Three Rivers Bank of Montana

Member FDIC

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Mission Statement:

Three Rivers Bank of Montana is independently owned and locally operated and is a vital contributor of time, talent, and resources to the communities we serve. We are dedicated to enhancing our shareholders value, and committed to making our work environment enjoyable, educational, and fulfilling.

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

March 2, 2020

Re: Unsafe and Unsound Banking Practices: Brokered Deposits Restrictions
RIN 3064-AE94

Dear Mr. Feldman,

I am CEO and a Board Member of Three Rivers Bank of Montana. I am a second-generation community banker. My father secured investment from the community for our initial capital to begin the bank venture back in 1973. We now have our third generation in the bank with my niece and nephew! Additionally, I am Montana's ICBA's Federal Delegate and I am reaching out with regard to the FDIC's proposed rulemaking regarding brokered deposit regulations.

As locally owned institution in Northwest Montana, I am concerned about the proposed rule and the impact it could have on community banks. The unclear language in this rule and the inability to use third-party service providers will cause additional costs to my bank. I use third-party providers for online banking services, our website, marketing as well as modeling and forecasting. Without third-party providers, I would not be able to offer the high-tech approach that my clients are looking for today.

Three Rivers Bank serves the people of Kalispell and the surrounding Flathead County area. In order to compete with the large megabanks/Credit Unions and regional players, we need to be able to offer innovative products and services while still maintaining the relationships that our customers have grown accustom to. The largest portion of our bank serves the small businesses of our area and we like to think that we are a small business ourselves, so we relate well to our customer base.

Unfortunately, as currently written, the FDIC's proposed rule would all but eliminate our ability to consult with and/or use industry innovators and third-parties service providers to assist us with our deposit offerings. This would severely impact our business causing us to step back in time operationally; hire additional personnel to manage product development; limit our deposit offerings and essentially cede our customer relationships to local credit unions and the larger institutions that are not impacted by the

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proposed rule restrictions and thus, can offer the type of deposit accounts that we engage third-parties to assist us with.

It also appears to me that the FDIC has not considered the negative effect the proposed rule will have on community banks if implemented as currently written. For example, our institution offers a series of free checking accounts that provide our customers with a suite of rewards and reimbursements of other institution's ATM withdrawal fees when they utilize specific services from our institution – direct deposit, debit card, online bill pay, etc. We utilize a third-party to help us manage the distribution of these rewards and to consult with us on how we can expand the direct relationships we establish with individual depositors via these attractive accounts. As currently written, the first and third prong within the proposed rule's "facilitating the placement of deposits" definition would eliminate our ability to engage this third party and we would be left with one of two decisions – bear the brunt of these deposits being treated as brokered or withdraw the accounts and replace the corresponding deposits with other sources of fund--likely either 1 year or 5 year certificates of deposits.

As exhibited below, this would be an extremely expensive alternative for our institution as the non-interest income generated within these accounts offsets both the interest and non-interest expense of these accounts, which will not happen if these funds have to be replaced with certificates or other traditional depository products. Here is the analysis we've done, should we have to declare these deposits brokered and replace them with 1 or 5 year CDs:

	3rd Party Assisted Deposits	1 Year CD	5 Year CD
Average Balance of Reclassified Funds	$ 7,500,249.90	$7,500,249.90	$7,500,249.90
Cost of Funds	0.52%	1.215%*	1.872%*
Interest Expense	$ 40,601.00	$ 91,128.00	$ 140,404.70
Non-Interest Expense	$ 71,167.90	$ 0	$ 0
Non-Interest Income	$ 142,922.30	$ 0	$ 0
Net Cost of Deposits	$ (31,153.40)	$ 91,128.00	$ 140,404.70
Net Percentage Cost	-0.42%	1.215%*	1.872%*
Total Savings vs CDs		$ 122,281.40	$ 171,558.10

* Source: https://www.depositaccounts.com/cd/#rateTrend

Net, net, having to replace the impacted deposits would cost my institution more than $120,000 per year, economically harm my customers and likely result in my institution losing long standing relationships with depositors who will look to other institutions for more attractive checking accounts.

Surely, it can't be the FDIC's intent to deny my institution the ability to compete with credit unions and our country's large regional and national banks and drive my operational costs up and my profits down while economically harming my customers as I watch them switch to other financial institutions that are not impacted by the proposed rules.

I trust that with some changes to the brokered deposits rule, we could find a balance between the FDIC's intentions and the ability for community banks like mine to continue to innovate and compete. Some recommendations are below:

1. **Create an exemption for providers to banks that <u>excludes</u> anyone who provides services to a bank where the relationship is established directly between the bank and the individual depositor.**

2. **Implement a bright line test to apply the primary purpose exception for stable sources of deposits residing in transactions and relationship-based accounts. This type of deposit demonstrates the relationship between my institution and the depositor.**

3. **Narrow and clarify the definition of "facilitating the placement of deposits" in proposed section 337.6(a)(5)(ii) so that it does not include third-party service providers who help us operate our business in a safe, sound, and innovative manner.**

4. **Grandfather all prior FDIC Advisory Opinions so that my current relationships with industry partners are not compromised by the rule.**

Thank you for taking the time to read about my story and suggestions. Coming from a family of community bankers, I want to ensure that the industry is here for future generations so we can continue to serve our community with the most innovative products that our customers desire.

Sincerely,

[redacted]

A.J. King
CEO, Three Rivers Bank of Montana

CC: Jim Brown, Executive Director Montana Independent Bankers Association

CC: Pete Johnson, Newly Elected Montana's ICBA Federal Delegate

CC: Joe Schneider, SVP, ICBA State Relations