

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:

On behalf of the Community Development Bankers Association (CDBA), our member institutions, and our communities, we write to comment on the Federal Deposit Insurance Corporation (FDIC) Notice of Proposed Rulemaking, RIN 3064-AE37. This proposal would establish a new system of insurance premium assessments for small banks, defined as banks with less than \$10 billion in assets. Part of the proposal would change how reciprocal deposits are treated for assessment purposes. *Unfortunately, that change would have a disproportionate and significantly negative effect on funding at many banks that are Community Development Financial Institutions (a.k.a. CDFI banks), which, in turn, would impact the communities and people throughout the United States that we serve.*

We strongly urge the FDIC to continue to treat reciprocal deposits in the way it does under the current small bank assessment system. We also urge the FDIC to support exempting reciprocal deposits from the definition of brokered deposits in the Federal Deposit Insurance Act.

WHO WE ARE

The Community Development Bankers Association (CDBA) represents Federal and state chartered banks and thrifts that are CDFI certified. Our members serve as engines of economic inclusion throughout the United States. We share a common mission of improving communities and lives. All of our 55 members are certified by the U.S. Treasury Department's Community Development Financial Institutions (CDFI) Fund as targeting 60 percent or more of our total financing to low income communities and people.

CDFI banks make a difference – perhaps the difference – in the lives of hundreds of thousands of people in the communities we serve. Our members are often the only source of credit and financial services in these communities. We make loans to build and renovate housing so that people have a decent and affordable place to live. Our housing lending, in turn, sparks revitalization of neighborhoods. We make loans to small businesses so that people will have jobs. The businesses we lend to act as magnets that draw other businesses into the community.

Our lending has a ripple effect throughout the community far beyond our direct customers, changing a community's dynamic.

RECIPROCAL DEPOSITS ARE DIFFERENT FROM BROKERED DEPOSITS

CDBA members serve our nation's most distressed and credit starved communities. We operate in places with modest discretionary income and insufficient means to raise deposits to meet the demand for credit. As an integral part of our strategy, we raise deposits from civic-minded and socially-motivated individuals and institutions. Our experience demonstrates that investors are willing to invest much larger deposits in a CDFI banks if they are assured those deposits are secured. Reciprocal deposits provide that assurance.

Without access to large institutional deposits, many of our loans could not be made. In communities we serve, half a billion dollars in deposits is a tremendous resource. Today, our members hold \$600 million in reciprocal deposits. The vast majority of these deposits are made by local customers who want to invest in their communities -- rather than seek the highest available return. For some of our members, reciprocal deposits account for 30 percent or more of their total deposits. Without reciprocal deposits as a magnet for attracting socially-motivated investors, we will not be able to originate loans at a scale sufficient to have a positive social impact. We urge the FDIC to ensure that reciprocal deposits can continue to play this critical role.

Reciprocal deposits made within CDFI banks should not be considered "hot money" because our reciprocal deposits share the same characteristics as our core deposits and we experience a very high reinvestment rate. Interest rates are set by the bank based on local, not national, market conditions. Reciprocal deposits are generally local; nationwide, 80 percent of reciprocal deposits are from customers located within 25 miles of the bank. Moreover, our reciprocal deposit customers are socially-motivated institutions, including state and municipal governments, foundations, local businesses, educational institutions, churches, nonprofits, financial institutions and others who choose to invest with their values by placing capital in a bank that will use it to serve their local community and neighborhoods that need capital. Among customers whose reciprocal deposit is the first engagement with our banks, we are often able to engage with other bank products and cultivate a stronger commitment to our mission and activities.

Reciprocal deposits simply do not present the regulatory concerns - such as instability, high cost, and the risk of rapid asset growth - that traditional brokered deposits do. Rather, in the case of CDFI banks, reciprocal deposits offer a real opportunity to strengthen and deepen our relationships with civic minded institutions that are also committed to their local communities.

THE FDIC PROPOSAL

The FDIC's current small bank assessment formula, in effect since 2009, recognizes that reciprocal deposits share the characteristics of core deposits discussed above. The FDIC's new proposal, on the other hand, would treat reciprocal deposits like any other form of brokered deposits or wholesale funding. The proposal fails to account for the characteristics of reciprocal deposits or the benefits they offer banks such as ours. While the current formula gives positive weight to reciprocal deposits, the proposal would penalize banks that hold them. The result:

under the proposed formula, banks holding reciprocal deposits would pay a higher insurance premium assessment than would otherwise be the case.

As a group, CDFI banks – as well as Minority-owned banks – rely on reciprocal deposits at least four times as much as other community banks do. The proposal, therefore, would hit us the hardest. In fact, the proposed assessment would result in an annual increased assessment of more than \$600,000 on CDFI institutions alone than would otherwise be the case.

Furthermore, by lumping reciprocal deposits into brokered deposits, the proposal will likely stigmatize such deposits in the eyes of our investors, from whom we seek capital. That will make funding loans at CDFI banks all the more difficult. As long as reciprocal deposits are not differentiated from the more volatile and costly “hot money,” we will have a problem. The communities we serve and the people who live in them will suffer reduced credit opportunities.

RECIPROCAL DEPOSITS ARE IMPORTANT TO OUR COMMUNITIES

Our collective goal is to help people help themselves. Reciprocal deposits have enabled us to increase lending and better achieve our collective missions. They allow us to underwrite loans for affordable housing, small business, and community projects, including charter schools, day care centers, community health clinics, neighborhood revitalization projects, and other facilities that provide critical community services. We strongly believe that reciprocal deposits are an invaluable tool to help CDFI banks meet the needs of their communities.

Please help us help our communities. We strongly urge the FDIC to retain the current small bank assessment system’s treatment of reciprocal deposits. Specifically, we urge you to continue to separate reciprocal deposits from traditional brokered deposits and recognize the core deposit characteristics of reciprocal deposits and their benefits. We also strongly urge the FDIC to support exempting reciprocal deposits from the definition of brokered deposits in the Federal Deposit Insurance Act.

If you have any questions, please feel free to contact Jeannine Jacokes (Chief Executive Officer) at 202-689-2635 ext 222.

Sincerely,

The Membership of the Community Development Bankers Association

ABC Bank (Chicago, IL)
Albina Community Bank (Portland, OR)
Bank2 (Oklahoma City, OK)
BankFirst Financial Services (Macon, MS)
Bank of Anguilla (Anguilla, MS)
Bank of Commerce (Greenwood, MS)
Bank of Kilmichael (Kilmichael, MS)
Bank of Montgomery (Montgomery, LA)
Bank of Vernon (Vernon, AL)
BankPlus (Ridgeland, MS)

Beneficial State Bank (Oakland, CA)
Broadway Federal Bank (Los Angeles, CA)
Carver Federal Savings Bank (New York, NY)
Carver State Bank (Savannah, GA)
Central Bank of Kansas City (Kansas City, MO)
Citizens National Bank (Meridian, MS)
City First Bank of DC (Washington, DC)
City National Bank of New Jersey (Newark, NJ)
Community Bancshares of Mississippi (Brandon, MS)
Community Bank of the Bay (Oakland, CA)
Farmers & Merchants Bank (Baldwyn, MS)
Finance and Thrift (Porterville, CA)
First American International Bank (Brooklyn, NY)
First Eagle Bank (Chicago, IL)
First Independence Bank (Detroit, MI)
First Security Bank (Batesville, MS)
First SouthWest Bank (Alamosa, CO)
Guaranty Bank and Trust Company (Belzoni, MS)
Illinois Service Federal Savings and Loan Association (Chicago, IL)
Industrial Bank (Washington, DC)
International Bank of Chicago (Stone Park, IL)
Mechanics and Farmers Bank (Durham, NC)
Merchants and Planters Bank (Raymond, MS)
Metro Bank (Louisville, KY)
Mission Valley Bank (Sun Valley, CA)
Native American Bank (Denver, CO)
Neighborhood National Bank (National City, CA)
NOAH Bank (Elkins Park, PA)
OneUnited Bank (Boston, MA)
Oxford University Bank (Oxford, MS)
Pan American Bank (Chicago, IL)
Peoples Bank (Mendenhall, MS)
RiverHills Bank (Port Gibson, MS)
Security Federal Bank (Aiken, SC)
Southern Bancorp (Little Rock, AR)
Spring Bank (Bronx, NY)
Start Community Bank (New Haven, CT)
State Bank & Trust Company (Greenwood, MS)
Sunrise Banks (St. Paul, MN)
The Commercial Bank (DeKalb, MS)
The First, A National Banking Association (Hattiesburg, MS)
United Bank (Atmore, AL)
United Bank of Philadelphia (Philadelphia, PA)
Urban Partnership Bank (Chicago, IL)
Virginia Community Capital (Christiansburg, VA)

cc: The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th St., NW
Washington, DC 20429