John R. Buran
President & Chief Executive Officer

220 RXR Plaza
Uniondale, New York 11556

August 26, 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:

Flushing 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. There are several areas we would like to comment on.

Flushing Bank is headquartered in Uniondale, NY. We have $5,359,964,000 in total assets with 18 branches. During the recent economic downturn, we remained profitable each quarter, and incurred loan losses below industry averages. We are part of a reciprocal placement network. Nearly 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."

Our first concern is with the treatment of reciprocal deposits. 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

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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.

Our second concern is with the loan mix and use of national charge-off ratios. We have maintained a loan portfolio that primarily focuses on commercial real estate mortgage loans, both multi-family residential and nonfarm nonresidential. Our underwriting standards were revised in 2009 and 2010. We continue to maintain these stricter underwriting standards. While we did have losses during the recent economic downturn, our loss rates were well below national averages. The proposal will require the use of the higher national loss averages, which penalizes banks such as ours that have properly managed their loan portfolio.

Our third concern is with the core deposit dependency. We manage our interest rate risk by obtaining certificates of deposits and FHLB borrowings with three to five year maturities. This matches the repricing of our loans. Since this reduces the ratio of core deposits to total assets, our insurance assessment increases. If we were to only fund with core deposits, our insurance assessment would be lower, but our interest rate risk would be extremely high. The proposed assessment would punish us for properly managing our interest rate risk. This does not appear to be a goal you should want.

The proposed assessment schedule, based on the issues discussed above, results in an increase in our deposit insurance assessment of over 28%. This is based on the calculator provided. It does not seem proper that a well-run profitable bank should incur an increase of this amount. We do not pose any risk to the deposit fund, but the new assessment schedule seems to indicate we pose a high risk. We believe the proposed ruling should be adjusted to address our concerns.

John R. Buran
President & Chief Executive Officer

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Thank you for the opportunity to comment on this proposal.

Sincerely,

John Buran
President & CEO

cc:

The Honorable Charles Schumer
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United States Senate
Washington, D.C. 20510

The Honorable Kirsten Gillibrand
478 Russell Senate Office Building
United States Senate
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The Honorable Kathleen Rice
1508 Longworth House Office Building
United States House of Representatives
Washington, D.C. 20515

The Honorable Martin J. Gruenberg
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