OC11-172

CHARTWELL CAPITAL LTD.

www.ChartwellCapital.com

CHARLES J. THAYER
Managing Director
(954) 779-7682

FDIC

MAR 27 2011

OFFICE OF THE CHAIRMAN

From: Charles J Thayer <CJT@ChartwellCapital.com>
Subject: **Statement on Brokered Deposits**
Date: March 10, 2011 10:10:14 AM EST
To: coredepositstudy@fdic.gov
1 Attachment, 264 KB

FDIC Study Group

Please accept and consider the attached information in your analysis of Brokered Deposits as required by the Dodd-Frank Act.

By way of background, 2011 marks my 42nd year in the banking business - 20 years as a commercial banker (12 as CFO) and 22 years as an investor/investment banker.

Brokered Deposits are a valuable tool that helps local financial institutions fund the credit requirements of their local communities - but like any tool they can be misused. Careful consideration must be given to the role Brokered Deposits play in helping redistribute funding from geographic areas with surplus deposits to local communities that require credit to support sound economic growth (including local jobs). Brokered Deposits are not the problem - the inappropriate use (rapid growth of risky loans) of such deposits was the problem.

Chartwell (my firm) is not engaged in offering or dealing in Brokered Deposits - our primary business is providing financial advice to the boards and management of financial institutions.

I am also mailing the attached material with a copy of the book ("It Is What It Is") that describes the impact that regulatory policy has on the day-to-day management of liquidity at a financial institution.

I believe my experience provides insight on the importance of liquidity and capital management for financial institutions and welcome any questions.

Charles J Thayer
CJT@ChartwellCapital.com

420 Isle of Capri • Fort Lauderdale, Florida 33301 • Fax (954) 779-3724

Dodd-Frank Act – Core Deposit Study

Statement on "Brokered Deposits"

Charles J Thayer
Chairman
Chartwell Capital Ltd

Charles J Thayer is Chairman and Managing Director of Chartwell Capital Ltd., a private investment firm providing specialized advisory services to the board of directors and executive management of banks and institutional investors. Thayer also serves as Chairman of the American Association of Bank Directors.

Chartwell has performed "Management Studies" required by Consent Orders for five commercial banks during the past four years. These assignments combined with other client relationships provide insight from inside troubled institutions.

Thayer has extensive banking experience; he was elected to the board of Republic Bank in Florida in 1999 and served as a board member of BB&T Bank (Florida) for two years following BB&T's 2004 acquisition of Republic Bank. Prior to organizing Chartwell Capital in 1990, Thayer had a 20-year career in commercial banking serving as EVP-CFO of Citizens Fidelity, Kentucky's largest bank and EVP-Finance for PNC Bank Corp.

Based on Chartwell's experience we do not advocate "adequately capitalized" institutions be permitted to increase "brokered deposits"; however, we believe waivers should be granted that permit the renewal of "brokered deposits" for a reasonable period of time that will permit a bank to reduce reliance on "brokered deposits" in an orderly manner.

FDIC policy of not granted waivers is unnecessarily punitive and is disruptive to a bank's good core loan customers and other local banks. It is obvious that asset reduction is required to help offset the maturities of "brokered deposits" and the only loans that can be reduced are to loan customers with good credit – the very customers the bank should be encouraged to retain. Every banker knows higher rates are required to shift a bank's share of limited local deposits – a competitive situation that creates a higher cost of funds for all banks in the local market.

Past FDIC policy places unnecessary pressure on liquidity and the cost of deposits for all banks in a local market. In addition, replacing "brokered deposits" with local core deposits does not reduce exposure to the FDIC Insurance Fund. In our view, the "Cold Turkey" approach has been disruptive and served no economic purpose.

Thayer recently published *"It Is What It Is"*, a book describing the recapitalization of AmericanWest Bank. The topic of "brokered deposits" was address in the "real world" context of the bank's path to recapitalization and the following excerpts address the author's view of regulatory policy related to "brokered deposits". A copy of this Statement and the book are also being mailed to the FDIC.

CJT

Excerpts from the Book: "It Is What It Is"

ISBN: 978-1-4583-0002-7

The following excerpt is from Chapter 13 the concluding chapter that describes the consequences of various regulatory policies. Highlights added for emphasis.

Excerpt: Chapter 13 – Regulatory Policy

FDIC: Liquidity & Brokered CDs

The unintended consequences created by the failure of the FDIC to approve the issuance of brokered CDs by "adequately capitalized" banks to replace maturing brokered CDs was one of the most disruptive policy decisions made during the past several years.

The banking system was experiencing a serious liquidity challenge and this FDIC policy contributed to the problem, not towards a solution. This issue is further described in Chapter Five.

Excerpt: Chapter 5

The following excerpt from Chapter Five describes the consequences of various regulatory policies and management's successful actions to address liquidity when a "brokered deposit" waiver was not granted in August 2008.

Liquidity Management

Liquidity was the first order of business, but it needs to be made very clear that all of the other actions described in this chapter occurred simultaneously. It was the start of a very challenging time.

The fallout from IndyMac had contributed to $50 million of deposit withdrawals at AmericanWest, and balance sheet liquidity had declined from $100 million to about $50 million for a time – too close for comfort. Rusnak and his team had already taken steps to apply to the Federal Reserve Bank (FED) "discount window" and to expand their borrowing capacity at the Federal Home Loan Bank (FHLB).

The most immediate challenge to be faced by the Bank was related to $250 million of maturing brokered Certificates of Deposit (CDs). The Federal Deposit Insurance Corporation Improvement Act (FDICIA) passed by Congress in 1991 following the last banking crisis had established new capital standards and steps ("prompt corrective action") that were to be taken by regulators and bank management when capital ratios fell below the established benchmarks.

At the time this legislation was enacted in 1991 the "adequate" capital category was intended to provide regulatory flexibility and not be a trigger for punitive measures. One such feature was the ability for a bank to request and receive a waiver that would permit the bank to issue new brokered CDs to replace

maturing broker CDs. AmericanWest made such a request but based on my previous experience, approval was not anticipated.

The unpublished FDIC policy of not approving brokered CD waivers for "adequately capitalized" banks, in my view, reflects a serious lack of understanding at the FDIC concerning the reality of available funding for community banks. Adequately capitalized community banks are forced to replace maturing brokered CDs by increasing their share of deposits in their local markets. Paying more for local deposits than your competitors pay is the only way for a community bank to shift share of market. The net result is an increase in the cost of money for all community banks in that bank's home market – a terrible economic outcome for every bank in the market.

I had previously shared this view with senior officials at the FDIC, to no avail. No additional exposure is created to the FDIC's Deposit Insurance Fund (FDIC Fund) when maturing insured brokered CDs are replaced with new insured brokered CDs rather than insured local deposits; however, unnecessary liquidity failures do create losses for the Deposit Insurance Fund. I now find it interesting that some regulatory officials have acknowledged that many of the early failures were caused by lack of liquidity – not asset quality and lack of capital.

Furthermore, regulatory interest rate caps are imposed on troubled banks that are being forced to replace brokered deposits by obtaining deposits in their home markets. It was clear to any banker on the front lines that many community banks were facing their own liquidity crisis, and regulatory policy was not helping – FDIC policy was a contributor to both higher local funding costs and the liquidity problem.

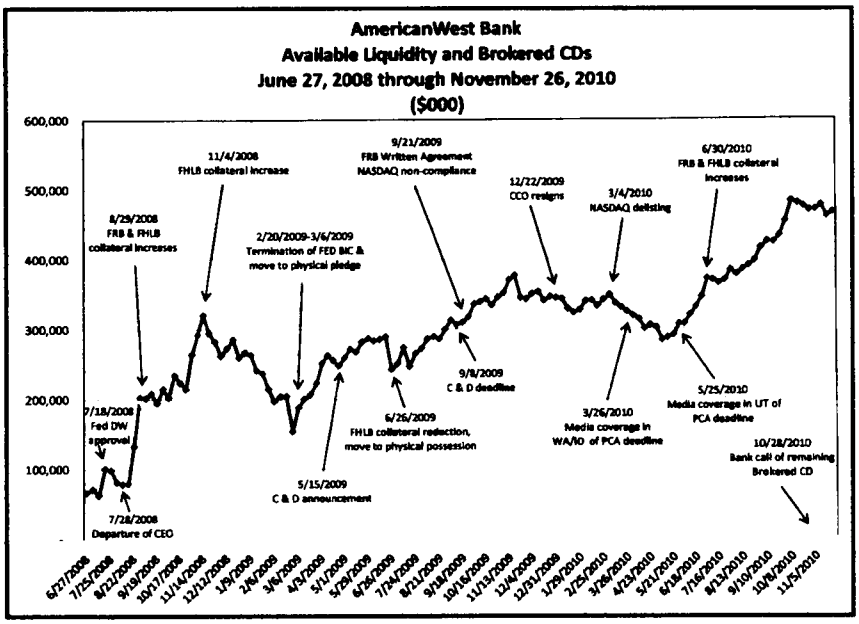
It was in this economic and regulatory environment that the Bank faced the challenge of replacing $250 million of brokered deposits. If the funding currently provided by the outstanding brokered deposits was ignored, then the Bank had negative net liquidity in excess of $150 million!

The maturity schedule of the brokered deposits provided only a few months to implement a plan to both reduce assets and increase core deposits. Rusnak brought immediate focus to the management of liquidity and it became the most important daily measure. A daily liquidly report was circulated to all key managers – everyone knew what was needed and expected.

ALCO and the Treasury staff served as the navigation center for financial forecasting and future management strategy. Accurate financial forecasts provided by key mangers are essential for executive management to anticipate and avoid financial storms - just as the Captain of a ship at sea requires an accurate weather forecast to avoid storms. I observed a management team that understood forecasting was about accuracy, not unattainable goals. The ALCO team clearly helped navigate the Bank through the financial hurricane of 2008-09.

Members of the Bank's Asset/Liability Committee (ALCO) focused their attention on balance sheet forecasting and liquidity. Williams shared back test results with all ALCO members and forecasting consistently improved.

The chart illustrates the success of the liquidity story - one of the most significant management achievements at AmericanWest. The dark line represents total liquidity and the light grey line represents outstanding brokered CDs. Most important, the focus for the newly restructured branch management network was deposit retention and growth, not loan growth. AmericanWest was fortunate to have a strong branch network and great branch personnel in multiple markets located in Washington, Idaho and Utah. The execution of the deposit marketing plans by Nicole Sherman (Chief Banking Officer for Utah), Bob Harris (Chief Banking Officer for Washington & Idaho) and the Bank's branch personnel throughout the system was amazing.



AmericanWest Liquidity

Chart reproduced courtesy of AmericanWest

Rusnak had frequent conference calls with all employees to explain any news (good and bad), regulatory issues, management's objectives, and to answer questions. There was a clear positive reaction to Rusnak's open style of leadership.

As a result of this powerful team effort, when the agreement to recapitalize the Bank was announced in October 2010, total net liquidity was over $450 million - management had achieved a $600+ million liquidity improvement in just over two years time!

# # #

Press Releases

FDIC to Hold Roundtable on Brokered Deposits

FOR IMMEDIATE RELEASE
March 1, 2011

Media Contact:
David Barr (202) 898-6992
Cell: (202) 340-4922
E-mail: dbarr@fdic.gov

As part of the implementation of the Dodd Frank Wall Street Reform and Consumer Protection Act, the Federal Deposit Insurance Corporation will host the fifth in a series of roundtable discussions with key stakeholders. The discussion will focus on a study of core and brokered deposits, as required under the Act, and will take place Friday, March 18, 2011 from 10 a.m. to noon.

Government officials, industry executives and other stakeholders will discuss the current brokered deposit restrictions contained in the Federal Deposit Insurance Act and related regulations as well as more recent innovations in the methods institutions use to gather deposits. Dialogue will focus on the relative volatility or stability of certain deposits as well as their franchise value and how these features are affected by the underlying characteristics of a deposit, such as interest rate and relationship with the depositor.

Participation in the roundtable is based on achieving a diverse set of views to produce a constructive and collaborative discussion. The FDIC will make available a live public Web cast of the roundtable on the day of the event. An archive will be made available approximately two to three days following the live Web cast. Additionally, the FDIC invites comments relative to this study. Comments should be submitted to coredepositstudy@fdic.gov by May 1, 2011. Please visit http://www.fdic.gov/regulations/reform/coredeposits.html for additional information. The FDIC will review and take the comments into account when preparing the study.

The roundtables are part of the FDIC's overall effort to bring transparency into the implementation of the Dodd Frank Act. The first forum was held on August 31, 2010 and centered on the new resolution authority provided in Dodd Frank.

The FDIC has created a dedicated Web site for financial regulatory reform. The site contains: a list of events, including any subsequent roundtable discussions; a place for interested parties to submit and view comments on financial regulatory reform; and information on the FDIC's overall open-door policy on reform. The site can be accessed directly by going to: http://www.fdic.gov/financialreform/.

# # #

Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. The FDIC insures deposits at the nation's 7,657 banks and savings associations and it promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars – insured financial institutions fund its operations.

FDIC press releases and other information are available on the Internet at www.fdic.gov, by subscription electronically (go to www.fdic.gov/about/subscriptions/index.html) and may also be obtained through the FDIC's Public Information Center (877-275-3342 or 703-562-2200). **PR-50-2011**