



The Voice of Minority Banking Since 1927

September 4, 2014

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:

The members of the National Bankers Association (NBA) come from the nation's 177 minority- and women-owned banks. We are located in 60 cities across the country. We welcome the opportunity to comment on the Federal Deposit Insurance Corporation (FDIC) Notice of Proposed Rulemaking (NPR) on insurance assessments for small banks, and particularly on the impact this proposal would have on NBA member banks holding reciprocal deposits. About half of our members hold reciprocal deposits. As a group, reciprocal deposits represent about 10% of their total deposits. For some of our members, reciprocal deposits account for a third or more of their total deposits. There is a good reason why this is the case.

With few exceptions, our member banks serve distressed communities suffering from social and economic problems. Often, the communities we serve have little or no access to other providers of financial services. Our member banks are deeply committed to providing employment opportunities, entrepreneurial capital, and economic revitalization in those communities.

To fund loans to small businesses, households, and others in our communities, we need deposits. Understandably, in distressed communities deposits are often difficult to attract. Many of our members also raise deposits from socially-motivated investors who are willing to deposit large amounts of funds in our banks if they know that the funds are insured by Federal deposit insurance. Reciprocal deposits are a way to provide such insurance beyond the standard \$250,000 coverage. The reciprocal deposit system allows our banks to safely exchange those portions of one of these large deposits above the insurance limit with other banks so that our investor has full insurance and we maintain the total amount of the deposit.

In short, reciprocal deposits are an important source of stable funding for many of our banks and play a critical role in their business strategy.

The FDIC's small bank assessment proposal would lump reciprocal deposits with traditional brokered deposits and treat them in the same way, despite the fact that reciprocal deposits, do not present the risks and regulatory concerns that traditional brokered deposits do: instability, high cost, and risk of rapid asset growth.

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The result would be that banks holding reciprocal deposits would pay higher FDIC insurance premiums than would otherwise be the case.

In other words, the proposal would impose a significant tax on banks that use reciprocal deposits, a tax that would hit Minority-owned banks and Community Development Banks the hardest because we rely on reciprocal deposits much more than other community banks do – more than four times as much, in fact.

Further, because of our social mission, we put reciprocal deposits to work in our communities as loans that launch and support local businesses, improve housing, and create jobs. If this tax is imposed as proposed, it will not only affect Minority-owned banks disproportionately, the communities we serve will suffer from decreased credit opportunities.

The proposal provides no data and gives no reason why reciprocal deposits should bear a tax burden – it simply, and arbitrarily, imposes it.

The current formula takes the nature of reciprocal deposits into account in setting assessments for small banks, recognizing that reciprocal deposits can provide banks with a stable source of funds. This recognition and treatment are absent in the FDIC's proposal.

We encourage you to revise the proposal so that it reflects the current treatment of reciprocal deposits.

Further, we strongly urge the FDIC to support legislation explicitly exempting reciprocal deposits from the definition of brokered deposits in the Federal Deposit Insurance Act, which would settle any uncertainty as to their status.

Sincerely,



Michael Grant
President

cc:

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