From: Randy Sizemore
To: Comments
Subject: [redacted] August 23, 2024 Unsafe and Unsound Banking Practices: Brokered Deposits Restrictions; Comment Request (RIN 3064-AF99)
Date: Friday, November 15, 2024 9:52:39 AM

Mr. James P. Sheesley
Assistant Executive Secretary
Attention: Comments—RIN 3064-AF99
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Dear Mr. Sheesley:

I am the EVP/CFO of Andrew Johnson Bank ("Bank"), a $585 million asset community bank with 8 locations in four different county markets, located in Greeneville, TN. I am writing to express my serious concerns regarding the FDIC's proposed rule relating to Unsafe and Unsound Banking Practices: Brokered Deposits Restrictions (the "Proposed Rule"). If finalized as drafted, the Proposed Rule will harm community banks and our customers. The FDIC should withdraw this proposal.

Andrew Johnson Bank will celebrate 50 years in business in 2025. Our bank has a long history of supporting multiple communities in and around our 8-branch footprint by extending credit to low/moderate income borrowers (CRA), consumer loans, residential construction, residential permanent, commercial construction commercial real estate, commercial/industrial loans and agriculture loans. A majority of our business loans are to small businesses and we helped small business clients in our market gain access to PPP loans during 2020/2021 in excess of $35 million to help them continue operating and employing the citizens of our communities.

We primarily fund our lending efforts with core deposits but there are occasions where liquidity tightens up or competition from the largest banks in the country becomes intense, like we saw in 2023, and loan demand exceeds our ability to generate new core deposits. During those times, we need access to diverse funding sources through our CFP including: FHLB, Brokered Deposits, Fed Funds Lines with correspondent banks, Reciprocal deposits through our partnership with IntraFI Network, Deposit listing services and the Federal Reserve Discount Window. Those funding sources were needed and utilized by our bank in 2023 and most of 2024 until we had time for our core deposit gathering efforts to catch up to slowing loan demand. Banks that choose to partner with or utilize third party relationships to access diverse sources of funding, manage costs, and maximize deposit insurance coverage or provide other services for their customers should not be penalized as accepting "brokered deposits."

Reclassifying deposits as brokered imposes serious costs and restrictions on community banks, including higher deposit insurance premiums, possibly lower CAMELS ratings, and additional regulatory scrutiny. In some cases, restrictions on brokered deposits may force community banks to forgo their relationships with third parties and terminate programs and services that benefit their customers and provide access to financial services for unbanked and underbanked consumers. I am concerned the FDIC's proposal overlooks the need for community banks to have access to diverse funding sources. The FDIC should protect, not limit, community banks' abilities to access liquidity and partner with third parties to offer cost effective and competitive deposit services to their customers. I am also concerned the FDIC's proposal creates an overly complicated and confusing framework for brokered deposits restrictions. The proposed framework could harm community banks' abilities to manage liquidity and maximize deposit insurance protections for their customers. This proposal will likely harm consumers by reducing access to financial services and increasing costs. We live in a digital age and this proposal does not align with new technology efficiencies gained over the last 10-15 years that help community banks compete with much larger regional or national banks.

Many community banks utilize, or may wish to utilize in the future, third party partnerships, online services, and financial technologies to facilitate deposit placements, raise insured deposits, offer specialized deposit products and services to their customers, maximize deposit insurance coverage for their customers, diversify and de-risk their funding portfolio, and broaden their deposit base to meet the lending needs of their local communities. I am concerned the FDIC is proposing that a third party will be a "deposit broker" in instances where the third party simply receives a fee for their services related to the placement of deposits – a condition of doing business that captures virtually all third party relationships related to deposit placement, even those that don't pose traditional brokered deposit "hot money" risks. The proposal's sweeping criteria for determining "deposit brokers" will dramatically increase both the number of entities deemed "deposit brokers," and the volume of core deposits community banks must classify as brokered deposits, and will unintentionally increase liquidity risk for community banks.

Many state laws require state and local governments to bank within the state – meaning community banks receive and manage a substantial volume of public deposits. Under the current rules, advisory firms that help administer these funds and investments are excepted from the definition of a deposit broker if they place less than 25% of customer assets under administration, for a particular business line, at more than one bank. However, the FDIC is now proposing that this exception will only be available if less than 10% of the total assets under management, in a particular business line, is placed into non-maturity accounts at one or more IDIs. I am concerned the proposal's changes to the 25% test are a significant change that will negatively impact community banks that manage public funds. These deposits are an important, and stable source of funding for community banks that should not be considered brokered. The proposed 10% test will result in many community banks having to report higher volumes of brokered deposits, despite the fact these funds do not pose "hot money risk," which will negatively impact bank liquidity.

Rescinding PPE applications and notices that the FDIC previously granted to third parties and/or partner IDIs under the 2020 rules will materially disrupt, and in some cases, effectively cease partnerships and arrangements the FDIC now considers "risky," without the FDIC carrying its burden of identifying specific problems at specific institutions, and if necessary, taking enforcement actions against, specific banks and specific third parties. I am deeply concerned by the FDIC's proposal to rescind all approved PPE applications and notices. This is a punitive approach that is designed to target certain relationship models but that captures

every approved PPE regardless of model or demonstrated risk. If the FDIC believes a specific bank and its third party to pose unnecessary risks, it should follow its supervisory processes with respect that single institution and its third party rather than rewrite the brokered deposit rules for the entire industry. Requiring IDIs to reapply for PPEs that the FDIC approved only a few years ago is an unnecessarily burdensome and costly exercise for community banks that will also increase the volume of PPE applications and notices the agency must process. The FDIC should not force community banks to reapply for PPE and incur operational costs to reassess on-balance/off-balance sheet strategies and engage outside counsel to reassess partnerships, submit new applications, amend existing agreements and draft new contracts.

My hope is that the FDIC will consider the points made in this email and the impacts it could have on all community banks in this country. The best course of action for the 4,000+ community banks in this country is for this proposal to be rescinded.

Sincerely,

Randy J. Sizemore

Executive Vice President/CFO

Andrew Johnson Bank (Main Office)

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