



11 September 2015

Submitted via Email: comments@fdic.gov

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 (“the Notice”)

Dear Mr. Feldman:

On behalf of the FDIC-insured depositories in the state of Ohio, the Ohio Bankers League (OBL) respectfully submits this comment letter on the Federal Deposit Insurance Corporation’s (FDIC) proposal to revise premium assessments for the banks under \$10 billion in assets.

The OBL counts nearly 200 of the approximately 230 banks and thrifts with a physical presence in Ohio as members. Many of these rely on reciprocal deposits as a stable source of cost-effective funding. It has proven to be a valued and efficient system for supporting lending in communities across the Buckeye State. Some OBL members have expressed deep concern regarding how reciprocal deposits would be treated under the proposed deposit insurance assessment system. This is a very important issue for them, as well as for community banking as a whole. After analyzing the proposal, the OBL has concluded that the FDIC should continue to treat reciprocal deposits as it does under the current system, which is to say excluding reciprocal deposits from the category of brokered deposits for assessment purposes.

If the proposal were to go into effect as written, reciprocal deposits would be treated as brokered and banks holding reciprocal deposits would have to pay premiums higher than would otherwise be the case. In other words, they would be subject to a significant new tax. We do not understand why the FDIC is proposing this change in direction.

Just as with the current system, the new system is required by law to be risk-based. In other words, premium assessments for each individual institution are supposed to reflect the specific and measurable risks of loss to the Deposit Insurance Fund (DIF) posed by the bank's assets and liabilities. The key question, therefore, is whether reciprocal deposits do in fact increase an institution's risk profile. We do not believe that anywhere in the proposal does the FDIC present any empirical data or analysis that they do. With no explanation or justification, the agency simply proposes treating reciprocal deposits in the same way as traditional brokered deposit. We are not aware of data that show reciprocal deposits increase the risk of loss to the DIF. On the contrary, the studies that have been conducted on the issue conclude that reciprocal deposits have either no effect or a salutary effect on the probability of bank failure – and for good reasons.

Reciprocal deposits share three characteristics that define core deposits. One, reciprocal deposits are overwhelmingly gathered within a bank's geographic footprint through established customer relationships. Two, they have a high reinvestment rate. Three, banks set their own interest rates on reciprocal deposits, rates that reflect a bank's funding needs and local market. Because reciprocal deposits are built on established local customer relationships, are highly "sticky," and are insulated from rate volatility, they are the functional equivalent of a core deposit and they do not increase an institution's risk profile beyond what any core deposit would. The current assessment system in fact recognizes 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." The proposed system would not.

In addition, we believe that not only would the FDIC's assessment proposal unfairly penalize banks that hold reciprocal deposits with a new tax, but further it would also unfairly stigmatize reciprocal deposits as a class. The stated purpose of the proposal is to more accurately match the perceived risk to the DIF of certain banking practices with a premium that better reflects that perceived risk. Clearly, the FDIC perceives traditional brokered deposits, at least in some circumstances, to be of greater risk than core deposits, and is thus trying to discourage significant reliance on traditional brokered deposits. Bankers, of course, understand the FDIC's intent. By lumping reciprocal deposits in with traditional brokered deposits, however, the proposal would also discourage bankers from holding reciprocal deposits. We would hope that is not an intended result.

In conclusion, the OBL respectfully requests that the FDIC continue to exempt reciprocal deposits from the definition of brokered deposits in its proposed assessment rule. Furthermore, we respectfully urge the FDIC to support exempting reciprocal deposits from the definition of

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brokered deposits in the Federal Deposit Insurance Act, in part to eliminate the possibility that reciprocal deposits might become unintended collateral damage in future regulatory efforts to discourage the use of traditional brokered deposits.

Sincerely,

A handwritten signature in blue ink, appearing to read 'M. Adelman', is centered on a light gray rectangular background.

Michael J. Adelman
President & CEO

Cc:

The Honorable Senator Sherrod Brown
The Honorable Rob Portman
The Honorable Joyce Beatty
The Honorable Steve Stivers

Chairman Martin J. Gruenberg, FDIC