Kansas Bankers Association

September 8, 2015

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

Re: Proposed Rule on Assessments; RIN 3064-AE37

Dear Mr. Feldman:

Thank you for the opportunity to provide comments concerning the above-named proposal. The Kansas Bankers Association (KBA) is a non-profit organization, which represents 99% of the financial institutions in Kansas. Kansas is home to many community banks. There are 320 commercial banks and thrifts in Kansas, ranging in asset size from $3.7 Million to $9.1 Billion. The average asset size is $185 million; however, 56% of all Kansas chartered institutions have less than $100 million in assets. Nearly one-third of all Kansas institutions have 15 employees or fewer, and they serve many communities – large and some very small – across the state.

We would like to first, make some general observations about the proposal, and then focus specifically on the issue of reciprocal deposits and their exclusion from being considered brokered deposits.

While we appreciate the efforts to delve deep into the assessment formula and find the magic silver bullet to prevent bank failures in the future (we have hoped to find this same bullet for our members), we are not convinced that any mathematical formula based on items pulled from a Call Report will be an accurate gauge of the condition of a bank – or predict the potential for it to fail in the future. We agree with others who tout the CAMELS ratings as being the most accurate picture of a bank's risk. Bank examiners assign these ratings based on a thorough consideration of the individual bank during each examination. They are the most familiar with the workings of each bank and so we believe the CAMELS rating should be given the most weight in any assessment formula.

We are also concerned that the elevation of weighting for the tier 1 leverage ratio would penalize those banks who are "well-capitalized" but who do not hold much capital above that standard. We do not believe the assessment formula should affect a bank's decision to put its capital to work in making loans when the bank maintains the Interagency standard of being "well-capitalized". We would urge you to keep the weighting in line with the current formula.

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We all acknowledge that the economy is cyclic and fairly unpredictable. The booms and the busts of the past have occurred due to a variety of factors. Certainly, the industries that were hit hard in the recession of the 1980s (oil and gas and agriculture), were left virtually unscathed by the most recent recession. We are concerned that the proposed loan portfolio distribution factor is narrowly focused and will be of little use in forecasting bank failures of the future. It could potentially encourage lending in concentrated loan categories – which is undoubtedly not the intended effect. We would urge you to reconsider this factor in the formula.

Many of our member banks have found reciprocal deposit networks to be a valuable solution in keeping local deposits "local" through maintaining the relationship with customers whose deposits grow beyond FDIC insurance. It is especially a meaningful tool for banks in smaller communities, where older customers have amassed some wealth, and wish to continue to support the community by supporting their local institution.

We recognize that the very broad definition of "brokered deposit" under the Federal Deposit Act is problematic; however, this same act calls for a risk-based system that calculates an institution's assessment based on the institution's probability of causing a loss to the Deposit Insurance Fund due to the composition and concentration of the institution's assets and liabilities. Focusing on the role of these deposits in assessing bank risk of loss to the insurance fund, we would argue that reciprocal deposits share more characteristics with core deposits than they share with other typical brokered deposits. They should not be included as a brokered deposit for assessment purposes. As described above, these deposits are the result of an institution's relationship with long-term, local customers. The interest rate is set by the bank based on the bank's local market, and so do not have a significantly higher cost than core deposits. Because there is an exchange, reciprocal deposits are more stable and could not be used to fund rapid asset growth as could traditional brokered deposits.

We are concerned that making this change could discourage the use of reciprocal deposit networks, leaving many bank customers without an option of keeping their monies insured with the local institution. We urge you to reconsider this proposed change, and maintain the current formula for excluding reciprocal deposits from being considered brokered deposits for assessment purposes.

In conclusion, we simply ask that you reconsider changing the current formula for assessments. There is no harm in examining history and attempting to prevent failures of the past from repeating themselves. Much change in this industry has already occurred as a result of the recent recession. We are asking whether changing the assessment formula will truly make a difference in the unpredictable, foreseeable future. Thank you for your time and attention to our comments.

Best regards,

Charles A. Stones
President

Kathleen A. Taylor
SVP-General Counsel