Oak BANK
1000 N. Rush Street ~ Chicago, IL 60611 ~ 312.440.4000

August 14, 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:

The Oak Bank welcomes the opportunity to comment on the Federal Deposit Insurance Corporation (FDIC) Notice of Proposed Rulemaking (NPR) proposing changes to the FDIC's deposit insurance assessment regulation for small banks, which are defined as banks with assets of less than $10 billion. In particular, we would like to comment on the impact of this proposal on reciprocal deposits.

Oak Bank is headquartered in Chicago, IL. We have $198,282,000 assets and 1 branch. We are part of a reciprocal placement network. More than 4% of our total deposits are reciprocal. We have found reciprocal deposits to be an important source of funding.

As noted in the NPR, the Federal Deposit Act specifically calls for a risk-based assessment system "for calculating an insured depository institution's assessment based on the insured depository institution's probability of causing a loss to the DIF due to the composition and concentration of the IDI's assets and liabilities...." In short, the premium assessments for each individual institution are supposed to reflect the specific and measurable risks posed by its assets and liabilities.

The proposal also states that it would improve the current system "by incorporating newer data from the recent financial crisis" … to … "more accurately reflect risk."

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."

That recognition was based on the characteristics that reciprocal deposits share with core deposits, characteristics that traditional brokered deposits lack. In particular, reciprocal deposits typically come from a bank's local customers and the relationship the bank has with the customer is long term and includes multiple services. The bank sets the interest rate based on local market conditions. The deposits add to a bank's franchise value. Reciprocal deposits, therefore, do not present any of the concerns that traditional brokered deposits do: instability, risk of rapid asset growth, and high cost.

Specifically, under the current system, reciprocal deposits are excluded from the "adjusted brokered deposit ratio" which penalizes banks for reliance on brokered deposits. The proposed assessment system would no longer exclude reciprocal deposits from the definition of brokered deposits.

In the proposal, the FDIC gives no justification for this shift, which would result in reciprocal deposits being treated like any other form of brokered deposit or wholesale funding. It simply and arbitrarily lumps reciprocal deposits in with traditional brokered deposits. In doing so, it would penalize banks that use them by, in effect, taxing them.

A solution is simple: retain the current system's exclusion of reciprocal deposits from the definition of "brokered" for assessment purposes.

Further, we strongly urge the FDIC to support legislation to explicitly exempt reciprocal deposits from the definition of brokered deposit in the FDI Act. Oak Bank has several customers that utilize reciprocal deposits for FDIC coverage to protect their funds. An increase in the tax on holding these deposits to community banks will only lead to fewer community banks offering such access to its customers. Without this access, these customers will seek the protection of only the largest 10 banks in the country. The FDIC explicitly ensures the protection of these banks' customer deposits based on what we witnessed during the most recent financial crisis. NONE of the largest megabanks were allowed to fail, but hundreds of community institutions with hundreds of years of service to their communities were abandoned, which has led to fewer options for customers seeking that community bank service that is unmatched by the behemoths. Now the FDIC proposes to further burden our community establishments with a punitive tax for attempting to compete on a fair and level playing field.

I can assure you that the consequences, intended or not, will not be what is good for banks and their customers. Community banks that don't have the explicit or implicit protection from the FDIC will lose depositors. We will lose customers. We will lose ground. The industry will consolidate further, leaving customers with the "Walmart" experience for their banking needs. Customers will lose.

Thank you for the opportunity to comment on this proposal.

Sincerely,

Robert Sullivan

CFO

cc:

The Honorable Richard Durbin
711 Hart Senate Office Building
United States Senate
Washington, D.C. 20510

The Honorable Mark Kirk
524 Hart Senate Office Building
United States Senate
Washington, D.C. 20510

The Honorable Danny Davis
2159 Rayburn House Office Building
United States House of Representatives
Washington, D.C. 20515

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