National Association of Industrial Bankers

National Association of Industrial Bankers
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IndustrialBankers.org

March 22, 2016

Mr. Robert E. Feldman, Executive Secretary
Attn: Comments
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Via Email to: Comments@FDIC.gov

Re: EGRPRA

Dear Mr. Feldman,

We appreciate the opportunity to respond to the Request for Comments published in the Federal Register on December 23, 2015 and commend the Federal Deposit Insurance Corporation (FDIC) for its continuing efforts to review and identify outdated or unnecessary requirements imposed upon insured depository institutions. Commenters have been asked to identify regulations or statutes that impose an undue burden on insured depository institutions or are no longer consistent with the way business is conducted.

We are submitting the following comments on behalf of the National Association of Industrial Bankers (NAIB)[1].

As part of the ongoing effort to reduce unnecessary regulatory burdens, NAIB urges the FDIC to review its antiquated view of broker deposits, and reevaluate its proposal to increase premiums on banks holding utilizing brokered deposits. The exclusion of brokered deposits from the definition of core deposits lacks foundation and can be easily remedied by the FDIC. As the definition of a "core" deposit is not in a regulation, but rather a financial report, such a change would not require publication and solicitation of comments. The FDIC's over-broad and outdated definition of the term "brokered deposit" does not reflect the underlying characteristics of the deposit accounts, and has resulted in undue and unnecessary burdens on insured depository institutions.

[1] First chartered in 1910, industrial banks operate under a number of titles; industrial loan banks, industrial loan corporations, or thrift and loan companies. These banks engage in consumer and commercial lending on both a secured and unsecured basis. They do not offer demand checking accounts but do accept time deposits, savings deposit money market accounts and NOW accounts. Industrial banks provide a broad array of products and services to customers and small businesses nationwide, including some of the most underserved segments of the US economy.

A bias in support of “core” deposits has morphed into a misguided belief that brokered deposits are the cause of widespread bank failures. However, brokered deposits have developed into an abundant, reliable and cost-effective source of stable funding for insured depository institutions. The stability of brokered deposits has made them a reliable source of funding in all economic conditions, even during a “run on a bank”. Once deposited, brokered CDs tend to stay in an institution until they mature and, as depositors don’t usually know which bank holds their money, there is no “headline risk” that results in a run on a bank. While some banks that failed held high levels of brokered deposits, brokered deposits are also held by some of the strongest and safest banks insured by the FDIC.

The failure of Barnes Bank in Utah presents an illustrative example of this reliability and stability of brokered deposits. Despite a strong and loyal customer base, Barnes Bank failed in 2010, when rumors of its failing condition were reported in local newspapers. At the start of the run, about 30% of the bank’s deposits were brokered. During the run, the bank lost about 15% of its total deposits over 10 days and eventually exhausted its liquidity. All of the deposits withdrawn were core deposits, while brokered deposits at the bank remained untouched.

Brokered deposits have also been proven to be very stable in bad economic times, with the supply of brokered deposits increasing dramatically during the Great Recession as consumers shifted assets to the safety of FDIC insured deposit accounts. As such, increasing premiums for holding brokered deposits can only be justified if brokered deposits are inherently risky, which is simply not the case. Some banks use brokered deposits as their primary funding source and yet have the highest capital levels, best profit margins, best efficiency ratios, and lowest delinquency and charge offs in the banking industry.

Nothing in the legislative history or purpose of the definition of “deposit broker” would support the use of the definition to implement policies beyond the narrow statutory limitations on weak institutions accepting brokered deposits. NAIB respectfully request that the FDIC review its use of the term “brokered deposit” in implementing various policies and determine if the definition is appropriate. Specifically, we request the FDIC review the exclusion of all fully-insured brokered deposits from the definition of the term “core deposit” used in the Uniform Bank Performance Report (“UBPR”) and request that the definition of “core deposit” be revised to reflect the actual characteristics of the underlying deposits. NAIB further request the FDIC review its implementation of the statutory definition of “deposit broker” to determine whether its interpretation of the term “facilitate” is unnecessarily broad to achieve the purposes of the statute.

NAIB looks forward to working with the FDIC to align the treatment of brokered deposits with the current economic reality.

Sincerely,

Frank Pignanelli
NAIB Executive Director