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Attn: Comments,
Room F-1072
Federal Deposit Insurance Corporation
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RE: Proposed Agency Information Collection Activities Comment Request
Federal Register / Vol 75, No 189 Thursday September 30, 2010
Consolidated Reports of Condition and Income (FFIEC 031 and 041);
OCC 1557-0081; **FRB** 7100-0036; **FDIC** 3064-0052

Ladies and Gentlemen:

I appreciate the opportunity to comment on the proposed call report changes. While the request covered multiple areas of information, I will restrict my comments to the proposed "Memorandum Item for the estimated amount of non-brokered deposits obtained through the use of deposit listing service companies".

I am concerned that the proposed requirement apparently recognizes no differences among listing services. Instead, the memorandum item seems to reflect the incorrect assumptions: that all listing services serve the same types of customers; that they all represent high-cost, high-yield deposits; that all listing services operate the same; and that they impose equal burdens on banks relative to the control and tracking of deposits.

Not All Listing Services Serve the Same Types of Customers.

The agencies appear to have an absolute misunderstanding that all listing service deposits are the same and that all deposit listing services are a high-yield source of funds. A singular grouping of all "listing service deposits" will overlook the fact that listing service companies often serve different markets. Some are open to the public and serve retail customers (consumers). Other listing services, such as QwickRate, are private marketplaces open only to institutional investors.

The agencies appear to assume that institutional and retail depositors will have the same characteristics regarding rate sensitivity and volatility. This assumption is incorrect. Retail depositors are clamoring for as much yield as possible, since many rely on the interest earned on their CDs as part of their monthly income. For this reason, many bankers often consider retail deposits to be highly rate sensitive and volatile, both when purchased locally in the community and through a listing service.

Institutional investors, on the other hand, focus primarily on the safety of a CD deposit and typically distribute their investment dollars across many financial institutions so that each deposit may be fully insured. This practice, combined with market saturations and the administrative requirements associated with managing a large portfolio of individually insured CDs, promotes a less volatile, buy-and-hold philosophy among institutional investors.

Listing services that restrict their marketplace participation to institutional investors only, such as QwickRate, offer banks an opportunity to secure national market deposits that are less volatile than deposits generated via an uncontrolled listing service that serves both institutional and retail depositors. The proposed Memorandum requirement completely ignores this distinction.

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Not All Listing Service Deposits can be Easily Tracked and Controlled.
In addition to their audiences, listing services are also distinguished by unique capabilities that enable banks to monitor and control the flow of deposits. Such differences vary greatly among listing service companies. Some companies provide no controls or monitoring capabilities to their customers; other listing service companies provide facilities that enable their issuing members to streamline the collection of information about their deposits. The QwickRate deposit listing service, for example, has always provided banks with tracking utilities and reports that will allow for the analysis of deposits being generated in the QwickRate marketplace. In QwickRate, banks can move freely in and out of the market to better manage their deposit activities.

If listing services do not make information management capabilities available to CD issuers, the requirements imposed by the proposed Memorandum change will place undue burdens on the financial institutions receiving deposits through their services. The banks will have to accumulate and report on their levels of transaction activity across all types of listing services. This may be a difficult task to accomplish at best, and in some cases nearly impossible to do.

Many types of listing source and Internet deposit opportunities exist for financial institutions. For example, when a financial institution lists its rates on an uncontrolled “open” bulletin board such as BankRate.com, a primary source of *free CD rate information for consumers*, there is no guarantee that the institution will be able to track any deposits back to this listing. Most retail depositors will simply reference the information listed on the bulletin board and then contact the institution directly—without identifying a listing service advertisement as the source for their deposits. If the bank does not have a process in place to properly tie the depositor to the listing service advertisement, that affiliation and the resulting deposit would not be recognized as a non-brokered Internet deposit and would not be noted as such in the call report Memorandum. In most cases, this would default to a core deposit classification.

Further complicating matters is the fact that some public, open listing services, national publications and rate-advertising Websites will post a bank’s rate without the bank’s authorization. These sources routinely pick up the bank’s rates from its own Website, without the institution’s knowledge. Because the bank did not initiate the advertisements (and may not even be aware that they exist), the bank will not be able to quantify deposits coming from these other sources for the purpose of the call report. To properly implement the tracking of Internet deposits emanating from a deposit listing service or other online source, banks will be forced to incorporate additional policies and procedures to not only identify the customer (CIP) but also to track the Internet-based referring agent associated with the deposit. As a closed, member-only listing service, QwickRate eases administrative burdens for our financial institution subscribers with built-in tools that help them easily identify investors. Such is not the case with most or all other listing services; they have no facilities like these in place.

Additionally, the agencies apparently fail to consider the banks’ efforts to generate national market deposits through their own consumer-facing Websites. Many banks post high rates on their Websites. Non-core deposits enabled by these means have the same potential for volatility and rate sensitivity as deposits generated by consumer-oriented listing services. Unless the agencies intend to include deposits generated via the bank’s own Website, or to otherwise address the differentiation of these deposits, the agencies will not accomplish their intended goal of collecting accurate information about non-brokered Internet deposits through the proposed Memorandum item.

Not All Listing Services Represent a Source of High-yield Liquidity.

The agencies appear to incorrectly believe that all listing service deposits represent a source of high-yield liquidity. It is true that *investors who focus on yield* can identify high-yielding deposit sources through the Internet, CD listing services and other automated services. It is NOT true that all investors who use these services *are only focusing on yield*.

We are troubled that the agencies' proposed addition of the Memorandum item seems to position all deposit listing services as "high yield" deposit sources, regardless of whether they serve consumer investors looking for high rates or institutional investors who are focusing on safety.

History has shown that, in many environments, a bank's local market rates will be much more competitive than those necessary to attract deposits through an Internet deposit listing service. Consider the recent revisions to Part 337.6 of the FDIC Rules and Regulations regarding interest rate restrictions. The agencies fully acknowledged that institutions may be operating in a very competitive high-rate environment locally where the national rate caps would hinder their ability to compete for deposits.

The agencies also seem to be unaware of the impact created by the rate caps established and published by the FDIC. These rate caps effectively control national market CD rates and deposit costs, as reflected in rates posted in the QwickRate marketplace. Since January 1, 2010, "institutional" non-consumer rates in the QwickRate marketplace have consistently been posted at or below the national rate caps (see graphs below). Even well-capitalized institutions that are not subject to interest rate restrictions are using the restrictions as rate-setting guides when offering CDs to other institutional investors.

In contrast, a recent survey of regional 12-month CD rates (Rate Watch) shows that in many environments, banks are offering rates far in excess of the interest rate caps when generating deposits locally. Based on this evidence, it is clear that the agencies are promoting an incorrect characterization of a large portion of listing service deposits by suggesting that all Internet deposits should be combined and evaluated in one Memorandum category.

The Memorandum Change may Dissuade Further Examination.

We are also greatly concerned that the proposed Memorandum will encourage examiners to simply apply a blanket assumption of volatility and rate sensitivity to all deposits listed in this line item category. Examiners may interpret the agencies' move as an indication that they need to minimize time spent analyzing the nature of risk in a bank's depositor base for this category—an interpretation that will lead to incorrect assumptions regarding a bank's exposure to rate and volatility.

Financial institutions who utilize the QwickRate marketplace report that examiners often lump deposits generated as a result of a deposit listing service into a "wholesale" category without first evaluating the actual characteristics of the deposits. By characterizing the deposits as wholesale, the examiner assumes that the deposits are rate sensitive and volatile—an assumption which often leads to criticism of the bank's use of listing service deposits. Many banks are concerned that the primary reasoning behind the proposed Memorandum line item is to simplify the categorization of listing service deposits into a "wholesale" category. This again, would lead to a potentially inaccurate characterization of certain categories of listing service deposits and would be an unfair assessment for the bank.

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Federal agencies have explained in several public forums that examiners are currently going to great lengths to properly identify the potential risk characteristic of a bank's deposit base and that they will consider supplemental information such as rate comparisons and deposit retention percentages prior to assigning a "volatile" classification to a bank's deposits. We applaud this effort. The QwickRate deposit listing service has always provided banks with tracking utilities and reports that will allow for the analysis of deposits being generated in the QwickRate marketplace.

Due to the fact that QwickRate deposits are some of the only readily quantifiable Internet "listing service deposits" in the market, there is a huge concern that this proposed Memorandum line item will perpetuate incorrect assumptions being made against QwickRate deposits specifically. QwickRate's bank subscribers are already providing examiners with detailed information regarding rates, concentration, and retention experiences associated with deposits generated through our marketplace. This information will be much more beneficial to the examiner's evaluation of the bank's deposit structure than a single comingled line item in the call report.

If the agencies persist in singling out listing service deposits on the call report, a single line item analysis will prove to be much too general to meet their intended goals. To properly evaluate these deposits from a risk management and volatility standpoint, they should be quantified by depositor type (retail or institutional), and categorized by the source of the deposit (a closed "controlled" deposit listing service where deposit-generating activities are planned and monitored, or a random and uncontrolled open format). A significant level of detail is required to properly identify and distinguish the various categories of Internet depositors. This level of detail far exceeds that which can be provided when all the categories are simply labeled together in a single line item on the call report, as the proposed Memorandum would require.

In Conclusion

For all the reasons cited above, we respectfully request that the agencies withdraw the proposal to add a single Memorandum line item to the call report to identify deposits obtained though the use of the Internet, deposit listing services and other automated services. We believe that such a move will serve only to advance inaccurate characterizations of these deposits and to cloud examiners' correct analysis and evaluation of the risk factors associated with a bank's depositor base. In fact, we believe that the proposed Memorandum change may well result in a reduction of examiner efforts to analyze the risk factors associated with a bank's depositor base. We do encourage the agencies to promote education regarding the differentiations among the types of listing services that are available to financial institutions. Further, we also encourage agencies to require that examiners continue to evaluate depositor characteristic and the banks' historical experiences in regards to rate comparisons and the ability to retain deposits at maturity.

Sincerely,

Debbie Walker

Debbie Walker
Director of Regulatory Compliance
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National Rate Caps and QwickRate Marketplace Comparisons