

September 10, 2015

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: **FDIC Notice of Proposed Rulemaking - RIN 3064-AE37**

Dear Mr. Feldman:

The Illinois Bankers Association (“IBA”)¹ is respectfully submitting our comments on the FDIC’s Notice of Proposed Rulemaking concerning deposit insurance assessments for banks under \$10 billion in assets (“small banks”), and specifically, regarding how it would treat reciprocal deposits.

Of the 510 FDIC-insured institutions headquartered in Illinois, 174 of them offer reciprocal deposits to their customers and rely on those deposits as a stable source of safe, cost-effective funding. Many of these banks have expressed concerns as to how reciprocal deposits would be treated under the proposed deposit insurance assessment system.

We urge the FDIC to continue treating reciprocal deposits as it does under the current system, in which they are excluded from the category of brokered deposits for assessment purposes. If reciprocal deposits were to be treated as brokered deposits, banks holding those deposits would pay premiums significantly higher than they do today, even though such deposits serve primarily high-balance, core customers who generally do not raise an institution’s risk profile.

Nowhere in the proposal does the FDIC present any data that reciprocal deposits are considered high risk. In fact, reciprocal deposits share three characteristics that define core deposits. They are overwhelmingly gathered within a bank’s geographic footprint through established customer relationships, they have a high reinvestment rate, and banks set their own interest rates on reciprocal deposits based on each bank’s funding needs and their local markets.

In addition, not only would the FDIC’s assessment proposal unfairly penalize banks that hold reciprocal deposits, it also would unfairly stigmatize reciprocal deposits as a class. The stated purpose of the proposal is to more accurately match the perceived risk to the Deposit Insurance Fund (“DIF”) of certain banking practices with a premium that better reflects their perceived risks. The proposed rule would unjustifiably enhance the perception of risk for reciprocal deposits.

¹ The Illinois Bankers Association is a full-service trade association dedicated to creating a positive business climate that benefits the entire banking industry and the communities we serve. Founded in 1891, the IBA brings together state and national banks and savings banks of all sizes in Illinois. Two-thirds of all IBA members are community banks with less than \$250 million in assets, while collectively the IBA represents nearly 90 percent of the assets of the Illinois banking industry, which holds more than \$340 billion in deposits, extends more than \$225 billion in consumer and business loans, and employs more than 100,000 men and women in over 5,000 offices across the state.

Robert E. Feldman
Federal Deposit Insurance Corporation
Page 2

The FDIC's proposal would signal to bank customers that there is greater risk with reciprocal deposits, which is just not the case. Even in the near worst-case economic scenario of the past few years, it does not appear that multiple bank failures caused any significant increase in costs to the DIF as a result of holding reciprocal deposits.

By having the ability to use reciprocal deposits, Illinois banks and their customers and communities all benefit. Banks are able to attract and maintain strong customer relationships by offering them more attractive products together with access to FDIC coverage beyond the standard limits, while keeping the full amount of the deposit on their balance sheets. Customers – particularly larger customers – are able to maintain a stable relationship with a single financial institution, negotiate more favorable rates, and enjoy the ease of having all of their accounts managed under one roof. And simply put, their communities benefit because banks are able to invest these deposits locally to foster local businesses, home ownership, and education.

Accordingly, the IBA respectfully requests that the FDIC exempt reciprocal deposits from the definition of brokered deposits in its proposed assessment rule.

Sincerely,



Linda Koch
President & CEO

cc: The Honorable Martin J. Gruenberg
U.S. Senator Richard J. Durbin
U.S. Senator Mark S. Kirk
U.S. Congressman Randy Hultgren
U.S. Congressman Bill Foster