



**William P. Hayes**  
Chairman and CEO

May 6, 2019

**COPY**

The Honorable Jelena McWilliams  
Chairman  
Federal Deposit Insurance Corporation  
550 17th Street, N.W.  
Washington, D.C. 20429

Re: Application of the National Rate Cap to Healthy Institutions

Dear Chairman McWilliams:

I am writing in response to your request for comments on regulations regarding the use of the national rate cap in assessing potential safety and soundness concerns related to deposit rates paid by otherwise healthy (not troubled) banks. In a recent examination, we were informed that liquidity stress tests should accommodate consideration for the imposition of limitations on deposit rates paid by an institution in the event that the institution fell below well capitalized. As a healthy, well capitalized bank, we were surprised to have this metric introduced into the conversation around liquidity risk measures for our institution. We were then further surprised when the examination team presented the actual graph showing the movement of the national rate cap over the time period preceding, and then concurrent with, the Federal Reserve's actions to raise short term rates. We were shocked to see that in juxtaposition to the Fed's rate increases and rising deposit rates in our own local market, the average national deposit rate chart had moved only marginally higher.

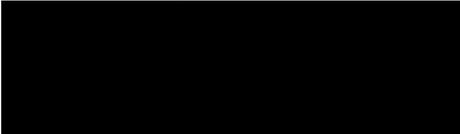
I am sure you can appreciate why the alarm bells were ringing. As a regional community bank actively focused on meeting the needs of our businesses and consumers, both depositors and borrowers alike, the use of the national rate cap suddenly loomed as a potentially powerful obstacle in our efforts to meet customer needs. This realization was especially troubling because the businesses and individuals who are seeking relationships with us are doing so principally because of the unresponsiveness of large national franchises that make up the bulk of the average national deposit rates being captured in the national deposit rate cap measurements.

To put it simply, the method for calculating the current national rate cap is deeply flawed. It is a flaw that is further exacerbated by the rising rate environment and the inclusion of deposit rates from the largest and most deposit rich institutions, and the exclusion of other factors like local competition and the health and stability of the institution where these constraints could be applied. That is especially true of smaller institutions committed to meeting both the deposit and borrowing needs of its customers with rates that are reflective of current market conditions and which can safely support the growth strategies of local institutions.

We understand and appreciate the FDIC's critical role in preserving the integrity of the FDIC insurance fund and protecting America's depositors from risk of loss from overly speculative institutions with little capital or other mechanisms to manage risk. Following the excesses of the 1980's, Congress envisioned the national rate cap as a brake on risky practices by troubled banks. As a bank CEO since 1983 who has remained with the same institution, I can testify to the need for this provision during the time period of runaway S&L's and national brokered deposit fueled excesses. 30 years later, it is an outdated and ill-suited metric that never contemplated the current interest rate environment or current capital levels and risk management practices. Until there is rationality restored to this issue, I urge you to restrain examiners from applying the national rate cap to healthy, well capitalized banks.

Thank you for your request for input on this troubling, anti-competitive issue. We look forward to a thoughtful and reasoned outcome to this discussion.

Sincere regards,



William P. Hayes  
Chairman and CEO

cc:

The Honorable Joseph M. Otting  
Comptroller of the Currency  
Office of the Comptroller of the Currency

The Honorable Martin J. Gruenberg  
Director, Federal Deposit Insurance Corporation

Eric J. Bowman  
Supervisory Examiner  
Federal Deposit Insurance Corporation