

Phone:
Canton (860) 693-6936
Collinsville (860) 693-5912
Farmington (860) 393-9200

Collinsville Bank
Serving communities since 1853
www.CollinsvilleBank.com

Fax:
Canton (860) 693-7612
Collinsville (860) 693-8249
Farmington (860) 693-7612

March 31, 2020

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Depository 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,

My name is Michael Kleinschmitt and I am SVP, CFO and Treasurer at Collinsville Bank. Established in 1853 by Samuel W. Collins and a number of prominent men in the community, Collinsville Bank accepted its first deposit on August 8th of that same year and we've been serving the Canton, Collinsville and Farmington, Connecticut communities, as they have changed and grown, for more than one hundred and sixty years.

I wish to express my appreciation for providing me an opportunity to provide the FDIC with feedback on its proposed rule, published in the Federal Registry on February 10, 2020, regarding brokered deposits. This is an important issue as many community banks like mine utilize third party service providers to help us deliver modern banking products, services and digital capabilities to the communities we serve.

I am writing to express concerns with the proposed new rule, for as I read it, it seems that the FDIC is restricting us from using any external resources – data and third party service providers – else we risk having a large amount of our deposits being classified and treated as brokered. As I study the proposed “facilitating the placement of deposits” definition, it seems to me that we run the risk of having any and all deposits declared to be brokered if we (a) receive any information regarding current customers and / or prospects; (b) engage any consultants or analytic tools to help us optimize our deposit offerings and (c) utilize any third party for anything other than bookkeeping type services if they are involved in any aspect of our deposit gathering activities.

In addition, it appears that many of the third parties that community banks utilize for various support activities, operational processes and marketing services will have to apply for a primary purpose exception from the FDIC in order to avoid being declared a deposit broker. The process by which this would happen was not entirely clear to me and thus, I worry about innovation stalling as industry participants apply and wait on the FDIC's determinations. It is also not clear to me how an organization would “reapply” if they were denied the exception upon their initial submission.

I am also concerned with provision within the proposed rule that enables the FDIC to review and remove current Advisory Opinions post the publishing of its final rule. My concern stems from the fact that many financial institutions and industry participants operate under these determinations and such partnerships, not to mention the financial investments that have been made in such working relationships are at risk of dissolving if the FDIC eliminates specific Advisory Opinions.

Simply stated, the language within the proposed new rule has created uncertainty in my mind and as such, I respectfully ask the FDIC to consider the following recommendations as I believe they are aligned with what I think are the FDIC's intentions and would provide the industry as a whole a clear set of guidelines regarding brokered deposits:

- Maintain all current Advisory Opinions post final rule
- Focus the proposed “facilitation” definition on activities that present risks to the safety and soundness of an insured depository institution or to the Deposit Insurance Fund (“DIF”)
- Create an overt exclusion from the deposit broker definition for third-party service providers who enable insured depository institutions to establish and own direct relationships with individual depositors

P.O. Box 350, 277 Albany
Turnpike
Canton, CT 06019

P.O. Box 197, 136 Main Street
Collinsville, CT 06022

Post Office Square, 186 Main
Street
Farmington, CT 06032

Phone:
Canton (860) 693-6936
Collinsville (860) 693-5912
Farmington (860) 393-9200

Collinsville Bank

Serving communities since 1853

www.CollinsvilleBank.com

Fax:
Canton (860) 693-7612
Collinsville (860) 693-8249
Farmington (860) 693-7612

- Create an overt exclusion from the brokered deposit definition for transaction account deposits and other deposits that are associated with a direct depositor relationship that is established and owned by the insured depository institution

I have already offered my reasoning regarding maintaining all current Advisory Opinions.

My recommendation regarding narrowing the “facilitation” definition is prompted by the following paragraph within the proposed rule:

“The proposed “facilitation” definition is intended to capture activities that indicate that the person takes an active role in the opening of an account or maintains a level of influence or control over the deposit account even after the account is open. It is the FDIC’s view that a level of control or influence indicates that the deposit relationship is between the depositor and the person rather than the depositor and the insured depository institution. Having a level of control or influence over the depositor allows the person to influence the movement of funds between institutions and makes the deposits less stable than deposits brought to the insured depository institution through a single point of contact where that contact does not have influence over the movement of deposits between insured depository institutions. Ultimately, the FDIC believes that if the person is not engaged in any of the activities above, then the needs of the depositor are the primary drivers of the selection of a bank, and therefore the person is not facilitating the placement of deposits.”

We agree with the intent of the above paragraph, however as currently worded, the language within the actual proposed rule is exceedingly broad and will inappropriately capture a wide range of industry participants who were previously not impacted by the original statute.

By narrowing the focus of the proposed “facilitation” definition, the FDIC would be able to overtly exclude third-party service providers from the definition of deposit brokers, provided (a) the third-party has no contractual relationship with any individual depositor to place, manage or control their deposits and (b) the third party and/or service enables a bank to establish and own a direct relationship with individual depositors.

Similarly, in order to provide a bright line standard regarding the types of deposits that would be considered brokered, the FDIC could incorporate an overt exclusion for stable sources of funding – specifically transaction accounts deposits and other deposits where a tangible, bona fide relationships is clearly in place between the depositor and their bank – i.e. evidenced by depositor utilizing multiple financial products and services from their institution – savings account, loan, credit card, online banking, direct deposit, online bill pay, debit cards, etc. Provided such accounts are opened by the individual depositor, held in the name of that same individual depositor, utilized by that individual depositor and only that individual depositor is authorized to designate withdrawals to be made from the account. Transaction account deposits and deposits associated within a tangible and direct depositor relationship do not pose risks to the safety and soundness of my bank nor do they introduce risk to the DIF. These deposits are “sticky” deposits that serve as a stable source of funds upon which my bank can safely and prudently operate.

By incorporating the above recommendations, I believe the FDIC can create the “bright-line standard” that is set out to achieve and the industry will have a clear understanding of and ability to determine who is and who is not a deposit broker and what is and what is not a brokered deposit.

I appreciate the opportunity to share my thoughts with the FDIC and I hope that you will consider my recommendations as you amend the proposed rule. Absent of these commonsense recommendations that proposed rule, as currently written, harms consumers and puts community banks at a substantial disadvantage as we try to service our communities and compete against fintech providers and the large regional and national banks.

Sincerely,



Michael Kleinschmitt
Senior Vice President & Chief Financial Officer
Collinsville Bank

P.O. Box 350, 277 Albany
Turnpike
Canton, CT 06019

P.O. Box 197, 136 Main Street
Collinsville, CT 06022

Post Office Square, 186 Main
Street
Farmington, CT 06032