March 3, 2016

Mr. Robert E. Feldman
Executive Secretary
Comments
Federal Deposit Insurance Corporation
550 17th St.
Washington, DC 20429

VIA EMAIL TO: comments@FDIC.gov

Re: RIN 3064-AE37 Request for comments regarding proposed rulemaking to amend 12CFR part 327 to refine the deposit insurance assessment system.

Dear Mr. Feldman,

We appreciate the opportunity to respond to the Request for Comments published in the Federal Register on February 4, 2016 and commend the FDIC for its continuing efforts to find a fair basis for calculating deposit insurance premiums reflective of the risks presented by individual banks. We are submitting the following comments on behalf of the National Association of Industrial Bankers and the Utah Bankers Association.[1]

Some of our members have indicated strong disagreement with the proposed new methodology for calculating deposit insurance premiums. A number of our member banks will see substantial increases in their premiums, some as high as 170%. Yet by every normal measure of a bank's financial strength these banks are among the

---

[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.

The Utah Bankers Association is the professional and trade association for Utah's commercial banks, savings banks and industrial banks. Established in 1908, the UBA serves, represents and advocates the interests of its members, enhancing their ability to be preeminent providers of financial services.

strongest and safest banks operating in the nation. In these cases, there is simply no correlation between these banks' financial condition – which, after all, is the best predictor of a risk of failure – and the premium changes that would occur under the new premium calculation methodology.

Two errors in this methodology seem evident from our review of the Request For Comments.

The first error is using as a factor industry average loss rates for loan classes regardless of the specific circumstances of a particular bank. The asset rating in a bank's CAMELS ratings should be the only factor considered with regard to a bank's asset quality. CAMELS ratings are assigned by examiners on the ground, familiar with a bank's unique characteristics, including asset quality, underwriting standards and ALLL levels.

The second error is continuing to penalize banks for utilizing brokered deposits. While some failed banks have held high levels of brokered deposits, the proposed formula fails to recognize that brokered deposits are also held by some of the strongest and lowest risk banks insured by the FDIC. Increasing premiums for holding brokered deposits should only be justified if brokered deposits are inherently risky, which is simply not the case.

Banks do not fail because they hold brokered deposits. They fail because they make bad loans or have a liquidity crisis. The issue is how a bank uses its deposits, not the kinds of deposits it holds.

We recognize that when brokered deposits were first offered in the 1970s and 1980s rates paid on the deposits could be significantly above market and some banks used brokered deposits to rapidly develop new loan programs in a attempt to avert failure. Since then the markets have changes dramatically as they matured and stabilized. Brokered CDs are now a preferred investment for people seeking safety more than a high return. Deposit rates are slightly above market but more cost effective overall due to other cost savings. Contract provisions prohibit early withdrawal of CDs except in the case of death. Using brokered CDs facilitates match funding which correlates deposit inflows and withdrawals to loan demand and repayments and significantly reduce liquidity risks. Brokered deposits are now mostly used as a primary funding strategy for branchless banks. Development of branchless banks is an important trend that will continue to grow as banks increasingly find ways to develop loan programs that do not rely on depositor relationships to originate business. The advantages of the branchless model are readily apparent when comparing the efficiency ratios of branchless banks with the ratios of traditional banks with branch networks. Current policies should recognize these changes in the markets and the benefits brokered deposits provide to many safe and sound banks. Suppressing the development of branchless banks by penalizing the use of brokered deposits is not authorized by any law and represents a bad public policy.

In terms of stability, brokered deposits are now among the most stable deposits a bank can hold, and have been so for several years. Brokered CDs are virtually run-proof. Some banks hold only brokered deposits and yet have the highest capital levels, best profit margins, best efficiency ratios, and lowest delinquency and charge offs in the industry.

Industrial banks are a good example. Most industrial banks operate without branches and rely on brokered deposits more than other kinds of banks. For over 20 years industrial banks have been the strongest group of banks in the nation by every logical measure, yet many of these banks would see dramatic premium increases under the new formula. If accurately assessing risk is the goal of the new formula, banks that use brokered deposits prudently deserve a lower risk rating and reduced premiums as a result.

For the foregoing reasons, we support our member banks in urging the FDIC to remove brokered deposits and loan mix as factors used to calculate deposit insurance premiums. CAMELS ratings should be the core of any risk assessment. CAMELS captures the key risk variables and include an assessment of trends and conditions that may pose risks for future problems that are not manifested now.

We hope you find these comments helpful.

Sincerely,

Frank Pignanelli
National Association of Industrial Bankers
Executive Director
60 S. 600 E., Suite 150
Salt Lake City, UT 84102
IndustrialBankers.org

Howard Headlee
Utah Bankers Association
President & CEO
175 Main Street, Suite 1420
Salt Lake City, UT 84111
UBA.org