

July 6, 2011

Ms. Diane Ellis
Deputy Director, Division of Insurance and Research
Federal Deposit Insurance Corporation
550 – 17th Street NW
Washington DC 20429

Dear Ms. Ellis:

I wish to sincerely thank you for participating in the 2011 Peer Forum of Community Development Bankers Association (CDBA) on June 7, 2011. The Peer Forum attendees were grateful for the opportunity hear about the agency's observations and share their thoughts as the Federal Deposit Insurance Corporation (FDIC) prepares its finding for the study on core and brokered deposits as mandated by Section 1506 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. We would also like to take this opportunity to summarize the views expressed by CDBA members at the Peer Forum on this important matter.

As you work to finalize your study, we ask that you consider the important consequences of the brokered and core deposit definitions on credit availability and access to capital in low income, credit starved communities. Amending the core deposit definition to include Reciprocal Certificate of Deposit Account Registry Service (CDARS) will have a stimulative effect on local economies – particularly low wealth communities that often lack sufficient organic sources of deposits from residents to support new lending. In particular, banks and thrifts that are U.S. Treasury Department certified Community Development Financial Institutions (CDFIs) – as well as other small community banks in distressed communities – have found CDARS to be a critical source of stable deposits that we use to invest in underserved communities. Amending the core deposit definition to include Reciprocal CDARS will aid recovery in the places hardest hit by the recession and facilitate economic stabilization. To best understand our recommendations, it is critical to understand the work of CDBA and its members.

Who We Are

The Community Development Bankers Association represents Federal and state chartered banks and thrifts that are CDFI banks (a.k.a. Community Development Banks (CDBs)). Our members serve as engines of economic inclusion throughout the United States. We share a common mission of improving communities and lives. All of our members are certified by the U.S. Treasury Department's Community Development Financial Institutions (CDFI) Fund as targeting 60% or greater of our total business activity to low income communities and people.

CDFI banks and thrifts make a difference – perhaps the difference – in the lives of tens of thousands of people in the communities we serve. Our members are often the only source of credit and financial services in these communities. We make loans to build and renovate housing so that people have a decent place to live. Our housing lending, in turn, sparks revitalization of other housing in our neighborhoods. We make loans to small businesses so that people will have jobs. The businesses we lend to, in turn, act as magnets that draw other businesses into the community. Our lending has a ripple effect throughout the community far beyond our direct customers, changing a community's dynamic.

Why CDARS is Different from Brokered Deposits for CDFI Banks and Thrifts

CDBA members serve our nation's most distressed and credit starved communities. We operate in places with modest discretionary income and insufficient means to raise deposits to meet the demand for credit. As an integral part of our strategy, we raise deposits from civic-minded and socially-motivated individuals and institutions within our defined market areas. Our experience demonstrates that investors are willing to invest much larger deposits in a CDFI bank or thrift if they are assured those deposits are safe. CDARS provides that assurance.

Without access to large institutional deposits, many of our loans could not be made. Most of CDBA's members have or do participate in Promontory Interfinancial Network. Today, our members collectively hold more than \$500 million in CDARS Reciprocal deposits. The vast majority of these deposits are made by local customers that want to invest in their communities – rather than seek the highest rate of return. In communities we serve, one half billion dollars in deposits is a tremendous resource. Without Reciprocal CDARS as a magnet for attracting socially motivated investors, we will not be able to originate loans at a scale sufficient to have a positive social impact. We urge the FDIC to ensure Reciprocal CDARS can continue to play this critical role.

The service is a relatively new technological innovation. Often, however, it takes time for the law to catch up to such innovations. CDARS does not, however, present the type of risk to individual institutions and the Deposit Insurance Fund that the law was designed to address. With CDARS there is no traditional deposit broker – the banks within the Promontory Network exchange deposits. CDARS customers are not interested in chasing high interest rates; they are interested in keeping their money safe. There is no evidence that CDARS Reciprocal deposits contribute to banks engaging in risky lending activities. To the contrary, CDARS reciprocal customers have a relationship with their bank. CDARS deposits tend to remain in the bank for the long term.

Why CDARS is Important to Our Low Income Communities

Since CDARS creation, local reciprocal deposits have enabled us to reach out, increase our lending, and better serve credit starved communities by underwriting loans for affordable housing, small-business, and community

projects, including charter schools, day care centers, community health clinics, neighborhood revitalization projects, and other facilities that provide critical community services. We strongly believe that CDARS Reciprocal deposits are an invaluable tool to help CDFI banks and thrifts meet the needs of our communities – as well as promote financial institution and communities stability.

Reciprocal CDARS as a Source of Stable Deposits and Risk Mitigator: Contrary to traditional brokered deposits, CDARS Reciprocal deposits provide an exceptionally stable source of funds.

- Reinvestment Rates: Our CDARS Reciprocal deposits share the same characteristics as our other core deposits. We experience very high reinvestment rates with an average rate of 83% across the CDARS network – even throughout the recent economic period when many small banks have experienced real distress. In fact, our civic-minded CDARS depositors have been among our most stable and strongly committed supporters.
- Pricing: We rarely pay interest rates above other local banks in our markets. Nationally CDARS deposits are 20-40 basis points less than the cost of traditional brokered deposits. A real “hot money” depositor would be highly unlikely to find a deposit in a CDFI bank or thrift as attractive. You do not find our banks on any of the Internet rate boards advertising high rates and likely never will. In most cases, the CDARS Reciprocal customer of a CDFI bank or thrift is a civic minded individual or institution that is already a customer or is located within our market area.
- Local Depositors: Nationwide 80% of CDARS placements are within 25 miles of a branch location. Our CDARS Reciprocal customers are social motivated institutions, including state and municipal governments, foundations, local businesses, educational institutions, churches, nonprofits, and others that choose to invest with their values by placing capital in a bank that will use it serve their local community and neighborhoods that need capital. Finally, for depositors in which CDARS is their first engagement with our banks, we are often able to cross sell these clients other bank products and cultivate a stronger commitment to our mission and activities. Rather than undermine deposit stability or increasing an institution’s risk, reciprocal CDARS allows banks – particularly small banks – to build stronger face-to-face old fashioned banking relationships with traditional customers that want stable banking relationships with an institution committed to their communities.

Please help us help our communities. We strongly urge you to exempt CDARS reciprocal deposits from the definition of brokered deposits in future rule making. Alternatively, we urge the FDIC to support a legislative amendment to the core and brokered deposit definitions to support our efforts to stimulate economic activity and recovery in distressed and under served communities through access to credit.

Thank you for consideration of our views and recommendations.

Sincerely,

The Members of Community Development Bankers Association

Albina Community Bank — *Portland, OR*
BankPlus — *Ridgeland, MS*
Broadway Federal Bank — *Los Angeles, CA*
Carver Federal Savings Bank — *New York, NY*
Central Bank of Kansas City — *Kansas City, MO*
City First Bank of DC — *Washington, DC*
City National Bank of New Jersey — *Newark, NJ*
Community Bank of the Bay — *Oakland, CA*
Community Capital Bank of Virginia — *Christiansburg, VA*
First American International Bank — *Brooklyn, NY*
First Eagle Bank — *Hanover Park, IL*
Franklin National Bank — *Minneapolis, MN*
Guaranty Bank and Trust Company — *Belzoni, MS*
International Bank of Chicago — *Stone Park, IL*
M & F Bank — *Kosciusko, MS*
Metro Bank — *Louisville, KY*
Mission Valley Bank — *Sun Valley, CA*
Native American Bank, NA — *Denver, CO*
Neighborhood National Bank — *National City, CA*
One PacificCoast Bank — *Oakland, CA*
OneUnited Bank — *Boston, MA*
Pan American Bank — *Chicago, IL*
Park Midway Bank — *St. Paul, MN*
Peoples State Bank — *Many, LA*
Southern Bancorp — *Little Rock, AR*
Start Community Bank — *New Haven, CT*
Sunrise Community Banks — *St. Paul, MN*
United Bank — *Atmore, AL*
University National Bank — *St. Paul, MN*
Urban Partnership Bank — *Chicago, IL*