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President and CEO

October 5, 2016

The Honorable Mark Warner
United States Senate
Washington, D.C. 20510

The Honorable Jerry Moran
United States Senate
Washington, D.C. 20510

Dear Senators Warner and Moran:

On behalf of the more than 6,000 community banks represented by ICBA, I write to express our support for S. 3373, which would allow “reciprocal deposits” to serve as a stable source of funding that supports community bank lending in their communities.

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 networks. 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. 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.

S. 3373 addresses this issue by providing a targeted exception for reciprocal deposits from the definition of a brokered deposit without compromising safety and soundness protections. This important bill will support local depositors while supporting stable funding for community lending.

Thank you for introducing S. 3373. We look forward to working with you to advance this legislation.

Sincerely,

/s/

Camden R. Fine
President & CEO

CC: Members of the Senate Banking Committee

The Nation’s Voice for Community Banks.®

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1615 L Street NW, Suite 900, Washington, DC 20036-5623 | 800-422-8439 | FAX: 202-659-1413 | Email: info@icba.org | Website: www.icba.org