November 12, 2024

James P. Sheesley
Assistant Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington D.C. 20429
(comments@fdic.gov)

Re: Unsafe and Unsound Banking Practices: Brokered Deposit Restrictions RIN 3064-AF99

Dear Mr. Sheesley,

I have the honor of serving as Security State Bank's CEO. We are both a CDFI and a MDI headquartered in the Persistent Poverty County of Seminole County, Oklahoma. Established in 1911, we are a trusted community bank that serves a diverse range of communities across Oklahoma, including rural areas, small towns, and agricultural hubs. With deep roots in our local economies, we have become an essential partner to farmers, ranchers, small businesses, and families who rely on our personalized support and wide range of financial product and banking services to address their financial needs. We understand the unique needs of the Persistent Poverty County communities we serve, offering tailored financial solutions to support the region's farming operations, business loans to foster local entrepreneurship, and personal banking services for individuals and their families. We also offer online and mobile banking capabilities, allowing our customers—whether in a small town or on a farm—to manage their finances with convenience. In places where community values and relationships run deep, Security State Bank is known not just as a bank, but as a pillar of local support, helping fund community projects, schools, and economic development initiatives.

It is with this commitment to serve the communities we support that I offer the following thoughts and comments regarding the FDIC's proposed revisions to the brokered deposit rule.

The primary issues within the proposal lie in the overly broad redefinition of the "deposit broker" concept and with the restrictions imposed upon digital marketing channels—both of which are essential for competitive participation in today's financial services landscape.

Substantially Broad "Deposit Broker" Definition

The proposed rule substantially broadens the scope of the "deposit broker" classification by consolidating the current "placing" and "facilitating" provisions and adding a new "compensation prong." Under this revised framework, any third party receiving compensation in exchange for supporting a bank's deposit-gathering activities could fall under this classification, irrespective of whether the bank maintains ownership and control of the depositor relationship.

We do not believe this expansion fully aligns with the FDIC's regulatory intent. For instance, customer referral programs in which customers receive modest incentives for referring new depositors—would be precluded. These modest, low-risk incentive programs are a standard industry practice and are fundamentally different from the speculative and high-stakes behaviors the FDIC likely intends to address.

Currently, the proposal does not clearly differentiate between minor referral incentives and the aggressive, commission-driven tactics typically used by traditional deposit brokers. We strongly believe that the FDIC's objective is to target the latter, high-risk group, rather than the modest monetary bonuses employed by community banks to reward their customers for personal referrals. Thus, we urge a more differentiated and context-sensitive approach.

Disproportionate Burden on Community Banks

If adopted, the proposed rule's broad definition of brokered deposits would disproportionately affect community banks by increasing reporting requirements, elevating insurance assessments, and subjecting institutions to heightened regulatory scrutiny. Additionally, a brokered deposit classification carries a stigma that could weaken community trust and ultimately harm our institutional reputation.

Such a classification would also necessitate the reevaluation of third-party partnerships that play a critical role in customer acquisition and retention.

The FDIC should carefully consider the operational realities of community banks, which, unlike larger institutions, often lack the financial and technological resources needed to independently deliver advanced digital and user engagement services. Third-party partnerships enable community banks to remain competitive in an increasingly digitalized marketplace. These partnerships facilitate the provision of the high-quality digital banking experiences that today's customers expect. Restricting third-party partnerships, or prohibiting appropriate compensation for third-party contributions, risks impairing community banks' digital capabilities and, by extension, our ability to meet evolving customer needs.

A recent study cited in *The Financial Brand*, titled "How to Integrate Digital Delivery and Human Connections to Boost Retention" (October 28, 2023), highlights this challenge by noting that 35% of consumers switched banks last year due primarily to digital experience factors. Without the support of third-party service providers, the digital gap between community banks and larger institutions will only continue to widen, potentially leading to a significant erosion of community banks' market share.

The proposed restrictions on third-party support for establishing direct depositor relationships would particularly disadvantage community banks serving rural or underserved populations. Such restrictions could be seen as counterproductive and punitive to smaller institutions dedicated to community-centered banking.

Recommendations for Consideration

To mitigate these concerns, we recommend the FDIC adopt a more nuanced approach to the "compensation prong" provision, which, as currently structured, risks classifying stable, core deposits as brokered—even where community banks have full ownership and control of the depositor relationship.

- **Create Exemptions for Third Parties Who Support Direct Depositor Relationships**

  We suggest an explicit exemption from the "deposit broker" definition for third parties that aid insured depository institutions (IDIs) in establishing direct relationships with individual depositors. Such exemptions could apply under the following conditions (i) the third party does not control depositor accounts or funds; (ii) plays no role in establishing account terms; (iii) does not manage or propose deposit allocations among institutions; and (iv) does not serve as the system of record for any depositor transactions or funds.

- **Align Regulation with Digital Market Realities**

  We also recommend that the FDIC embrace the digital transformation of today's banking landscape. Consumers increasingly rely on digital comparison sites and mobile applications to research providers and evaluate financial products and services. Placing stringent limitations on these informational resources or narrowly restricting compensation for digital marketing channels would inhibit the competitive capacity of community banks. Lifting these restrictions would allow smaller institutions to compete more equitably with fintech providers and large institutions.

- **Formally Acknowledge Stable Deposits**

  The FDIC should also consider overtly excluding reward-based and transaction accounts from the brokered deposit classification, provided these accounts are (i) fully insured, (ii) opened by and held in the name of an individual depositor; (iii) are used regularly by that same depositor for standard banking activities and (iv) only

that same depositor is authorized by the insured depository institution to authorize withdrawals for to close the account.

These types of accounts constitute low-cost, stable funding, which my institution prudently reinvests in our local economies. Furthermore, such accounts increase my franchise values as they are associated with tangible depositor relationships that I own and control and they reinforce the FDIC's objectives of promoting safe and sound banking practices.

- **Target The Middlemen**

  Finally, to address potential risks associated with "middleware providers," the FDIC should refine the "deposit broker" classification to focus on entities that directly market or distribute deposit services to end-users when these intermediaries, rather than the bank's core processor, act as the system of record for the depositor's transactions and funds. Such an approach would target genuinely high-risk partnerships while preserving the operational integrity of traditional third-party service providers who have no control over depositor funds.

Replace The Original Statute with an Asset Growth Restriction

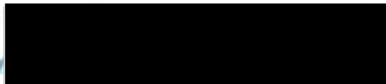
We also urge the FDIC to consider working with Congress to develop a more targeted regulatory framework, such as the Asset Growth Restriction Act (S.3962 and S.5347), proposed by Senator Jerry Moran. Supported by past and current FDIC leadership, this legislative approach could better fulfill the intent of Section 29 while providing increased regulatory efficiency.

Conclusion

We respectfully request that the FDIC revise the proposed rule to allow community banks to fully leverage third-party partnerships and digital marketing channels in the acquisition and retention of depositors. Additionally, we urge the FDIC to recognize that reward-based and transaction accounts—when associated with singular, direct relationships—represent stable sources of funding linked to local residents who rely on our institution as their primary bank. These customer relationships enhance our franchise value and sustain our lending capacity.

Thank you for the opportunity to share my thoughts and recommendations.

Sincerely,



Tipton Burch
Chief Executive Officer