



Butte State Bank

Member FDIC

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September 1, 2015

Mr. 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 Butte State Bank welcomes 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, which are defined as banks with assets of less than \$10 billion. In particular, we would like to comment on the impact of this proposal on reciprocal deposits.

Butte State Bank is a small community bank headquartered in rural Boyd County, Nebraska with assets of \$42,136,000 and two locations. We participate in a reciprocal placement network. We use reciprocal placement for the majority of our public funds as well as large individual and corporate depositors and have found reciprocal deposits to be an important product allowing the bank to deepen relationships with depositors. The use of reciprocal deposits for our institution plays a large role in our funds management planning and reduces the amount of securities required to be pledged to hold public funds.

As noted in the NPR, the Federal Deposit Act specifically calls for a risk-based assessment system "for calculating an insured depository institution's assessment based on the insured depository institution's probability of causing a loss to the DIF due to the composition and concentration of the IDI's assets and liabilities...." In short, the premium assessments for each individual institution are supposed to reflect the specific and measurable risks posed by its assets and liabilities.

The proposal also states that it would improve the current system "by incorporating newer data from the recent financial crisis" ... to ... "more accurately reflect risk."

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."

Boyd County's Full Service Bank

That recognition was based on the characteristics that reciprocal deposits share with core deposits, characteristics that traditional brokered deposits lack. In particular, reciprocal deposits typically come from a bank's local customers and the relationship the bank has with the customer is long term and includes multiple services. The bank sets the interest rate based on local market conditions. The deposits add to a bank's franchise value. Reciprocal deposits, therefore, do not present any of the concerns that traditional brokered deposits do: instability, risk of rapid asset growth, and high cost.

Specifically, under the current system, reciprocal deposits are excluded from the "adjusted brokered deposit ratio" which penalizes banks for reliance on brokered deposits. The proposed assessment system would no longer exclude reciprocal deposits from the definition of brokered deposits. It makes little sense for the FDIC to assess reciprocal deposits at a higher rate if a bank placing deposits in a reciprocal network could carry those deposits on its books be deemed a non-brokered deposit and thus be assessed using a lower rate. The proposal penalizes banks and depositors for being prudent in protecting deposits.

In the proposal, the FDIC gives no justification for this shift, which would result in reciprocal deposits being treated like any other form of brokered deposit or wholesale funding. It simply and arbitrarily lumps reciprocal deposits in with traditional brokered deposits. In doing so, it would penalize banks that use them by, in effect, taxing them.

A solution is simple: retain the current system's exclusion of reciprocal deposits from the definition of "brokered" for assessment purposes.

Further, we strongly urge the FDIC to support legislation to explicitly exempt reciprocal deposits from the definition of brokered deposit in the FDI Act.

Thank you for the opportunity to comment on this proposal.

Sincerely,



Craig G. Brewster
President

cc:

The Honorable Deb Fischer
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The Honorable Benjamin Sasse
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United States Senate
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The Honorable Adrian Smith
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The Honorable Martin J. Gruenberg
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