GREAT SOUTHERN
BANCORP, INC.

May 7, 2019

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

Email: comments@fdic.gov Subject line: RIN 3064-AE94

Dear Mr. Feldman:

Springfield, Mo.-based Great Southern Bank appreciates the opportunity to comment on the FDIC's comprehensive review of the regulatory approach to brokered deposits and the national interest rate cap applicable to banks with weakened capital positions. It is encouraging that the FDIC has recognized that significant changes in technology, business models, the economic environment and banking products have necessitated this review. The interests of Great Southern Bank, and for that matter the entire banking industry, are aligned with that of the FDIC -- we all want a vibrant and resilient banking system. The advance notice of proposed rulemaking (ANPR) is the start of a necessary and productive public dialogue.

Well-Managed Brokered Deposits Programs Have a Place in Banking

For decades banks followed a branch-driven model with local customers providing core deposits. Technological advances in the industry have driven marketplace changes, including customers seeking traditional bank products with FDIC insurance through non-bank entities. Deposit brokers have filled this niche for customers while providing banks access to brokered deposits. In our experience, these deposits are a stable, safe and cost-effective funding source.

When managed properly, brokered deposits are an excellent funding source and can play an important role in a financial institution's overall liquidity and interest rate risk program. Like many banks in the industry, Great Southern has a long history of utilizing brokered deposits. Brokered deposits are attractive to us because we can create either fixed or variable rate stable funding with relatively long or short maturity dates, all as desired, which more closely match our loan rates. Unlike core deposits, where the account balance can be withdrawn prior to maturity with a penalty for any reason (including changes in market interest rates), a brokered deposit generally can only be withdrawn in the event of the death or court-declared mental incompetence of the depositor. Once the brokered deposit is invested, it generally stays for the full term and is far more predictable and stable than most core deposits. Additionally, the acquisition of brokered deposits oftentimes carries a much lower marginal cost than attracting core deposits.

For decades, brokered deposits have been perceived by some to be linked with bank failures. From our personal experience with bank failures, we did not see that brokered deposits were the problem. The real issue was that troubled institutions would acquire risky assets in an attempt to grow out of their problems, and they would fund the acquisition or origination of these assets using any funding source available (both brokered and core), at whatever rate was necessary to obtain such funding. This had a tendency to exacerbate the problem and negatively impact the ability of other banks to obtain funds in the market at reasonable prices. From our observations, we believe that the focus should be on how the funding is used, not the funding source.

The ANPR included the question, "Are there are any statutory changes that warrant consideration for Congress?" In response, we strongly encourage a statute that recognizes the positive effect that an appropriately managed brokered deposit program can have on a bank's liquidity and overall safety and soundness. This recognition would allow the banking system to make full use of an important, safe and effective funding source.

A New Methodology for the National Rate Cap is Needed

The national rate cap is a separate, but related issue in need of review. The national rate cap is currently established by taking a "simple average of rates paid by all insured depository institutions and branches for which data are available." We believe that the current methodology for calculating the rate cap is flawed, which has especially become apparent over the recent rising interest rate environment. Because banks with the most branches drive the calculation, the current rate does not accurately reflect the cost of deposits for community banks. The current rate calculation also does not include many real life products and specials that are readily available, or out-of-market competitors that are as close as a mobile phone. In today's rate environment, this means that the national interest rate cap falls significantly below actual market rates.

In addition, most banks, including Great Southern, routinely pay a much higher interest rate than the posted rate through a negotiation process with customers. We estimate that we currently negotiate interest rate terms on 70-80% of new and renewing CD balances. For example, our posted or default rate for a 12-month CD is 0.35%, but the negotiated rate for nearly 80% of new and renewing CD balances for the same term is approximately 2.24%. Our weighted average rate on our 12-month CD portfolio is currently 2.06%. The current national rate cap for a non-jumbo 12-month term is 1.40% and 1.48% for Jumbo CDs. Obviously, our common negotiated rate and weighted average rate is significantly higher than the current rate cap, but a rate that reflects the real market and is required to prevent a potential deposit outflow. We believe that our rate setting and rate negotiation process is similar to many community banks.

We believe that we are a very responsible bank and our interest rate offerings are neither the highest nor the lowest in the marketplace. Even with our somewhat conservative approach to interest rates, more than 70% of our time deposits currently are above the national rate cap; again emphasizing the need for a change.

The national rate cap should be a dynamic market rate that reflects local markets for banks of all sizes. Perhaps the rate restriction could start with a more reliable and realistic industry-recognized rate such as the Federal Home Loan Bank advance rate with a plus or minus basis points range.

The Definition of Well Capitalized for Purposes of Brokered Deposit Rules Needs Modification

Another area of concern is the cascading and detrimental effect on a healthy bank when it is placed under a capital directive by its regulators. Under the Prompt Corrective Action regulations, an institution under a capital directive is, by definition, not well capitalized. This immediately puts a bank in a more restrictive funding environment as it removes access to brokered deposit funding, and subjects the bank to manage its rates under the restrictions of the national rate cap. This could very easily set into motion severe deposit outflows creating liquidity problems and perhaps a failure, even if the restrictions result from a compliance matter and not from actual losses or insufficient capital.

Our recommendation is that the national rate cap should not be applied to healthy, well capitalized banks that are operating in compliance with a capital directive. Further, any such capital directive should have a phase-in period before it would require the bank to be subject to restrictions. Prudent regulation will many times require regulatory authorities to mandate that banks have higher capital levels because of risky operating characteristics. This current regulatory framework can put a regulator in an uncomfortable dilemma – if they require a bank to have higher capital as indicated by a risky operating strategy, then by doing so this could place the bank in a precarious position that could lead to an unnecessary liquidity crisis, and even a failure.

This ANPR is a welcome step towards modernizing the FDIC's approach to brokered deposits and the national rate cap. We appreciate the FDIC's consideration of our above comments and have confidence that changes will be made to reflect the realities of today's financial landscape and better fit how banks serve their customers. Thank you for your continued work and commitment to keeping the banking industry safe and sound.

Respectfully yours,

[redacted]

Joseph W. Turner
President and CEO
Great Southern Bank