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September 10, 2015

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: **July 13, 2015 – Assessments – RIN 3064-AE37**

Dear Mr. Feldman:

The Iowa Bankers Association (IBA), would like to submit this comment letter to express concerns about the Notice of Proposed Rulemaking (NPR) regarding changes in deposit insurance assessments by the Federal Deposit Insurance Corporation (FDIC) for small banks. In particular, the IBA would like to comment on how this proposal would affect reciprocal deposits. The IBA is a statewide trade association with approximately 325 members comprising 98% of the state and national banks and federal savings banks located in Iowa.

The IBA urges the FDIC to continue to separate the treatment of reciprocal deposits from that of traditional brokered deposits in setting assessments. IBA members have stated that reciprocal deposits serve many of their high balance core customers, who are not as rate sensitive as standard brokered deposits. As such, reciprocal deposits have been a long-time stable source of core funding that do not present the risks and other characteristics of traditional brokered deposits. The separate treatment of reciprocal deposits from traditional brokered deposits in the current assessment system recognizes the differences between the two types of deposits. Reciprocal deposits are not just another form of wholesale funding and should not be treated as such as most community bank IBA member do not have access to non-core funding sources for loans to the extent of larger regional and national financial institutions.

When it established the current system in 2009, the FDIC recognized that 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.” IBA members are reporting that nothing has materially changed since then. Traditional brokered deposits are much more rate sensitive or “hot” than reciprocal deposits and continue to be so today.

Further, as the FDIC’s proposal itself points out, the premium assessment for an institution is supposed to reflect the risks posed by its assets and liabilities. Those risks must be specific and should be measurable.

Reciprocal deposits do not present any of the risks and concerns that traditional brokered deposits do: instability, risk of rapid asset growth, and high cost. On the contrary, most reciprocal deposits in IBA member banks come from local customers. IBA member banks typically have a relationship with their customers going far beyond merely accepting their deposits, and many small to mid-sized bank members of the IBA depend on these local deposits (whether reciprocal or not) to fund loans made in their communities. Most IBA member banks set reciprocal deposit interest rates based on local rates, and their experience is that reciprocal deposits stay with the bank. For all these reasons, they add to IBA member banks’ stable deposit base.

The FDIC in its proposal gives little to no justification or analysis for treating reciprocal deposits like a traditional brokered deposit, and arbitrarily lumps the two types of deposits together. In doing so, it would penalize IBA member banks accepting reciprocal deposits by assessing a higher deposit insurance rate, when such an issue has already been considered by the FDIC as recently as 2009. An increase in assessments in such a manner with no facts or analysis to base it on would be unnecessary and unfair. The FDIC’s proposal would punish many IBA member banks for using one of the few tools they have to compete in the open market for deposits against financial institutions of all sizes.

The IBA strongly urges the FDIC to retain the current system’s exclusion of reciprocal deposits from the definition of “brokered” for assessment purposes.

Thank you for the opportunity to comment on this important issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert L. Hartwig". The signature is fluid and cursive, written in a professional style.

Robert L. Hartwig – Legal Counsel