OKLAHOMA BANKERS ASSOCIATION

We make bankers better!

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September 11, 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 ("the Notice")

Dear Mr. Feldman:

I write on behalf of the members of the Oklahoma Bankers Association in response to the agency's Notice of Proposed Rulemaking (NPR) proposing changes to its deposit insurance assessment regulation for small banks. Of the 215 FDIC-insured institutions in our state at June 30, 104 offer reciprocal deposits to their customers. These banks rely on reciprocal deposits as a stable source of cost-effective funding.

Many of our 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 banks across the country. After reviewing the proposal, we believe the FDIC should continue to treat reciprocal deposits as it does under the current system – excluding such deposits from the category of "brokered deposits" for assessment purposes.

Our rationale is fairly direct: If the proposal were to go into effect as written, reciprocal deposits would be treated as brokered and 104 Oklahoma banks holding reciprocal deposits would have to pay premiums higher than would otherwise be the case. This additional premium would be akin to a significant new tax, one that would put them at a competitive disadvantage in their markets. We do not understand why the FDIC is proposing this change in direction.

Like the current system, the new system is required 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 have not seen any empirical data or other evidence that they do. With no explanation or justification, the agency simply proposes treating reciprocal deposits in the same way as traditional brokered deposits and we simply do not understand the rationale.

We believe the data shows that reciprocal deposits do not increase the risk of loss to the DIF. On the contrary, the studies that we have seen 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:

1. Reciprocal deposits are overwhelmingly gathered within a bank's geographic footprint through established customer relationships.
2. Such deposits have a high reinvestment rate.
3. Banks set their own interest rates on reciprocal deposits, rates that reflect a bank's funding needs and its local market.

Because reciprocal deposits are built on established local customer relationships, they have proven to be highly "sticky," and insulated from rate volatility. We believe the evidence is that such deposits are the functional equivalent of a core deposit and do not increase an institution's risk profile.

We believe 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, not only would the FDIC's assessment proposal unfairly penalize banks that hold reciprocal deposits with a new anti-competitive assessment or "tax," 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. We understand that. But by lumping reciprocal deposits in with traditional brokered deposits the proposal would also discourage bankers from holding reciprocal deposits. We believe that result would be counterproductive to risk management efforts and traditional customer service offered by community banks.

We join with many other commentators in asking that the FDIC exempt reciprocal deposits from the definition of "brokered deposits" in its proposed assessment rule. Furthermore, we respectfully ask the FDIC to support exempting reciprocal deposits from the definition of "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,

Roger M. Beverage

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