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PIONEER BANK

March 18, 2020

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

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

Dear Mr. Feldman,

On behalf of Pioneer Bank in Minnesota, I am writing in response to the Federal Deposit Insurance Company's ("FDIC") February 10, 2020 notice of proposed rulemaking ("NPR") regarding brokered deposit restrictions.

We appreciate the opportunity to comment on this proposed rule and we understand the FDIC's need to update the current rule to reflect new banking practices. However, upon reviewing the proposal, I am concerned about the "facilitating the placement of deposits" definition as it seems exceedingly broad and, in my opinion, would inappropriately result in many of our third-party service providers being deemed to be "deposit brokers." As you can imagine, we do not have the in-house expertise or resources to design, develop and offer the technology, products and services that consumers desire in today's age, therefore we rely on third parties.

Over my 33 years with Pioneer Bank, I have watched our community bank grow from one location to a ninth location coming this summer. We are the only bank in town for some of our communities in south central Minnesota and we are a leader in our community. Pioneer Bank serves consumers, small businesses, and farmers and our growth is due to our commitment to our community. Accordingly, I write this letter today on behalf of all the communities we serve and ask that the proposed rule be overtly revised so that our institution and community banks across the country are free to use third parties without running afoul of the proposed rule definitions. Third party service providers enable us to deliver benefits to our customers such as account rewards, online banking and other capabilities that help us attract new customers and their associated deposits which we in turn then use fund loans for local farmers and businesses. In addition to unique product and service offerings these external resources help us offer, third parties help us leverage internal and external data as well as consumer behavioral analysis to help us understand how we can best meet the emerging demands and needs of our customers and the unique communities we support.

With that as a backdrop, I am confused about the FDIC's proposed language, for it seems that as currently written, any third party that helps us with data or assists us in optimizing our deposit offerings would be deemed to be "facilitating the placement of deposit." Without trying to mischaracterize or misinterpret the proposed rule's written language, this determination would be true even though our third parties we utilize have no relationship, direct or indirect, with any of our bank customers and the services they provide are provided directly to our institution, are executed under our direct supervision and expressly support our business objectives and strategic plans. While I believe the proposed "facilitation" definition is intended to capture activities of those external entities that play an active role in the opening of an account or maintain a level of influence or control over the deposit account after the account is open, I am forced to respond to the words as currently documented in the proposed rule and as such, I respectfully request for the following revisions to be made to the proposed rule:

- Third-party service providers that help me to establish direct relationships with individual depositors should be expressly excluded from the definition of deposit brokers or, at minimum, there should be a bright-line standard under the primary purpose exemption within the rule to exempt such third parties.

- Implement a bright line test to apply to the primary purpose exception for stable sources of deposits residing in transaction and relationship-based accounts. These deposits are associated with direct, individually-gathered relationships that we have established with the depositor, do not pose any risk to the Deposit Insurance Fund and increase the franchise value of my institution

- The proposed definition of "facilitating the placement of deposits" focuses on the activities of third parties. I respectfully ask that the definition be revised so that it does not inappropriately capture third parties who provide services to banks that enable the banks to establish deposit accounts directly with individual depositors. While I am not sure I completely follow the March 2, 2020 Staff Memorandum, I believe the FDIC is trying to specifically address entities that actively control the depositor relationship and funds. In my opinion, the rule should be revised to exclude third party service providers who have no contractual relationship with any depositor to place, manage or control their deposits….thus, they would play no active role in the opening of a deposit account nor maintain any influence over the depositor or her/his funds once the account is opened.

Furthermore, it seems that the FDIC in both the proposed rule and in the subsequent memo, have not considered the adverse economic impact on community banks if deposits that are attributable to some third party service provider involvement in the deposit gathering supply chain were to be deemed to be brokered upon enactment of the proposed rule. We would either be forced to treat those deposits as brokered; stop using third parties or withdraw the account and replace the associated deposits with other sources such as CDs. For example, if we were forced to replace our extremely popular reward-checking deposits with 1 or 5 year certificates of deposits, this would be an extremely costly proposition as the non-interest income generated within these accounts offsets the interest and non-interest expense associated with these accounts. As you can see below, this would not be case if I had to replace these deposits with CDs. **It would cost my bank more than half million dollars per year**. Additionally, it would impact our liquidity plans and would have a lasting impact therefore on how much money we could lend, severely limiting economic growth within the communities where we are the only lending institution operating in the area.

	3rd Party Assisted Deposits	1 Year CD	5 Year CD
Average Balance of Reclassified Funds	$ 27,470,510.80	$ 27,470,510.80	$ 27,470,510.80
Cost of Funds	0.72%	1.215%*	1.872%*
Interest Expense	$ 177,700.60	$ 333,766.70	$ 514,248.00
Non-Interest Expense	$ 307,288.90	$ 0	$ 0
Non-Interest Income	$ 701,317.80	$ 0	$ 0
Net Cost of Deposits	$ (216,328.30)	$ 333,766.70	$ 514,248.00
Net Percentage Cost	-0.79%	1.215%*	1.872%*
Total Savings vs CDs		$ 550,095.00	$ 730,576.30

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

The irony in this situation is that community banks are chartered to provide public good to the communities they serve. But in order for us to best serve our communities, we must be able to freely use third parties to help us offer the innovative products, digital capabilities and personalized engagements that our customers want. We can't support our customers in the manner that they want to be supported if we can't utilize external resources. The proposed rule, as currently written, makes me wonder why the FDIC would propose a rule that would discourage innovation and restrict industry collaboration that benefits the public? I don't see how the proposed rule revises the current statute in a manner that reflects modern banking practices and consumer preferences when it limits my ability to operate my business more efficiently and restricts my ability to support my customers and serve my communities.

I respectfully request the FDIC review my recommendations and incorporate them, within its final rule as the current language within the proposed rule harms consumers and hinders our ability to remain a viable alternative to our country's large regional and national banks, who, by-the-way, are choosing not to invest in the small and rural communities that institutions like mine support.

Thank you,

[redacted]

David Krause
Chief Executive Officer
Pioneer Bank