

A Proposal to Foster Economic Growth
Submitted by the National Bankers Association
And the Independent Community Bankers of America

April 14, 2017

The Honorable Mike Crapo
Chairman
Senate Committee on Banking, Housing
and Urban Affairs
534 Dirksen Senate Office Building
Washington, DC 2010

The Honorable Sherrod Brown
Ranking Member
Senate Committee on Banking, Housing
and Urban Affairs
534 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Crapo and Ranking Member Brown,

On behalf of our members, the National Bankers Association (NBA) and the Independent Community Bankers of America (ICBA) respectively submit this response to the Committee's March 20, 2017 call for legislative proposals to create economic growth.

The members of the NBA come from the nation's 177 minority- and women-owned banks. We are located in 60 cities across the country. With few exceptions, our member banks serve distressed, low income communities. Often, the communities we serve have limited access to other providers of financial services, especially with respect to credit availability. We are deeply committed to providing employment opportunities, entrepreneurial capital, and economic revitalization in those communities.

The ICBA represents the nation's more than 5,800 community banks. With 52,000 locations nationwide, community banks employ 760,000 Americans, hold \$4.7 trillion in assets, \$3.7 trillion in deposits, and \$3.2 trillion in loans to consumers, small businesses, and the agricultural community.

As former Federal Reserve Board Chairman Ben Bernanke has noted: "... community banks have a critical role in keeping their local economies vibrant and growing by lending to creditworthy borrowers in their regions. They often respond with greater agility to lending requests than their national competitors because of their detailed knowledge of the needs of their customers and their close ties to the communities they serve. Such lending helps foster the economy by allowing businesses to buy new equipment, add workers, or sign contracts for increased trade or services. Those effects are felt at a local level and may appear at first glance to be fairly modest, but when you multiply these effects across the thousands of community banks

in the United States, you really see how the lending decisions they make help the broader national economy.”

We greatly appreciate the opportunity to provide the Committee with a proposal relating to the treatment of reciprocal deposits, which we strongly believe will foster economic growth. This proposal was put forth in legislative language last year in S. 3373, sponsored by Senators Warner and Moran and co-sponsored by Senators Crapo, Boozman, and Heitkamp.

To fund loans to consumers, small businesses, and others in our communities, our banks need deposits.

Reciprocal deposits allow a community bank to accept a deposit that exceeds the \$250,000 insurance limit by distributing it through a network of banks and receiving reciprocal deposits from other banks in the network. This solution allows a large local depositor, such as a local government or foundation, to obtain insurance coverage and allows banks to accept an equivalent amount of deposits to support local lending.

Reciprocal deposits keep local deposits in local banks instead of the funds flowing to non-banks or to large institutions in money centers. In doing so, reciprocal deposits enable community banks in general, and minority-owned banks to an even greater extent, to make more loans available to local businesses and for local community development. In addition, reciprocal deposits are especially of value to local governments, which want their money kept in their communities, but want, or are required, to have it insured. All fifty states and the District of Columbia enable their local governments to place funds in reciprocal deposits.

More particularly, for minority-owned banks in economically distressed communities, deposits are often understandably difficult to attract. Many members of the NBA raise deposits from socially-motivated investors, including foundations and educational institutions, 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 minority-owned banks to safely exchange those portions of one of these large deposits above the insurance limit with other banks, so that their depositors have full insurance and the banks maintain the total amount of the deposit.

In recent years, about half of the members of the NBA have held reciprocal deposits. As a group, reciprocal deposits have represented about 10% of their total deposits. For some NBA members, however, reciprocal deposits have accounted for a third or more of the total. Minority-owned institutions have used reciprocal deposits at six times the average rate for community banks. In short, reciprocal deposits have been, and continue to be, an important source of stable funding for many minority-owned banks.

Reciprocal deposits could play an even more important role if an unnecessary legal constraint was removed.

Brief Description of the Proposal

Unfortunately, reciprocal deposits have become caught up in the definition of “brokered deposit” in the Federal Deposit Insurance Act. Reciprocal deposits did not exist when the law was enacted, and reciprocal deposits do not act like the type of deposits the law was meant to cover. Studies have shown that reciprocal deposits act similarly to other core deposits: they are from local customers, earn the local interest rate, and are stable sources of funding. Because reciprocal deposits are wrongly governed by the law on brokered deposits, it is difficult for community banks to utilize their full potential.

If reciprocal deposits were given a limited exception from one aspect of the regulation of brokered deposits, they would become an even more valuable resource for our nation’s community and minority- and women-owned banks. Under current law and regulation, if a bank falls from well-capitalized to adequately capitalized, it not only cannot go grow its reciprocal deposits, it must let its current reciprocal deposits run off, unless it is granted a waiver by the FDIC; the proposed legislation would allow a bank to maintain its current level of reciprocal deposits, with appropriate safeguards. More reciprocal deposits would translate to more loans to fund small businesses, housing, and families to foster economic growth in the communities that need these loans the most.

Sen. Warner and Sen. Moran introduced S. 3373 to address this issue. A companion bill, H.R. 4116, was introduced in the House. Both bills are strongly bi-partisan and include strong safety and soundness protections. We urge the Senate to enact legislation in the current Congress to enable our member institutions to effectively use reciprocal deposits as a stable source of funding to serve their communities by fostering economic growth.

Sincerely,

/S/ Michael A. Grant, President, National Bankers Association

/S/ Paul G. Merski, Group Executive Vice President, Congressional Relations and Strategy, Independent Community Bankers of America

Legislative Language (Text of S. 3373)

To amend the Federal Deposit Insurance Act to ensure that the reciprocal deposits of an insured depository institution are not considered to be funds obtained by or through a deposit broker, and for other purposes.

IN THE SENATE OF THE UNITED STATES

September 21, 2016

Mr. Warner (for himself and Mr. Moran) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

A BILL

To amend the Federal Deposit Insurance Act to ensure that the reciprocal deposits of an insured depository institution are not considered to be funds obtained by or through a deposit broker, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. LIMITED EXCEPTION FOR RECIPROCAL DEPOSITS.

(a) In General.--Section 29 of the Federal Deposit Insurance Act (12 U.S.C. 1831f) is amended by adding at the end the following:

``(i) Limited Exception for Reciprocal Deposits.--

``(1) Definitions.--In this subsection:

``(A) Agent institution.--The term 'agent institution' means an insured depository institution that places a covered deposit through a deposit placement network at other insured depository institutions in amounts that are less than or equal to the standard maximum deposit insurance amount, specifying the interest rate to be paid for such amounts, if the agent institution--

``(i) (I) when most recently examined under section 10(d) was found to have a composite condition of outstanding or good; and

``(II) is well capitalized (as defined in section 38(b));

``(ii) has obtained a waiver pursuant to subsection (c); or

``(iii) does not receive an amount of reciprocal deposits that causes the total amount of reciprocal deposits held by the agent institution to be greater than the average of the total amount of reciprocal deposits held by

the agent institution on the last day of each of the 4 calendar quarters preceding the calendar quarter in which the agent institution was found not to have a composite condition of outstanding or good or was determined to be not well capitalized.

``(B) Covered deposit.--The term `covered deposit' means a deposit that--

``(i) is submitted for placement through a deposit placement network by an agent institution; and

``(ii) does not consist of funds that were obtained for the agent institution, directly or indirectly, by or through a deposit broker before submission for placement through a deposit placement network.

``(C) Deposit placement network.--The term `deposit placement network' means a network in which an insured depository institution participates, together with other insured depository institutions, for the processing and receipt of reciprocal deposits.

``(D) Network member bank.--The term `network member bank' means an insured depository institution that is a member of a deposit placement network.

``(E) Reciprocal deposits.--The term `reciprocal deposits' means deposits received by an agent institution through a deposit placement network with the same maturity (if any) and in the same aggregate amount as covered deposits placed by the agent institution in other network member banks.

``(2) Consideration of reciprocal deposits.--Reciprocal deposits of an insured depository institution shall not be considered to be funds obtained, directly or indirectly, by or through a deposit broker to the extent that the total amount of such reciprocal deposits does not exceed the lesser of--

``(A) \$10,000,000,000; or

``(B) an amount equal to 20 percent of the total liabilities of the insured depository institution.

``(3) Rule of construction.--Nothing in this subsection shall be construed to limit the authority of the corporation to require, on a case-by-case basis, that an agent institution that is less than adequately capitalized (as defined in section 38(b)) not accept particular types of deposits upon finding that the acceptance of such deposits constitutes an unsafe or unsound practice with respect to such institution.''.

(b) Applicability.--Nothing in the amendments made by this Act shall be construed to limit the application of any provision of the Federal Deposit Insurance Act (12 U.S.C. 1811 et seq.), other than section 29 of that Act (12 U.S.C. 1831f), to an insured depository institution (as defined in section 3 of that Act (12 U.S.C. 1813)).