South Dakota BANKERS ASSOCIATION

Serving South Dakota's Financial Services Industry Since 1885

September 1, 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.

I am writing on behalf of the members of the South Dakota Bankers Association (SDBA). Of the 74 FDIC-insured institutions in our state, 23 offer reciprocal deposits to their customers. These banks rely on reciprocal deposits as a stable source of cost-effective funding.

Many of our members are concerned about how reciprocal deposits would be treated under the proposed deposit insurance assessment system. After analyzing the proposal, the SDBA believes that the FDIC should continue to treat reciprocal deposits as it does under the current system by excluding reciprocal deposits from the category of brokered deposits for assessment purposes.

If the proposal were to go into effect as written, reciprocal deposits would be treated as brokered and banks holding reciprocal deposits would have to pay premiums higher than would otherwise be the case. In other words, they would be subject to a significant new tax. We do not understand why the FDIC is proposing this change in direction.

Just as with the current system, the new system is required by law to be risk-based. In other words, premium assessments for each individual institution are supposed to reflect the specific and measurable risks of loss to the Deposit Insurance Fund (DIF) posed by the bank's assets and liabilities. The key question, therefore, is whether reciprocal deposits do in fact increase an institution's risk profile. Nowhere in the proposal does the FDIC present any empirical data or analysis that reciprocal deposits present higher risk. In fact, data that show that reciprocal deposits increase the risk of loss to the DIF does not exist. On the contrary, the studies that have been conducted on the issue conclude that reciprocal deposits have either no effect or a salutary effect on the probability of bank failure – and for good reasons.

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.

Because reciprocal deposits are built on established local customer relationships, are highly "sticky," and are insulated from rate volatility, 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.

The current assessment system in fact recognizes 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." The proposed system would not.

In addition, not only would the FDIC's assessment proposal unfairly penalize banks that hold reciprocal deposits with a new tax, it would also unfairly stigmatize reciprocal deposits as a class. The stated purpose of the proposal is to more accurately match the perceived risk to the DIF of certain banking practices with a premium that better reflects that perceived risk. Clearly, the FDIC perceives traditional brokered deposits, at least in some circumstances, to be of greater risk than core deposits, and is thus trying to discourage significant reliance on traditional brokered deposits. Bankers, of course, understand the FDIC's intent. By lumping reciprocal deposits in with traditional brokered deposits, however, the proposal would also discourage bankers from holding reciprocal deposits. Bankers have a problem with that.

In conclusion, the SDBA requests that the FDIC exempt reciprocal deposits from the definition of brokered deposits in its proposed assessment rule. Furthermore, we respectfully urge the FDIC to support exempting reciprocal deposits from the definition of brokered deposits in the Federal Deposit Insurance Act, in part to eliminate the possibility that reciprocal deposits might become unintended collateral damage in future regulatory efforts to discourage the use of traditional brokered deposits.

Sincerely,

Curt Everson

Curt Everson
President

cc: The Honorable Martin J. Gruenberg, Chairman
Federal Deposit Insurance Corporation
550 17th St., NW
Washington, DC 20429