September 1, 2015

Attention: Comments
Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: FDIC Notice of Proposed Rulemaking (RIN 3064–AE37)

Dear Mr. Feldman:

I am the president & CEO of Norway Savings Bank, which is located in Norway, ME. We have over $1 billion in assets and 24 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 reservations with the treatment of reciprocal deposits under the proposal. We find reciprocal deposits to be an important source of stable funding. In effect, the FDIC proposal would impose a new tax on reciprocal deposits – a tax that would punish the banks that use them.

The Federal Deposit Act specifically calls for a risk-based assessment system. That is to say, the premium assessments for each individual institution should reflect the specific and measurable risks of loss to the Deposit Insurance Fund (DIF) posed by the individual institution's assets and liabilities. Further, the proposal explicitly states that the intent of the proposed assessment system is to be based on a statistical model estimating the probability of failure over three years, a model that should incorporate data from the 2008 crisis. The proposal seems to ignore a data and fact driven process, as well as the proposal's own intent to incorporate the experience of the 2008 crisis. In short, the FDIC proposal gives no justification for imposing a tax on reciprocal deposits.

The tax would arise from a shift in the way the FDIC treats reciprocal deposits in the assessment formula. Under the current assessment formula, reciprocal deposits are excluded from the "adjusted brokered deposit ratio," which increases assessments for banks that rely on brokered deposits. The proposed assessment system would no longer exclude reciprocal deposits from the definition of brokered deposits, thus making the assessment on banks that use reciprocal deposits higher than it otherwise would be. That change in treatment would be a change in policy.

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."

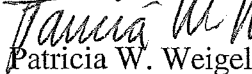
That recognition was based on the characteristics of reciprocal deposits that they share with core deposits. Reciprocal deposits typically come from a bank's local customers. The customer relationship typically includes other services. Interest rates are based on local market conditions. The deposits add to a bank's franchise value. On the other hand, typical characteristics of traditional brokered deposits spark regulatory concerns: instability, risk of rapid asset growth, and high cost.

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.

Thank you for the opportunity to comment on this important notice of proposed rulemaking.

Sincerely,



Patricia W. Weigel
President & CEO

cc:
The Honorable Susan Collins, United States Senate
The Honorable Angus King, United States Senate
The Honorable Bruce Poliquin, United States House of Representatives
The Honorable Chellie Pingree, United States House of Representatives
The Honorable Martin J. Gruenberg, Federal Deposit Insurance Corporation