CONNECTICUT BANKERS
ASSOCIATION

Lindsey R. Pinkham
President & CEO

September 11, 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,
RIN 3064–AE37 ("the Notice")

Dear Mr. Feldman:

On July 13, 2015, the Federal Deposit Insurance Corporation (FDIC) published for comment a Notice of Proposed Rulemaking (NPR) proposing changes to its deposit insurance assessment regulation for small banks, which were defined as banks having assets of less than $10 billion.

After consultation with member banks, the American Bankers Association and Promontory Interfinancial Network, LLC, I am writing on behalf of the fifty member banks of the Connecticut Bankers Association with several recommendations altering the Proposed Rulemaking.

Some members have expressed that no mathematical formula based on a few items from the Call Report can gauge the performance and condition of an individual bank, and the likelihood that it will fail in the future, as thoroughly as supervisors do during regular on-site examinations. Therefore, the CAMELS component ratings that they assign should be given the highest weight in the FDIC's small bank assessments formula – much higher than as proposed.

The proposed one-year-asset-growth factor is a crude measure that intends to capture something that is better reflected in the "A" for asset quality component of the CAMELS rating.

The extreme elevation of weighting for the tier 1 leverage ratio in the proposed assessment formula, as compared to in the current formula, would unfairly penalize many banks that meet all the regulatory standards of being a "well-capitalized" bank.

The majority of our member banks are active users of Federal Home Loan Bank Advances. Banks that balance long-term assets against Federal Home Loan Bank Advances, in place of low-denomination deposits, should not be punished for sound rate risk management. Consideration should be given to an assessments formula factor for Federal Home Loan Bank advances as paired with loan maturities.

To our knowledge, twenty-six member community banks offer reciprocal deposits to their customers. These banks rely on reciprocal deposits as a stable source of cost-effective funding. Many of our members have expressed deep concern regarding how reciprocal deposits would be treated under the proposed deposit insurance assessment system. This is a very important issue for them, as well as for community banking as a whole. After analyzing the proposal, the Connecticut Bankers Association is recommending that the FDIC continue to treat reciprocal deposits as it does under the current system, which is to say excluding reciprocal deposits from the category of brokered deposits for assessment purposes.

Reciprocal deposits share three characteristics that define core deposits. One, reciprocal deposits are overwhelmingly gathered within a bank's geographic footprint through established customer relationships. Two, they have a high reinvestment rate. Three, banks set their own interest rates on reciprocal deposits, rates that reflect a bank's funding needs and local market. Bankers have advised that customers who use reciprocal deposits include wealthier individuals, local foundations, municipalities and commercial entities.

Because reciprocal deposits are built on the aforementioned local customer relationships, they are highly "sticky" and are insulated from rate volatility. As such, they are the functional equivalent of a core deposit and they do not increase an institution's risk profile beyond what any core deposit would. Members of the Connecticut Bankers Association request that the FDIC exempt reciprocal deposits from the definition of brokered deposits in its proposed assessment rule.

Thank you for the opportunity to provide these comments.

Sincerely,

LINDSEY R. PINKHAM
President & CEO