Jonestown Bank & Trust Co.
bankjbt.com

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)

Dear Mr. Feldman:

I am the Chief Financial Officer of the Jonestown Bank and Trust Co., which is located in Jonestown, PA. We have $472,080,595 assets and 12 branches. The Federal Deposit Insurance Corporation (FDIC) has issued a Notice of Proposed Rulemaking (NPR) that would establish a new assessment formula for banks with assets of less than $10 billion. We wish to express our deep reservations with the treatment of reciprocal deposits under the proposal. We find reciprocal deposits to be an important source of stable funding. In fact, more than 5% of our total deposits are in reciprocal. In effect, the FDIC proposal would impose a new tax on reciprocal deposits – a tax that would punish the banks that use them.

The current formula for assessing small banks recognizes that reciprocal deposits differ from traditional brokered deposits in many important ways, and, in fact, in establishing the current formula in 2009, the FDIC found 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."

That recognition was based on the characteristics of reciprocal deposits that they share with core deposits. Reciprocal deposits typically come from a bank's local customers. The customer relationship typically includes other services. Interest rates are based on local market conditions. The deposits add to a bank's franchise value. In fact 37% of the customers are still in this program since we started to offer it 8 years ago. This a stable source of deposits for our bank. We find that these customers are not rate sensitive but instead value the security of FDIC insurance. On the other hand, typical characteristics of traditional brokered deposits spark regulatory concerns: instability, risk of rapid asset growth, and high cost.

Further, in its Dodd-Frank Act mandated study on brokered deposits published in 2011, the FDIC said with respect to brokered deposits: "While the brokered deposit statute does not distinguish between [reciprocal deposits] and other brokered deposits, supervisors and the assessment system do. The FDIC has recognized for some time in the examination process that reciprocal deposits may be more stable than other brokered deposits if the originating institution has developed a relationship with the depositor and the interest rate is not above market."

Lastly, within the past year, the FDIC, along with the Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System, recognized that "Reciprocal brokered deposits generally have been observed to be more stable than typical brokered deposits because each institution within the deposit placement network typically has an established relationship with the retail customer or counterparty making the initial over-the-insurance-limit deposit that necessitates placing the deposit through the network." (79 Fed. Reg. 61440, 61493 [Oct. 10, 2014]).

In its proposal, however, the FDIC did not even bother to analyze how reciprocal deposits should be treated. Indeed, academic support for the liquidity measures in the proposal rests solely on a 1999 study. This study pre-dates the financial crisis, it is largely based on a prior regulatory and legal structure, and it pre-dates the creation of reciprocal deposits. The FDIC offers nothing else.

The proposal's treatment of reciprocal deposits is problematic, but the solution is simple: retain the current system's exclusion of reciprocal deposits from the definition of "brokered" for assessment purposes.

Further, we think the time has come for the FDIC to support legislation to explicitly exempt reciprocal deposits from the definition of brokered deposit in the Federal Deposit Insurance Act to end any uncertainty about the matter in the future. Tools that help community banks survive should not be subject to regulatory burden based on theoretical fears. Reciprocal deposits are an important tool to manage our liquidity and interest rates risk and we should not be penalized for holding them.

Thank you.

Sincerely,

C. William Roth

C. William Roth
Chief Financial Officer

cc:

The Honorable Robert Casey
393 Russell Senate Office Building
United States Senate
Washington, D.C. 20510

The Honorable Patrick Toomey
248 Russell Senate Office Building
United States Senate
Washington, D.C. 20510

The Honorable Charles Dent
2211 Rayburn House Office Building
United States House of Representatives
Washington, D.C. 20515

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
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