



November 21, 2024

Via Email: comments@FDIC.gov

James P. Sheesley
Assistant Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

RE: Comments—RIN 3064-AF99, Unsafe and Unsound Banking Practices: Brokered Deposits Restrictions

Dear Mr. Sheesley:

I am the Chief Executive Officer and Chairman of Valley National Bank (“Valley”), a mid-size regional bank founded in 1927 with over \$62 billion in assets. Valley has over 3,800 employees operating more than 230 branches and commercial banking offices in communities across New Jersey, New York, Florida, Alabama, California and Illinois. Valley appreciates the opportunity to submit this comment letter on the Federal Deposit Insurance Corporation’s (“FDIC”) Notice of Proposed Rulemaking (the “NPR”) relating to brokered deposits.

The NPR would significantly revise the FDIC’s existing brokered deposits regulations, which the FDIC substantially overhauled merely four years ago (the “2020 Final Rule”). As explained below, the proposed changes will cause negative, disruptive impacts on banks, particularly small and mid-size institutions. Accordingly, Valley recommends that the FDIC withdraw the NPR.

I. Background

In the rapidly evolving banking industry, regulatory frameworks are constantly being refined to ensure stability, transparency, and consumer protection. The proposed revisions to the regulations for brokered deposits included in the NPR have generated significant debate within the banking community. While intended to enhance oversight and reduce systemic risk, the proposed regulations will place small and mid-size banks at a further disadvantage to the “too-big-to-fail” banks, inhibiting competition and hindering growth. Small community and mid-size regional banks play a vital role in the U.S economy by serving local communities, providing loans to businesses and individuals and, in turn, facilitating economic growth.

II. Understanding Brokered Deposits and the Impacts of the NPR

Brokered deposits refer to funds acquired by banks through third-party brokers or agents rather than direct customer relationships. These deposits have proven to be reliable and, when utilized prudently, can serve as an essential liquidity and asset/liability management tool. Valley, and many other community and regional banks, utilize brokered deposits as a vital liquidity source to supplement funding in normal operating cycles as well as in times of market volatility. The importance of brokered deposits as an essential contingent funding source was most evident during the U.S banking crisis of March 2023 when customer deposits rapidly migrated to the “too-big-to-fail” banks from small and mid-size banks. Equally



important, brokered deposits allow small and mid-size banks to remain competitive in an industry that is increasingly dominated by larger financial institutions.

As other banks and trade groups have pointed out in detail in numerous comment letters, if implemented, the NPR will, among many other changes:

- Significantly expand the definition of “deposit broker” by capturing exclusive deposit placement arrangements, which will result in more deposits being classified as brokered deposits; and
- Significantly narrowing the existing primary purpose exception; and
- Increase the costs relating to bank-fintech relationships by eliminating or narrowing existing exemptions for exclusive arrangements, enabling transactions and primary purpose application frameworks.

III. Implications for Financial Stability

Small and mid-size banks serve an essential function in the banking industry, connecting local communities with financial institutions that tailor products and services to their specific needs. The 2022 FDIC Community Banking Study underscored the essential value of small banks by stating: “...*community banks hold the majority of banking deposits in U.S. rural and micropolitan counties, and that there are more than 600 counties—or almost one out of every five U.S. counties—that have no other physical banking offices except those operated by community banks.*” Ironically, while the proposed regulations aim to reduce systemic risk, they may inadvertently serve to destabilize the very institutions at the heart of many communities. Small and mid-size banks are typically more resilient in the face of economic downturns because they are deeply rooted in their communities, understand local needs, and foster long-term relationships with their customers. By constraining access to necessary funding through brokered deposits, the regulations in the NPR may lead to less liquidity for these smaller and mid-size banks, resulting in vulnerabilities that could challenge their stability.

Further, in the wake of the March 2023 banking crisis, publicly traded banks with higher brokered deposit utilization began to trade at valuation discounts to the industry, which raised concerns around financial stability. While brokered deposits represent a stable source of funding which can reasonably be used to fund timing mismatches between core loan and deposit growth, market participants remain cognizant of elevated reliance on such funds. Artificially expanding the perceived utilization of brokered deposits in the manner proposed in the NPR would likely further exacerbate the valuation disadvantage faced by smaller banks.

IV. Competitive Disadvantages

One of the primary concerns regarding the proposed regulations is that they could disproportionately impact small and mid-size banks by increasing their operational costs and restricting their funding alternatives. Larger banks, well-equipped to absorb operational and compliance costs, possess the resources to navigate such changes more adeptly. In contrast, community and regional banks, already facing thin margins and resource constraints, may find themselves struggling to adjust, ultimately driving some to curtail their lending activities or even face closure.

Moreover, small and mid-size banks often serve niche markets and localized communities. The proposed regulations could unintentionally incentivize larger banks to increase their market presence, drawing more customers away as smaller banks become growth constrained due to their inability to raise liquidity



with brokered deposits. This trend would exacerbate existing structural inequalities within the banking sector, further concentrating market power in the hands of a few dominant players.

V. Increased Operational and Compliance Burdens

The proposed regulations are likely to introduce additional operational and compliance requirements for small banks. These institutions typically have limited staff resources, and the imposition of complex regulations could result in resources being diverted from delivering banking products to the communities they serve. Such strains could distract from more productive activities, such as fostering relationships with local businesses and consumers, impacting the overall service quality and innovation that small banks can offer.

Additionally, the costs associated with compliance could lead to increased fees for consumers, which may deter clients from utilizing small banks. As their competitive edge diminishes, these institutions risk becoming less relevant to their communities, undermining the essential role they play in local economies.

VI. Conclusion

In conclusion, the FDIC's NPR states the proposed amendments would strengthen the safety and soundness of the banking system. As a mid-size regional bank, the potential negative impact of the proposed amendments on banks not considered "too-big-to-fail" are evident and cannot be overlooked. By introducing competitive disadvantages, increasing compliance and operational burdens, and, consequently, compromising the financial stability of these institutions, the proposed amendments could undermine the very fabric of community banking. Stakeholders must engage in a productive dialogue to ensure that regulations support financial stability without sacrificing the vital role that community and regional banks play in fostering economic growth and community engagement. Balancing the need for regulation with the realities faced by smaller institutions will be crucial to sustaining a diverse and robust banking ecosystem.

I respectfully urge the FDIC to consider these comments, as well as comments submitted by the American Bankers Association, and withdraw its proposed changes to existing brokered deposit rules.

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

Respectfully submitted,

Ira Robbins
CEO & Chairman
Valley National Bank