From:	Tiffany Sohm
To:	Comments
Subject:	[redacted] August 23, 2024 Unsafe and Unsound Banking Practices: Brokered Deposits Restrictions; Comment Request (RIN 3064-AF99)
Date:	Thursday, November 21, 2024 11:20:57 AM
Attachments:	image001.png image002.png image003.png image004.png image005.png image006.png

[redacted]

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 Chief Financial Officer of Home State Bank ("Bank"), a $435 million community bank located in Iowa. I am writing to express my serious concerns regarding the FDIC's proposed rulemaking relating to Unsafe and Unsound Banking Practices: Brokered Deposit Restrictions (the "Proposed Rule"). If finalized as drafted, the Proposed Rule will harm community banks and our customers. The FDIC should withdraw this proposal.

Our Bank is located in two small communities, and is very active in lending to local small businesses, farmers and consumers, as evidenced by the ninety percent loan to deposit ratio that is consistently maintained. Our Bank has nearly 79 percent of the deposit market share in the town that our main location operates in. We serve the local hospital, schools, cities, counties, and other public entities, along with many large consumer depositors. The Bank plays a critical role in serving the financial needs of the communities, and donates a significant amount of time and money within our local communities. Our involvement in the community during our 90-years of service has allowed the Bank to create large, long-term relationships that benefit both the Bank and those customers.

In order to continue serving the loan customers in our local market areas, the Bank is constantly evaluating new methods to grow deposits. Competition from credit unions is a major threat to the deposit base, and when coupled with increasing technology and marketing costs, the ability to maintain current deposits and attract new deposits is very difficult. Additionally, the increased rate environment continues to drive competitive forces even higher. 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."

Our Bank has utilized true brokered deposits at times throughout its 90-year life, to bridge a funding gap at a lower cost than other borrowings. Our Board of Directors maintains limitations regarding the Bank's use of brokered deposits to ensure that all associated risks are properly identified, measured, monitored and controlled. In recent times, especially since the failures in March 2023, the Bank has increased its reciprocal deposit exposure at the request of many of our public depositors. The sweep option we can offer our customers with the ICS product has allowed us to maintain current large depositors and gain new deposit relationships due to the increased level of deposit insurance offered. This offers stability and security to these large and/or public entities, which became very important to those customers following those recent failures. These accounts also allow us to offer competitive deposit rates to these customers while in this elevated rate environment compared to recent years.

The Proposed Rule to reclassify 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 our relationships with third parties and terminate programs and services that benefit our customers. I am concerned that the FDIC's proposal ignores the realities of modern banking by recategorizing massive volumes of stable, sticky deposits as brokered. 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 our customers. Community banks should not be forced to choose between providing a great product for a large customer and turning the large, stable deposit relationships away in case they would lose agent status and potentially not be allowed to hold these deposits. Limiting these relationships will have other negative impacts on the safety and soundness of the institution including significant reputational risk and increased liquidity risk even though these reciprocal deposits could be considered very sticky deposit relationships. In the case of our Bank, the current funding risk of these public reciprocal deposits is already being adequately addressed as part of our concentration monitoring, which is ultimately where the risk in these reciprocal deposits should be identified. The proposed framework could harm community banks' abilities to manage liquidity and maximize deposit insurance protections for their customers. The FDIC should be focused on allowing products that maximize deposit insurance, as this ultimately reduces the risk to the Deposit Insurance Fund and maintains public confidence and stability in the financial system.

Thank you,

TIFFANY SOHM
VP, Chief Financial Officer

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