prospects of community banks. The large banks do not need to utilize reciprocal deposit arrangements to ensure that they keep the whole relationship with their large depositors. They have investment products, like sweep account arrangements, which ensure that they will maintain the entire relationship they have with large depositors. So the harm from this proposal is aimed squarely at community banks. We strongly urge the FDIC to modify its proposal, unless there is absolute proof that the harm caused to community banks by this proposal is absolutely necessary to offset the specific risks associated with reciprocal deposits.

In some cases the banking regulatory agencies are required to implement laws passed by Congress, and they have very little leeway when writing their regulations. Not so with this proposal. The FDIC has every opportunity to make sure this particular FDIC insurance premium increase is done correctly. Please be absolutely sure that you are closely tying this community bank FDIC insurance premium increase with actual, documented risk.

Thank you very much for your attention.

Sincerely,

Joe Witt

Joe Witt
President/CEO

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