Washington Trust Bank

Peter F. Stanton
Chairman and
Chief Executive Officer

September 10, 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:

My name is Peter Stanton and I am the Chairman & CEO of Washington Trust Bank, which has $4.8 billion in assets and 43 branches. We are headquartered in Spokane, WA. On July 13, 2015, the Federal Deposit Insurance Corporation (FDIC) issued a Notice of Proposed Rulemaking (the "Notice") proposing significant changes to its deposit insurance assessment regulation for small banks, which are defined as banks with less than $10 billion in assets. The Notice invites interested parties to submit comments and, on behalf of Washington Trust Bank, we welcome the opportunity to provide our views. We have held as much as $40 million in reciprocal deposits, which we have found to be an important service to our customers and a valuable source of funding. We are concerned that the proposal, unlike the current assessment formula, fails to differentiate reciprocal deposits from traditional brokered deposits. I believe the result would mischaracterize the nature and risk profile of reciprocal deposits by grouping them with brokered deposits, which would have adverse implications for our funding strategies and also our cost of funds.

Reciprocal deposits are, typically, much more like core deposits than they are like traditional brokered deposits. Characteristically, reciprocal deposits come from local, long-term customers. Customer relationships typically include other services. Reciprocal deposits pay local market rates of interest. They are stable – deposits do not flow from bank to bank chasing interest rates. Because they are stable, reciprocal deposits mitigate risk, as opposed to a funding strategy reliant on brokered CD's. They can be some of the most valuable deposits from a bank's most valuable, large-dollar relationships. In short, reciprocal deposits provide a stable and cost-effective source of funds that we need to serve the credit needs of our community.

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Most traditional brokered deposits are, in contrast, "hot money." Deposits are placed in banks by brokers, not local customers with whom we typically have a long-standing financial relationship. High interest rates are offered through the brokers to attract deposits from outside the bank's home market. Historically, these deposits sometimes fueled rapid growth in loans. Because the deposits run off when higher rates are offered elsewhere, they do not contribute to a bank's franchise value.

The FDIC has long recognized that reciprocal deposits do not present the concerns that traditional brokered deposits do: instability, high cost, and risk of rapid asset growth.

The current assessment formula for small banks takes the characteristics of reciprocal deposits into account and, as a result, treats reciprocal deposits fairly. When it approved the current system in 2009, the agency said: "The FDIC 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."

Further, in its Dodd-Frank Act mandated study on brokered deposits published in 2011, the FDIC said with respect to brokered deposits: "While the brokered deposit statute does not distinguish between [reciprocal deposits] and other brokered deposits, supervisors and the assessment system do. The FDIC has recognized for some time in the examination process that reciprocal deposits may be more stable than other brokered deposits if the originating institution has developed a relationship with the depositor and the interest rate is not above market."

Lastly, within the past year, the FDIC, along with the Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System, recognized that: "Reciprocal brokered deposits generally have been observed to be more stable than typical brokered deposits because each institution within the deposit placement network typically has an established relationship with the retail customer or counterparty making the initial over-the-insurance-limit deposit that necessitates placing the deposit through the network." (79 Fed. Reg. 61440, 61493 [Oct. 10, 2014]).

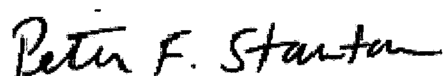
However, in contrast to the current assessment formula, the proposed assessment system would no longer exclude reciprocal deposits from the definition of brokered deposits. Reciprocal deposits would be treated like any other form of brokered deposit or wholesale funding, thus resulting in a higher assessment than would otherwise be the case. The higher assessment would diminish our earning power and reduce our ability to accrete capital, which provides strength to the bank and a foundation from which we can continue to serve our customer's financial needs.

For the above reasons, we strongly believe the FDIC should continue to exclude reciprocal deposits from "brokered" for deposit insurance assessment purposes.

Further, we call upon the FDIC to support legislation to explicitly exempt reciprocal deposits from the definition of brokered deposit in the Federal Deposit Insurance Act so that, once and for all, reciprocal deposits are accurately categorized as the stable source of funding that they are.

We appreciate the opportunity to comment on this proposal.

Sincerely,



Peter Stanton
Chairman & CEO

cc:
The Honorable Patty Murray
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The Honorable Maria Cantwell
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The Honorable Cathy McMorris Rodgers
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The Honorable Martin J. Gruenberg, Chairman
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