From: Chris R. Donnelly [mailto:cdonnelly@bankoftheprairie.com]
Sent: Thursday, February 21, 2019 2:11 PM
To: Comments
Subject: RIN 3064-AE94

Robert E. Feldman, Executive Secretary
Attention: Comments, FDIC
550 17th St. N. W.
Washington D.C. 20429

Mr. Feldman,

Thank you for allowing me to comment on RIN 3064-AD64 (Brokered Deposits)

Bank of the Prairie is a $140,000,000 Community Bank serving small business and consumer customers in Olathe, Kansas. Olathe is a suburb of Kansas City, Missouri and lies within the Kansas City MSA. Bank of the Prairie has two locations, both located in Olathe.

Brokered Deposits

Bank of the Prairie has historically funded the assets on its balance sheet with a variety of core deposits, internet deposits, reciprocal deposits and brokered deposits. In general, the bank has found that broker deposits can be a logical source of source of liquidity when used within a well laid out liquidity plan. The FDIC rules that restricts the use of brokered deposits when banks reach certain CAMELS quality ratings clearly lumps all banks into one category of risk with little regard to actual associated risk. On page 7 of the request for comment, when referring to Brokered Deposits, it is stated that "(1) such deposits could facilitate a bank's rapid growth in risky assets…., (2) once problems arose, a problem bank could use such deposits to fund additional risky assets to attempt to grow out of its problems ……. These two areas indicated a clear path for a bank attempting to grow out of a problem but this area does not distinguish the same deposit at a bank that is shrinking assets and reducing risk to risky assets. The use of brokered deposits as a liquidity tool should be considered directional depending on use of the deposit by the specific institution. It seems clear that a bank that is trying to grow out of a problem has significantly different risk profile then one that is attempting to shrink in order to maintain capital ratio levels and reduce risky asset acquisition opportunities. Throughout much of the request for comment document, it is stated that a bank tries to grow out of its problem and in no part of the comment document is there any information about banks shrinking asset size discussed. If it has not been done yet, I would suggest that a study of banks that were shrinking in assets be done to identify the risk differential between a growing bank and a shrinking bank. If the study has been done already, disclosing the loss data would be appropriate.

In addition, when one reviews the loss data supplied on pages 14 and 15, the size of the institution clearly makes a difference in risk to the insurance fund. In the request for comment document it clearly shows risk levels are significantly different between large institutions and small institutions. The analysis points to most of the brokered deposit risk to the insurance fund lies within much larger banks and in fact, smaller banks (under $1 Billion) present very little risk to the fund in a relative term. On Pages 21, 22 and 23 of the comment request, the fact that a small handful of large institutions with high levels of brokered deposits caused most of the damage to the insurance fund. It also states on page 21 that "47 institutions that failed" of the 530 total that failed between 2007 and 2017 relied heavily on brokered deposits. Loss ratios for small banks are not reported within the request document. It is recommended that loss data for banks under $1 Billion that failed be contrasted between banks that had brokered deposits and banks that did not have brokered deposits. Data of this nature should be available for review and would clarify different risk attributes.

Concluding comments on Brokered deposits, it seems clear that there is a significant differential between large and small institutions as well as a significant difference between institutions that are trying grow out of problems versus those that are shrinking to keep capital levels adequate. Tailoring rules to institutions individual risk characteristics would be appropriate. The FDIC could consider total brokered deposit limits similar to Reg O lending limits or legal lending limits already established on the loan side of the balance sheet. The lending limits move with capital and are self-restrictive when capital and reserve levels fall. A brokered deposit limit similar to that of a lending limit may provide a level of risk mitigation.

Interest Rate Restrictions

Interest rate restriction rules could provide a significant challenge to institutions due to vague and convoluted language within the rule especially when lumping large regional or multi-regional institutions and small local institutions into the same set of rules. It is clear that small local institutions that gather deposits from a small geographical area have a different risk profile then a regional or multi-regional institution. To subject the two institutions to the same interest rate restriction rule seems to suggest the deposit rates the two institutions face in their deposit gather areas are the same. The FDIC should consider all deposit gathering institutions when assessing the national average or a local market. The deposit gathering methods of institutions has changed significantly over the past 10 years. With the advent of large deposit gathering institutions using on-line presence and soliciting deposits from every corner of the country, the rates which small local institutions have had to be adjusted. In addition, credit union growth and their deposit gathering methods have placed additional strains on local FDIC insured institutions. As seen in the attached spread sheets created from a private rate publication of a local market, it is clear that interest rates can vary significantly between banks, credit unions and savings institutions. In fact, same term certificate of deposits and Money Market accounts can vary as much as 50% between credit unions, banks and savings institutions. These institutions are fighting for the same deposit dollar. Utilizing a 75-basis point cap can easily restrict the institution if they compete with other institutions not used in the rate average calculation. The FDIC should consider using private rate gathering companies to more streamline the rate level rule setting especially when it comes to rules set for small, local institutions and include all deposit gathering institutions. A one size fits all approach generally helps larger institutions and hurts small institutions.

Thank you for allowing me to comment.

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