marlin
business bank®

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

May 6, 2019

Re: Unsafe and Unsound Banking Practices: Brokered Deposits and Interest Rate Restrictions; Comment Request (RIN 3064–AE94)

Dear Mr. Feldman:

We appreciate the opportunity to comment on the Advanced Notice of Proposed Rulemaking ("ANPR") on brokered deposits and we do so having deep experience and success using such deposits.

Marlin Business Bank ("MBB") is a Utah state chartered Federal Reserve member bank located in Salt Lake City, Utah. MBB is a wholly owned subsidiary of Marlin Business Services Corp., a Bank Holding Company and a Financial Holding Company regulated by the Federal Reserve. Our de novo application was approved by the FDIC in 2007. We began operations in 2008, and we became a member of the Federal Reserve system in 2009. The FDIC approved our deposit insurance application with our deposit sourcing coming primarily from brokered deposits. Since our inception, we have gradually diversified our deposit funding, although we continue to use brokered deposits as a significant source of funding. We are a nationwide provider of small business credit in the form of term loans and leases for the purchase of "essential use" business equipment, with a small portfolio of small business working capital term loans. Our deposits are employed entirely to support our small business lending portfolio.

We reviewed the data provided in the ANPR relating to brokered deposits and the analysis provided on how that data correlates to bank performance. Of the banks that failed over the past decade, less than 2.5% held a majority of their deposits as brokered deposits. While the ANPR included useful information regarding the challenges posed to the FDIC historically, we believe these risks are manageable and that there are good and valuable uses of brokered deposits that provide not only funding for borrowing customers, but also a reasonable market rate for depositors. As the financial services markets evolve technologically, depositors in all parts of the country have gained access to market rates on their deposits and are not limited by the services offered by institutions in their specific geographic location. Brokered deposits have contributed to an efficiency gain for depositors regardless of their geographic location.

The significant majority of MBB's total deposits are Certificates of Deposit ("CDs"). CDs provide a natural and flexible way to minimize our interest rate risk on our fixed rate portfolio of assets. We closely match our assets with like-term CDs to provide a consistent and market rate credit offering to our small business customers purchasing equipment for use in their businesses.

marlin
business bank®

MBB's use of brokered deposits also allows us to operate without large investments in expensive branch networks to collect deposits, especially at a time when banks have reported diminished deposit gathering capabilities in their branches. Many banks have moved to nationally marketed online deposit gathering platforms. We can leverage the sales structure of outside companies, many of which are large regulated banks, instead of building a nationwide deposit sales group internally. This results in us lowering the overall costs to our borrowers.

The important issue of how the issuing bank is utilizing deposits still rests with the regulatory agency responsible for regulating each specific bank. We believe that high-risk asset strategies which lead to concentrations of risky assets, particularly those not within the management expertise of the issuing bank, should be addressed in the examination framework for that specific institution. The various Federal and State regulatory agencies have the authority to prohibit unsound banking practices and should have the flexibility to exercise that authority based on all of the facts and circumstances relevant to that institution. We assume that this risk is already being considered and priced into the current risk-based FDIC insurance costs which take into consideration lending types, CAMELS ratings, leverage ratios and several other risk-adjusted parameters, placing appropriately higher insurance premiums on higher-risk business plans.

While the FDIC cites that it has experienced elevated costs in certain circumstances where banks have used brokered deposits and managed their institutions in an unsafe and unsound manner, we maintain that there are many more banks like ours who operate a nationwide, branchless business in a safe and sound manner using some brokered deposits. We favor eliminating the brokered deposit surcharge on deposit insurance premiums and thereby place greater weight on the other components of the formula for insurance premiums. Those other components are more accurate predictors of risk. At the very least, we would propose an increased exemption on the level of brokered deposits from the premium calculation. We believe that the current level of brokered deposits exempted for the purpose of assessing FDIC insurance premiums, in consideration of modern technology-enhanced markets, should be elevated to a higher percentage for those banks. An exemption of 40% of assets for 1 and 2 CAMELS rated banks for the purpose of assessing the premium would indicate a more modern reflection of the risk premium required to compensate for the associated risk in today's market environment. The current exemption of 10% is far too low and is punitive to banks that responsibly employ brokered deposits.

It is our hope that the above thoughts on the ANPR are helpful to the FDIC as you consider the impact of brokered deposits on the banking industry.

Kind regards,

[redacted]

[redacted]

Raymond J. Dardano
President/CEO

Scott H. Simmons
Chief Financial Officer