

From: David Woodcock [<mailto:david@farmerstrust.com>]
Sent: Monday, February 11, 2019 11:55 AM
To: Comments
Cc: David Woodcock
Subject: RIN 3064-AE94 Brokered Deposits and Interest Rate Restriction

Feb. 11, 2019

Dear FDIC,

Thank you for allowing me to comment on your comprehensive review of the regulatory approach to Brokered Deposits and Interest Rate Caps.

I desire to just make some overall general comments on Brokered Deposits and Interest Rate Caps.

Brokered Deposits:

We are a unique, one branch, rural community bank in NW Iowa, with assets over \$425 million.

I have always been a believer in Brokered Deposits as a very efficient means of re-allocating deposits from where they are located to where they are needed. I think my views might best be expressed as a story.

In Iowa, and the upper Midwest, agriculture is a big deal. As you know, farming is capital intensive (land, machinery, and input costs), which takes a lot of capital or borrowing to support their operations. Also, farming has been tougher the last few years, with limited profitability, and therefore, lack of deposit generation. Housing, hospitality, and commercial office space is also doing well in Iowa and requires again capital and loans. Many manufactures are also plowing their income back into expansion, new machinery, and raw materials, therefore, drawing down deposits. All this has driven many banks in Iowa have Loan to Deposit Ratios over 80%, and several in our area operate at over 100% L/D Ratios.

Therefore, quality loans are available in Iowa, however, we need a means to fund these loans.

Sorry to say, individuals that still like to place their deposits in banks either 1) live in the Sand and Sun States (FL, TX, AZ, NV and CA) or 2) have left Iowa for one of the top 10 states in America with no and lower State Income Tax. Also, Iowa's population has not grown in the last 110 years, so there is no growing source of deposits in rural Iowa. Likewise, most of the excess liquidity of the younger generations is going into Mutual Funds, 401(k) Plans, or into equity markets around the world and not into banks. Therefore, funding concerns and issues remain.

Thus, my reason for embracing Brokered Deposits. Currently, we have around \$50 million in Brokered Deposits funding our assets. Every year, as loan demand remains strong and deposits leave Iowa, our level of Brokered Deposits is always increasing.

Community banks also remain a strong supporter in the areas they serve, and their loss would be missed and a detriment to rural Iowa.

Therefore, I hope you will revisit your stance on Brokered Deposits and embrace them as a stable funding source.

Let's look at the options. Currently, we use Brokered Deposits to support our loans, and we remain profitable. If we don't have access to Brokered Deposits, we become a smaller bank, most likely unprofitable, partially due to the cost associated with regulations. Without the profits to support our community, rural Iowa becomes more rural. Then, if we can't meet the loan demand, client needs will be served by Government Sponsored Enterprises, or out of area, or foreign banks, which lack the desire to support financially, the communities they serve. Community banks are the life blood of many rural towns and cities, therefore, reallocation and easy access to out of area deposits is a must to survive.

Yearly, as we grow, and as I shared above, out of area deposits becomes a large piece of our funding needs. The regulatory view and acceptance of Brokered Deposits has to change.

Interest Rate Caps:

While we have always remained Well Capitalized, and have not had to deal with Rate Caps in the market and world we live in, if a bank becomes less than Well Capitalized, they are in for a rough ride. At a minimum, any Rate Caps have to be much closer to current market rates to be effective, whenever a financial institution becomes undercapitalized.

As folks become older, they become more conservative, and therefore, focus on fixed income products, such as bank deposits, municipal bonds, etc. Likewise, they also have a great need for income, therefore, driving them to seek the highest, safe alternatives available in the marketplace. Around year end 2018, your published (Rate Caps) on savings, money market, and short term CD's rate was around .75% to 1.00%, while currently, on line financial firms are offering upwards to 2.20% on money market deposits. Individual behaviors do change, and funds will leave those banks seeking the best rates available. Our cost of funds for January 2018 was 1.54%, and we just placed an order for several Brokered CD's in the 2.55% to 2.70% range. We could not operate if we were ever restricted to have to comply with Rate Caps.

As stated, Rate Caps need to be closer to market rates, and if you do that, why have Rate Caps at all?

Closing:

Thanks for considering my comments and I support any new thinking on Brokered Deposits and Interest Rate Caps.

Respectfully submitted,

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