February 17, 2020
Robert E. Feldman, Executive Secretary
Attention: Comments, Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: RIN 3064-AE94

Dear Mr. Feldman,

Thank you for the opportunity to comment on this topic.

The common-sense solution to everything addressed in this NPR is to take the advice of Chairman McWilliams as presented in her keynote remarks at the Brookings Institution on December 11, 2019.

She said, “One option to consider is replacing Section 29 of the FDI Act altogether with a simple restriction on asset growth for banks that are in trouble. This would be a far easier regime for the FDIC to administer, would at the very least limit the size of the FDIC’s potential exposure, and would more directly address the key goal of preventing troubled banks from using insured deposits to try to grow out of their problems. A simple limitation on asset growth would also be more durable and should retain its effectiveness as the industry evolves and as banks change the way they attract deposits over time.”

This solution to the brokered deposit issue would prevent the Section 29-caused discrimination against LMI (low and moderate income) and minority clientele in rural areas who are net-borrowers and whose financial institutions must look to the brokered deposit market in order to obtain funding for their borrowing needs.

Section 29 should be replaced as suggested above because brokered deposits are not now, and never were, the cause of losses to the DIF. This is a classic case where correlation does not mean causation. The losses to the DIF were caused by the risky investments and other dirty dealings that were done with the deposits obtained through brokers. Those risky and sometimes criminal acts and the resulting losses caused a stigma against brokered deposits that was and is ingrained in some regulators, even though the deposits themselves didn’t cause those risky behaviors. As a result of the negative view of those deposits, acquiring banks wanted no part of them and to this day most banks who would benefit themselves and their customers by using brokered deposits are loathe to do so.

Contrary to being the cause of losses to the DIF, brokered deposits when properly used are a valuable tool that is useful for asset/liability and liquidity planning, interest rate risk reduction, net interest margin improving, and deposit acquisition cost reduction.

As stated in a previous comment letter from our bank, we have found brokered deposits to be a stable, relatively low-cost, convenient, non-volatile source of funds for the past ten years. During that time, brokered deposits (BDs) have consistently been our best option for funding for these reasons:

1. Their availability enabled us to enhance our profit through multiple strategies that would not have been possible and/or prudent if not for the price and terms of the funds, neither of which were available from our core deposits.
2. Freedom from reliance on local hot money.
3. Until recently, we could obtain BDs for one-half to two-thirds of the price of core deposits.
4. Interest rate risk practically eliminated due to long terms available.
5. Increased stability due to no early withdrawal allowed except due to the death or adjudication of incompetence of the holder.
6. Readily available and simple to obtain.
7. No collateral required.
8. Administration and maintenance costs are a fraction of core deposits.
9. Optionality available, i.e. callable at our option.
10. Ability to structure asset/liability management in any term desired, not available from core deposits.

Our use of brokered deposits as well as other sources of wholesale funding to serve our clientele is vital to them and us. The current stigma and restrictions on brokered deposits at worst blatantly and purposefully discriminate against customers like ours. At best, there is disparate impact. We must either strive to protect our ability to obtain funding from sources outside our customer base, or tell our customers "We're sorry, you don't deposit enough money for us to be able to serve your needs."

Given the emphasis on economic inclusion, we would think that efforts would be made to consider the needs of customers of banks who provide loans and banking services to the very population targeted by that initiative.

Back to general principles, the restrictions on brokered deposits and the rate cap rules tie the hands of regulators who are trying to manage risk and protect the Deposit Insurance Fund. Simpler, more common-sense rules, as suggested by Chairman McWilliams, would be a welcome change and would work better for all stake-holders than the complex rules, regulations, opinions, guidance, and FAQ's we now seek to understand.

Our small, rural, FDIC-insured institution and our customers will be affected very little by the changes proposed in this NPR, because our use of brokered deposits is mostly the "classic" type. On the other hand, the flawed rate cap rule is still a threat to the DIF and to institutions like ours, who are paying market rates for both core and wholesale deposits, but current market rates are well above the current rate cap because of the incorrect data that goes into the calculation. That topic is where the real emergency will be felt in case of a severe economic downturn before it gets corrected.

Again, we appreciate that the FDIC is considering improvements in these regulations, and that we have the opportunity to comment.

Mary Fowler, CEO