

August 17, 2015

**FDIC**

AUG 24 2015

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

**OFFICE OF THE CHAIRMAN**

Re: Federal Deposit Insurance Corporation Notice of Proposed Rulemaking (RIN 3064-AE37)

Dear Mr. Feldman:

Farmers and Merchants Trust Company of Chambersburg (F&M) 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.

F&M is headquartered in Chambersburg, PA. We have \$1 billion in assets and 22 community offices in 4 counties of south central PA. F&M is part of a reciprocal placement network and has nearly \$150 million (15%) of its total deposits placed in this reciprocal network. All of these deposits have been generated from our customer base within our market area. F&M has found the reciprocal placement network to be an important tool in obtaining and keeping deposits in our local market.

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 fact, all of F&M's reciprocal deposits come from local customers. As a result, this product enhances our ability to develop long term relationships that include multiple services. Therefore, we believe that reciprocal deposits do not present any of the concerns that traditional brokered deposits do, such as: instability, risk of rapid asset growth, and high cost. In fact, since these deposit accounts are, for all intents and purposes core deposit accounts, they add value to the F&M franchise.

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. This change would essentially result in core deposits, generated in-market from our customer base, being classified as brokered deposits. This would be a dramatic misrepresentation of the nature of these 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.

Because of the reasons presented, we believe it is in the best interest of F&M and all community banks to 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 handwritten signature in black ink that reads "Mark R. Hollar". The signature is written in a cursive style with a large initial "M".

Mark R. Hollar  
Chief Financial Officer

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 Bill Shuster  
2268 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  
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