

July 25, 2017

The Honorable Mark Warner
475 Senate Russell Office Building
Washington, D.C. 20510

Dear Senator Warner:

I am writing on behalf of the American Bankers Association (ABA) to express our support for S. 1500, the “Keeping Capital Local for Underserved Communities Act of 2017.” We greatly appreciate your leadership and the bipartisan support of Senators Jerry Moran, Heidi Heitkamp, David Perdue, Robert Menendez, John Boozman, and Chris Van Hollen in introducing this bill.

This legislation is a step in the right direction toward modernizing Section 29 of the Federal Deposit Insurance Act, as it amends the Federal Deposit Insurance Act to ensure that reciprocal deposits are not considered to be “brokered.” If enacted, S. 1500 will help community banks attract more local deposits to fund loans in their local communities.

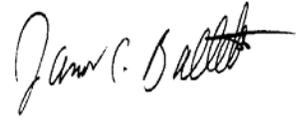
Currently, the use of reciprocal deposits by banks is chilled by being covered under the prescriptive definition of brokered deposits in Section 29. That section was enacted before reciprocal deposits were created and, thus, is out-of-date. Since the Act was passed – almost 30 years ago – both technology and the structure of banking organizations have changed significantly. Also since Section 29 was passed, the advent of the internet and smart phones, among other things, has dramatically changed the way in which banks interact with their customers. Regulatory interpretations of Section 29, however, rely on an outdated 1990’s view of banking and technology. As a result, the classification of a deposit as “brokered” has expanded significantly to include many types of deposits that lay far outside what was originally intended. This broad interpretation discourages banks from gathering stable deposits, as the definition of brokered deposits has implications for other regulatory requirements such as the cost of deposit insurance and liquidity standards.

S. 1500 takes an important step toward updating Section 29 on a narrowly targeted basis by excluding reciprocal deposits from the definition of “brokered” and permitting banks that have dropped from well-capitalized to adequately-capitalized to maintain their current level of reciprocal deposits without obtaining a waiver from the FDIC.

As the economy shows increasing signs of growth, there will be more loan demand, especially for the small business loans that are the bread and butter of many community banks. At the same time, increasing interest rates are making it more difficult for community banks to compete for deposits, as competitors, including non-banks, are able to offer higher rates to attract funding. It is important that Section 29 of the Federal Deposit Insurance Act be updated to reflect modern technology, deposit gathering, and banking practices. Your bill is a necessary step in that direction.

ABA thanks you for introducing S. 1500 and looks forward to working with you for its enactment.

Sincerely,



James C. Ballentine

cc: Members of the United States Senate



