BUSINESS BANK
OF TEXAS, N.A.

August 28, 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:

Business Bank of Texas, N.A. is headquartered in Austin, Texas. We are a business oriented bank, serving the credit, deposit and transaction needs of the business community and local government. We have $122,149,000 in assets all in our one location. We are part of a reciprocal deposit placement network. We have found reciprocal deposits to be an important source of funding.

We welcome 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. In particular, we would like to comment on how this proposal would affect reciprocal deposits.

In short, we strongly urge the FDIC to continue to separate the treatment of reciprocal deposits from that of traditional brokered deposits in setting assessments. Reciprocal deposits are stable sources of core funding that do not present the risks and other characteristics of traditional brokered deposits. The separate treatment of reciprocal deposits from that of traditional brokered deposits in the current assessment system recognizes the differences between the two types of deposits. Reciprocal deposits are not just another form of wholesale funding and should not be treated as such.

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." Nothing has changed since then. Traditional brokered deposits are "hot"; reciprocal deposits are not. In fact, our use of reciprocal deposits has improved the bank's liquidity position and reduced our overall risk. We no longer have to tie up our securities portfolio by pledging our bonds to public funds depositors or by securing repurchase agreements with our large commercial borrowers.

For our commercial depositors, their alternative to deposit insurance through reciprocal deposits would be to put their money into one of the large Systemically Important Financial Institutions (SIFI). The precedent set by the failure of Continental Illinois Bank in 1984, that large banks and their uninsured depositors will be bailed out, continues to this day. Only the depositors of small banks are at risk of loss of their uninsured deposits if a failure occurs. Reciprocal deposits even the playing field for smaller banks. In this way, they can reduce systemic risks by reducing the over-concentration of deposits in the SIFIs.

For our local government entity depositors in Texas, where reciprocal deposits are a permitted investment, reciprocal deposits keep their funds in state and in their local regions and communities where they are used to fund lending and investment to support local economies.

Further, as the FDIC's proposal itself points out, the premium assessment for an institution is supposed to reflect the risks posed by its assets and liabilities. Those risks must be specific and should be measurable.

Reciprocal deposits do not present any of the risks and concerns that traditional brokered deposits do: instability, risk of rapid asset growth, and high cost. On the contrary, our reciprocal deposits come from local customers. We typically have a relationship with our customers that goes far beyond merely accepting their deposits. We set reciprocal deposit interest rates based on local rates and consistent with the bank's overall business strategy. Our experience is that reciprocal deposits "stick" with the bank. For all these reasons, they add to our bank's franchise value.

The FDIC in its proposal gives no justification for treating reciprocal deposits like traditional brokered deposit: no facts, no figures, no analysis. Rather, it arbitrarily lumps the two together. In doing so, it would penalize banks that use them by, in effect, taxing them. Such a tax would be unnecessary and unfair. The FDIC's proposal would punish our bank for using one of the few tools we have to compete against the mega-banks doing business in our area.

Again, we strongly urge you to retain the current system's exclusion of reciprocal deposits from the definition of "brokered" for assessment purposes.

So that we do not have to revisit this issue later, we also strongly urge the FDIC to support legislation to explicitly exempt reciprocal deposits from the definition of brokered deposit in the Federal Deposit Insurance Act.

Sincerely,

D J Kolly

Dwayne Kolly
Chief Financial Officer

cc:

The Honorable John Cornyn
517 Hart Senate Office Building
United States Senate
Washington, D.C. 20510

The Honorable Ted Cruz
404 Russell Senate Office Building
United States Senate
Washington, D.C. 20510

The Honorable Michael McCaul
131 Cannon House Office Building
United States House of Representatives
Washington, D.C. 20515

The Honorable Martin J. Gruenberg
Chairman
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