



# HOUGHTON STATE BANK

SINCE 1879

August 27, 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 Houghton State 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.

Houghton State Bank is headquartered in Red Oak, IA. On 6/30/2015 we had \$175,014,000 of assets and 5 branches. We are part of a reciprocal placement network. On 6/30/2015 more than 9% of our total deposits were 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.

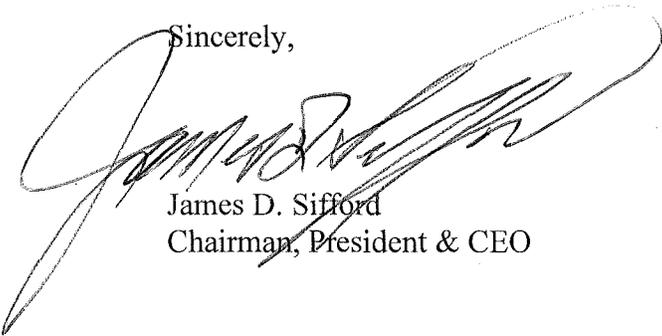
In the proposal, the FDIC gives no justification for this shift, which would result in reciprocal deposits being treated like any other form of brokered deposit or wholesale funding. It simply and arbitrarily lumps reciprocal deposits in with traditional brokered deposits. In doing so, it would penalize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

Thank you for the opportunity to comment on this proposal.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read 'James D. Sifford', is written over the typed name and title.

James D. Sifford  
Chairman, President & CEO

cc:

The Honorable Charles Grassley  
135 Hart Senate Office Building  
United States Senate  
Washington, D.C. 20510

The Honorable Joni Ernst  
111 Russell Senate Office Building  
United States Senate  
Washington, D.C. 20510

The Honorable David Young  
515 Cannon 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  
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