



"Always at your service"

24 Hour Telebank:
1-877-319-8627
www.waumandeebank.com

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:

Waumandee State Bank is a community bank headquartered in Waumandee, WI. We have \$168,168,000 in assets and 7 branches.

Over the years, we have found it harder and harder as a community bank to compete with large, national financial institutions. As a group, the very largest banks attract a growing percentage of the industry's deposits every year. We have found reciprocal deposits to be among the few tools available to community banks to enable us to compete effectively with them. Reciprocal deposits have accounted for more than 9% percent of our total deposits.

We welcome this opportunity to comment on the Federal Deposit Insurance Corporation (FDIC) Notice of Proposed Rulemaking (NPR) RIN 3064-AE37, which proposes changes to the FDIC's deposit insurance assessment regulation for small banks, that is to say banks with assets of less than \$10 billion. In short, the proposal would penalize small banks that use reciprocal deposits by, in effect, taxing them. Why does the FDIC propose this harsh treatment, treatment that is a complete reversal of current practice?

When the FDIC established the current small bank assessment formula system in 2009, it explicitly 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."

How?

It excluded reciprocal deposits from the "adjusted brokered deposit ratio" that increases assessments on banks that rely on traditional brokered deposits for funding. It recognized that reciprocal deposits differed from traditional brokered deposits in a number of ways. Traditional

Waumandee	Arcadia	Fountain City	Durand	Mondovi	Black River Falls	Whitehall
S2021 County Road U Waumandee, WI 54622 608-626-3131 Fax: 608-626-3441	350 S Nelson Drive Arcadia, WI 54612 608-323-3555 Fax: 608-323-3323	46 S Main Fountain City, WI 54629 608-687-9311 Fax: 608-687-9300	308 Third Ave West Durand, WI 54736 715-672-3375 Fax: 715-672-5280	600 E Main Street Mondovi, WI 54755 715-926-4263 Fax: 715-926-4294	203 Main Street Black River Falls, WI 54615 715-284-5321 Fax: 715-284-9563	18526 Scranton Street Whitehall, WI 54773 715-538-4389 Fax: 715-538-4380

brokered deposits are “hot money” that flow from bank to bank in search of the highest interest rates in a national market. In contrast, reciprocal deposits typically come from a bank’s local customers at local interest rates. We have found that once deposited the funds tend to stay in the bank; they are “sticky.”

The proposed assessment system would no longer exclude reciprocal deposits from the definition of brokered deposits. It would fold reciprocal deposits in with traditional brokered deposits and other wholesale funding. The proposal gives no reason for doing so. It does not argue that reciprocal deposits are as risky as traditional brokered deposits, nor does it show data that reciprocal deposits increase the risk of loss to the Deposit Insurance Fund (DIF).

Several post-crisis studies have, in fact, shown the opposite: reciprocal deposits did not increase risk of failure. Nor did they increase losses in the event of failure, as can collateralized funds.

It is easy to see why we as a community bank value reciprocal deposits. They enable us to retain our large-dollar depositors in the face of competition from the country’s largest banks. Why would the FDIC want to penalize us for using them without even giving a reason? Hundreds of community banks would feel the burden of the unjustified tax on a stable, nonvolatile source of funding.

Wholesale funds can adjust to the new assessments by simply shifting prices downward. Reciprocal deposits, with rates based on local markets, cannot. Faced with the new tax the proposal would impose, community banks will lose their safe, stable, large-dollar deposits to the largest banks that can attract the funds without providing deposit insurance.

We urge you to retain the current system’s exclusion of reciprocal deposits from the definition of “brokered” for assessment purposes.

Further, we strongly encourage the FDIC to support legislation to explicitly exempt reciprocal deposits from the statutory definition of brokered deposit as well.

Sincerely,

A handwritten signature in black ink, appearing to read "Herbert L. Lallemond", with a stylized flourish at the end.

Herbert L Lallemond
President & CEO
NMLS # 690142
Waumandee State Bank
NMLS # 401935

cc:

The Honorable Ron Johnson
328 Hart Senate Office Building
United States Senate
Washington, D.C. 20510

The Honorable Tammy Baldwin
717 Hart
United States Senate
Washington, D.C. 20510

The Honorable Ron Kind
1502 Longworth House Office Building
United States House of Representatives
Washington, D.C. 20515

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