



WashingtonSM
Financial

September 2, 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:

We are writing regarding the above referenced 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 fact, nearly 13% of our total deposits are reciprocal. While we understand that the proposed change would not immediately impact us, in effect, the FDIC proposal would impose a new tax on reciprocal deposits – a tax that would penalize some banks that use them, and ultimately their customers.

As we understand it, 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 certain 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 some banks that use reciprocal deposits higher than it otherwise would be.



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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, which is certainly true in our case. The customer relationship typically includes other deposits and services, which is once again true for us. The deposits add to a bank’s franchise value and allow smaller banks to compete more effectively with large banks and non-banks.

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.”

Further, 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]).

We respectfully request that the FDIC 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. We



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believe that tools such as these, that help community banks survive, should not be subject to further regulatory burden.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink that reads "Brian Smith".

Brian Smith
President/CEO
Washington Financial Bank
190 North Main Street
Washington, PA 15301

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 Tim Murphy
2332 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