



**COMMUNITY
STATE BANK**
WHERE TODAY MEETS TOMORROW

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

March 10, 2020

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

Dear Secretary Feldman,

I am CEO, President and Director of Community State Bank in Starke, Florida. We are currently the oldest community bank in Bradford County as a 63-year old institution and the only independent, privately held bank in Union and Bradford counties. Since our charter, we've had a mission to serve the financial needs of the surrounding areas and we've taken necessary actions to promote and advance the communities' financial needs while striving to achieve our internal objectives. I have concerns on the proposed rulemaking regarding brokered deposit restrictions and how these new rules could impact our ability to serve the community and reach our goals.

The need for core quality deposits has been the driving force of our bank's strategy and significant focus has been placed on deposit and loan generation. We've implemented a number of third-party vendors to support programs like free personal and business checking, remote deposit capture, personal and business credit cards, enhanced online banking, our website and other related services. This deposit generation has afforded our bank the base for increased net interest margin above our peer groups, primarily due to a 60/40 mix of accounts paying interest versus non-interest account types and a very low cost of funds.

As stated in our motto Community State Bank is "Where Today Meets Tomorrow" and in order to serve our customers with tomorrow's innovations we need access to third-party

WHERE TODAY MEETS TOMORROW

MEMBER FDIC • P.O. DRAWER 460 • STARKE, FLORIDA 32091 • (904)964-7830 • FAX (904)964-4432

WWW.COMMUNITYSTATEBANK-FL.COM

vendors. Without this ability to offer competitive products, we would lose customers to larger regional or national megabanks. It seems to me as if the FDIC has not contemplated the unfavorable financial impact the proposed rule would have on our ability to offer competitive accounts to customers. The proposed rule would force us to either: treat those deposits as brokered or stop using third parties and withdraw the account and replace the associated deposits with other sources, for example one- or five-year CDs. This would be a costly alternate as the non-interest income generated within these accounts offsets the interest and non-interest expense of these accounts, which will not happen if these funds have to be replaced with CDs. It would cost our bank more than a quarter of a million dollars per year based on my calculations.

	3 rd Party Assisted Deposits	1 Year CD	5 Year CD
Average Balance of Reclassified Funds	\$ 4,283,763.60	\$ 4,283,763.60	\$ 4,283,763.60
Cost of Funds	0.26%	1.215%*	1.872%*
Interest Expense	\$ 7,550.90	\$ 52,047.70	\$ 80,192.10
Non-Interest Expense	\$ 104,720.10	\$ 0	\$ 0
Non-Interest Income	\$ 314,949.80	\$ 0	\$ 0
Net Cost of Deposits	\$ (202,668.90)	\$ 52,047.70	\$ 80,192.10
Net Percentage Cost	-4.73%	1.215%*	1.872%*
Total Savings vs CDs		\$ 254,716.60	\$ 282,861.00

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

In order to ensure that the new proposed rule does not negatively impact community banks across the country, I feel that there needs to be some modifications made. Below are my proposals.

1. Exclude from the deposit broker definition a third-party service provider who enables a bank to enter into a direct relationship with an individual depositor. If such an express exclusion is not acceptable to the FDIC, then Staff could create a bright-line standard under

WHERE TODAY MEETS TOMORROW

MEMBER FDIC • P.O. DRAWER 460 • STARKE, FLORIDA 32091 • (904)964-7830 • FAX (904)964-4432

WWW.COMMUNITYSTATEBANK-FL.COM

the primary purpose exemption within the rule, to exempt such third-party service providers. We should not be constrained from establishing direct depositor relationships via bank-controlled products supported by third-party service providers.

2. Exempt from the deposit broker definition all transaction and relationship-based accounts where a bona fide independent relationship is established directly between a bank and an individual depositor. Transaction accounts and deposits associated with individuals who use multiple services (i.e. checking, savings, direct deposit, online bill pay, debit card, credit card, loan, wealth management) from my institution are stable sources of funds upon which I can safely and soundly operate my business, and do not put the deposit insurance fund at risk. These types of accounts are clearly distinguishable from other types of programmatic deposits that are of interest to the FDIC. Transaction accounts and relationship-based accounts should be exempt from any brokered deposit treatment, as I own the depositor relationship directly.

3. Limit the definition of "facilitating the placement of deposits" proposed in section 337.6(a)(5)(ii) so that it does not unintentionally ensnare third-parties who provide services to banks in connection with deposit accounts that are established directly between the bank and an individual depositor. The reach of the proposed definition likely would cover many of the third-party activities that community banks rely on to offer deposit products directly to individual depositors, which are clearly distinguishable from brokering activities.

4. We have invested significantly and come to rely on and operate our business based on prior FDIC Advisory Opinions. As such, we respectfully ask that all prior FDIC Advisory Opinions remain in effect post final rule.

Thank you for your time and consideration in allowing me to express my thoughts around the proposed rule and advocate on behalf of Community State Bank as well as local community banks across the country.

Respectfully,



Jeffrey L. Oody
CEO, President and Director
Community State Bank

WHERE TODAY MEETS TOMORROW

MEMBER FDIC • P.O. DRAWER 460 • STARKE, FLORIDA 32091 • (904)964-7830 • FAX (904)964-4432

WWW.COMMUNITYSTATEBANK-FL.COM