



July 26, 2017

The Honorable Lamar Alexander  
U.S. Senate  
455 Dirksen Senate Office Building  
Washington, DC 20510

The Honorable Bob Corker  
U.S. Senate  
425 Dirksen Senate Office Building  
Washington, DC 20510

Dear Senators Alexander and Corker:

I am writing to you on behalf of the bankers of Tennessee in support of legislation, S. 1500, introduced by Sen. Warner and Sen. Perdue, which would address a problem that many of our bankers experience.

The issue is the treatment of reciprocal deposits as "brokered deposits" under current law. Reciprocal deposits are used by many community banks in Tennessee and around the country to meet the needs of their customers and to obtain funds to lend in their communities. Customers such as local governments, colleges, foundations, or individuals that have significant funds to deposit will often want to keep that money in their local community bank, but they also want deposit insurance on it. In many cases -- for example, with a local government or foundation -- there may be requirements that the deposits be insured. As you know, the limit on FDIC insurance is \$250,000. To address this situation, community banks join networks that allow them to work with other banks through the use of reciprocal deposits. For example, if a foundation customer with \$1 million to deposit wanted full insurance, a local bank could put the amount over the insurance limit into the network where it could be split up into deposits in three other banks, with the result that the full \$1 million would be insured. In return, the local bank would receive deposits back from three banks so that it would still have \$1 million in deposits. The customer then has what it wanted -- a \$1 million deposit fully insured -- while the local bank has \$1 million to lend back into the local community.

The problem arises because reciprocal deposits are 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 on brokered deposits was meant to cover. There can be a problem with

true brokered deposits in that they are attracted from all over the country with high interest rates. They have sometimes enabled banks to grow too fast and get in trouble. On the other hand, reciprocal deposits, as studies have shown, act just like a bank's other core deposits: they are from local customers, earn the local interest rate, and are stable sources of funding. Because reciprocal deposits are now wrongly governed by the law on brokered deposits, it is difficult for community banks to utilize their full potential.

By providing a targeted exception for reciprocal deposits from the definition of a brokered deposit, S. 1500 addresses this issue. The bill contains strong safety and soundness protections. A companion bill in the House of Representatives, H.R. 2403, was introduced earlier and has strong bi-partisan support. Both the American Bankers Association and the Independent Community Bankers of America have stated their support for legislation to address the reciprocal deposit issue, as have 25 other state bankers associations, the National Bankers Association, and the Community Development Bankers Association.

I urge you to give S. 1500 your important support.

Sincerely,

A handwritten signature in black ink, appearing to read 'C. Barrett', with a stylized flourish at the end.

Colin B. Barrett  
President/CEO