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August 1, 2016

VIA ELECTRONIC MAIL

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street SW., Suite 3E–218
Washington, DC 20219
12 CFR Part 50
Docket ID OCC-2014-0029

Robert de V. Frierson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
12 CFR Part 249
Federal Reserve Docket No. R–1537

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
12 CFR Part 239
FDIC RIN 3064 – AE 44

Re: Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure

Ladies and Gentlemen:

Total Financial Solutions, LLC ("TBS"),d/b/a Total Bank Solutions, appreciates the opportunity to comment on the rule (NPR) regarding the Net Stable Funding Ratio (NSFR) proposed by the Federal Reserve Board (the "Board"), Federal Deposit Insurance Corporation ("FDIC"), and Office of the Comptroller of the Currency ("OCC") (collectively, the "Agencies").

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About Total Bank Solutions

Founded in 2004, Total Bank Solutions is a privately held technology firm located in Hackensack, NJ. Leveraging proprietary technology, TBS' FDIC Insured Deposit Program (IDP), currently with more than $38 billion in assets under administration, is designed to provide clients with the benefit of extended FDIC insurance, and for participating banks, a stable, diversified and cost-effective source of deposit funding. By providing participants with access to innovative and customized products and services, we deliver solutions to help our customers meet their unique current funding and investment needs, and position their firms for future success.

Through our subsidiary TBS Bank Monitor, we offer clients the ability to conduct safety and soundness surveillance of all FDIC insured institutions and credit unions. TBS Bank Monitor provides enterprise-grade analytics and privileged process support for risk surveillance, compliance testing and investment research through an online subscription service.

Background

TBS is in agreement with the systemic importance of the Agencies' objective in the NSFR to construct and implement a well-calibrated measure of structural liquidity, and strengthen the funding profile of covered banks over an extended time horizon by limiting imprudent reliance on sources of unstable funding. It is our hope that a thoughtfully constructed metric will serve to mitigate the potential re-emergence of the systemic instability experienced during the 2008-2010 financial crisis.

In TBS' Liquidity Coverage Ratio (LCR) comment letter submitted to the Agencies on January 31, 2014, we expressed our view on the methodology and justification for outflow rates assigned to certain liability classes. These included analysis and support of the stability of brokered sweep deposit programs; questions surrounding the homogeneity of runoff treatment across various types of these deposits; and potential consequences resulting from conformance expectations amongst non-covered institutions. A copy of our comment letter is attached for your information.

In this letter, we focus on ensuring a thoughtful approach to the NSFR that is consistent with the treatments prescribed within the final LCR ruling. In addition, our comments solely address the ASF factors, as we believe this is consistent with our extensive experience in the insured brokered sweeps industry.

TBS would like to address our concerns regarding several areas of the NPR. These include:

- The treatment of certain term brokered deposits
- Additional granularity of the ASF factor calibrations

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QUESTIONS ADDRESSED

TBS' comments address the following questions posed by the Agencies:

Question 15: *To what extent should the proposed rule consider the contractual term of a retail deposit (in addition to considering it for some forms of brokered deposits) for purposes of assigning an ASF factor? What alternative ASF factors, if any, would be more appropriate, and under what circumstances?*

We believe that a 90% ASF factor should be applied to a term retail brokered deposit categorized as an MMDA subject to the depositor's commitment to leave the balances on deposit with the bank for a pre-determined fixed period of time, subject to penalty in the event that the funds are withdrawn prior to the end of that period. Per § __.104(c)(4) of the proposed rule, a 90% ASF factor would be assigned to a "brokered deposit provided by a retail customer or counterparty that is not a reciprocal brokered deposit or brokered sweep deposit, is not held in a transactional account, and has a remaining maturity of one year or more." The attendant rationale notes that the contractual term and exclusion of accounts used by a customer for transactional purposes make this deposit more stable than other types of brokered deposits receiving lower ASF factors.

The proposed rule fails to recognize the existence and the enforcement of fixed maturity date contracts between the institutions from which these deposits are sourced (broker-dealers, trust companies, etc.) and the depository institutions taking these deposits. These contractual agreements provide mandatory exit barriers that typically exceed most retail accounts with no stated maturity date (i.e., accounts requiring advance notice of withdrawal), certificates of deposit with minimal early withdrawal penalties, and affiliated sweep deposits which have no associated penalties for early withdrawal.

In accordance with U.S. securities rules, these agreements must provide the source institution with the ability to exit the agreement prior to the agreed upon retention period. The contracts typically contain clauses similar to the following allowing for a specified small withdrawal amount without penalty:

i. The securities firm is permitted to be under the agreed upon deposit amount by a specified percentage;
ii. The broker may withdraw all or a substantial percentage of deposits immediately if its customers have withdrawn large percentages of the funds maintained in the sweep program;
iii. If the bank is no longer "well capitalized," the intermediary may withdraw funds over an agreed upon period; and
iv. If the bank is so directed by its primary regulators to exit the agreement due to other regulatory.

In nearly all other cases, withdrawals prior to the agreed upon deposit period will result in a substantial interest penalty by requiring it to remit to the bank all or a portion of the interest differential between the rate paid on the funds withdrawn and the rate paid by the program bank on regular MMDAs under the Program. Taken together, these explicit exit barriers applied at the institutional level provide a higher degree of deposit retention for the bank than other deposits, similar to brokered and retail CDs with non-waivable and significant penalties for early withdrawal.

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For the reasons stated above, brokered sweep MMDA arrangements that comply with securities laws and regulations and provide for stated maintenance dates should receive a 90% ASF factor, consistent with the treatment afforded other stated-maturity retail brokered deposits.

Question 16: *The agencies invite commenter views on the proposed 90, 50, and zero percent ASF factors assigned to retail brokered deposits. What, if any, alternative ASF factors should be assigned to these deposits and why?*

In addressing the potential for alternative ASF factors to be assigned to certain liability classes, we believe that the treatment of brokered deposits provided by retail counterparties that are not referenced under § __.104(c)(3) should be logically consistent with the risk assessment methodology ascribed to these deposits in the Liquidity Coverage Ratio (LCR). This requires additional granularity of the proposed ASF factors, as outlined below.

Under the proposed NSFR, there exists a relatively significant gap between the ASF factors of 50% and 90%, greatly skewing the negative bias for certain liability classes. The aforementioned retail brokered deposits receive a 50% ASF factor, which is significantly more punitive than the 25% outflow prescribed under the LCR. We believe that an ASF factor of 75% would be appropriate for these deposits, providing a more accurate representation of the proven stable nature of these deposits, while simultaneously creating a more appropriate alignment of the NSFR and LCR.

Currently, there is a pronounced disconnect between the LCR assumption that 25% of these deposits would runoff over a 30-day period of stress, while 50% would be considered "unstable" over the NSFR's one-year horizon. We believe this is inappropriate for the following reasons:

a. **Horizon**: The LCR is defined over a 30-day period, while the NSFR is defined over a one-year period. This implies that the NSFR is based on a less severe underlying stress scenario than the LCR, with management far better equipped to implement mitigating strategies and take requisite remedial actions given the extended period. This is especially true in the post-crisis environment, with the attendant implementation of extensive new regulations and significant focus on liquidity stress testing and contingency funding plans. As a result, it is unclear how or why the LCR assumes that 75% of these retail brokered deposits would remain with the bank, while the NSFR prescribes a far more stringent 50% retention rate under a longer period during which management can implement corrective strategies. Moreover, the proposed NSFR is asymmetrical in its assumption that a bank's management team would refrain from taking any remedial action, while simultaneously taking corrective actions elsewhere during this period of stress that could weaken its overall liquidity position, such as renewing certain maturing asset classes at high rates.

   A longer-term ratio such as the NSFR is more appropriately analyzed on a business-as-usual basis, in stark contrast to the acute stress conditions addressed by the LCR over a far shorter horizon. As such, it is readily apparent that the NSFR should not be more conservative than the LCR.

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b. **Short-Tenor Bias**: The discrepancy in runoff/retention treatment between the LCR and NSFR has the potential to inadvertently encourage shorter-term utilization of these brokered deposits. If faced with the choice of filling a portion of a bank's funding need with shorter-term brokered deposits at a 25% LCR runoff or 50% NSFR ASF, there exists an inherent bias by the funding manager to simply fund shorter and, by extension, less expensively. The obvious impact is to further skew the bank's funding portfolio to a shorter duration.

c. **Overall Stability**: As noted in our attached LCR comment letter, TBS has studied brokered deposit balances extensively and determined that these retail brokered deposits have exhibited characteristics of growth, retention, and volatility that are far more consistent with the treatment prescribed under the LCR than what is being proposed under the NSFR.

In addition to the above analysis, the charts highlighted below reflect the following:

i. The aggregate growth/decline and stability of brokered deposits across all banks, 1984-Q1 2016;
ii. Inclusion of all reported brokered deposits per FDIC Quarterly Banking Profile;
iii. All brokered deposits at banks known to participate in brokered deposit sweep program banks were assumed to be brokered sweep deposits.

The findings clearly indicate that brokered deposits increased and/or remained stable during all periods through and including the financial crisis for all banks, demonstrating both reliability and ease of access. Brokered deposits grew significantly within the banks that had brokered deposits, and most notably grew at banks that participate in brokered deposit sweep programs. Core deposits increased as well, reflecting the enhanced liquidity of the banking system due to quantitative easing and other policy measures and economic conditions. Short-lived decreases in systemic balances during the recent economic crisis reflected balance sheet deleveraging strategies as underperforming and toxic assets were removed and/or charged-off.

Post-crisis growth and utilization of brokered deposits has reflected prudential standards with no outward evidence of the pre-2008 funding strategies involving sub-prime and other toxic assets. Moreover, the aforementioned growth and stability of these deposits was demonstrated despite new regulations, including implementation of the Dodd-Frank Act, Basel III, and the brokered deposit ratio within the forthcoming Small Bank Assessment (12 CFR Part 327). These rules combine to ensure that retail brokered deposits continue to be managed under rigorous principles of safety and soundness.

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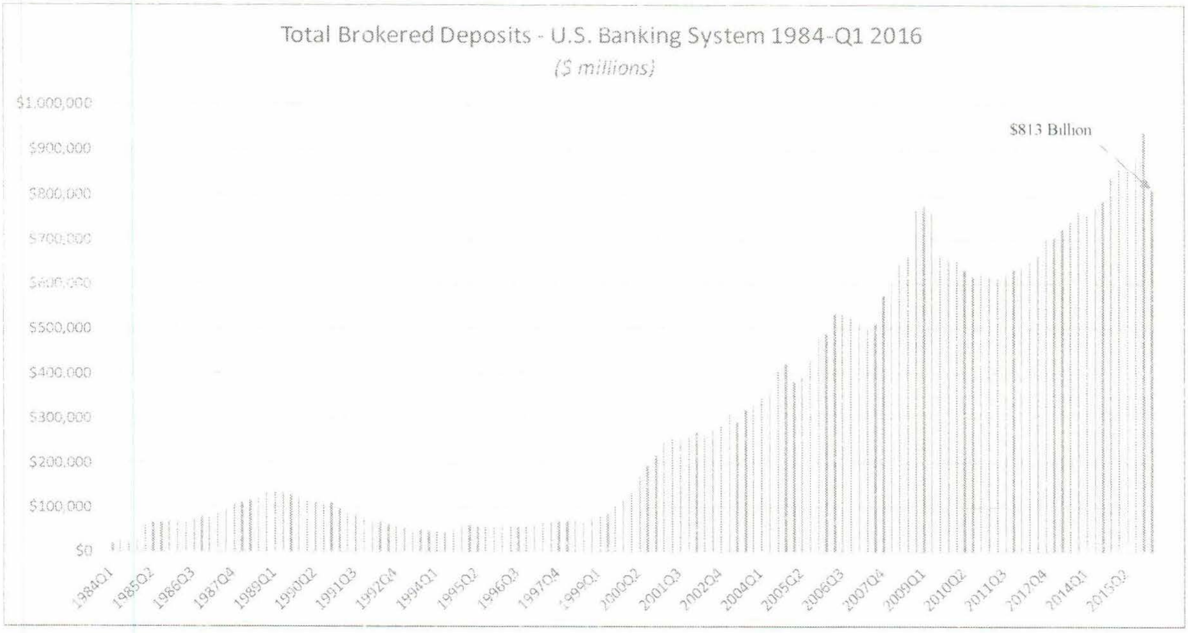

Source: FDIC Quarterly Banking Profile.

The decrease in Q1 2016 was due to the reclassification by one bank of its affiliated sweeps to non-brokered

d. **Allocation Methodologies**: The proposed rule incorrectly assumes that all banks without an affiliated broker-dealer and/or trust company receive retail brokered deposits via a simple waterfall approach, with banks at the bottom having the lowest probability of getting funded. The Agencies fail to recognize alternative allocation methodologies, such as the approach utilized by many of our clients, whereby banks contract to target and maximum balances for these deposits and receive funding via algorithms that prioritize those institutions furthest from their target. This effectively prioritizes funding for those banks, *regardless of whether they are receiving funds from an affiliated or unaffiliated source institution*, similar to the preferential treatment afforded to banks with affiliated broker-dealers and/or trust companies. For banks receiving brokered deposits from such affiliates, the proposed rule assigns a far less punitive ASF factor of 90%. The LCR treatment is similar and consistent, assigning an outflow rate for these affiliated deposits of 10%. Conversely, the ASF applies asymmetrical and inconsistent treatment, with an ASF of 50%. Allocation methodologies such as the one utilized by many of our intermediary clients further support the rationale for a more consistent approach that prescribes a 75% ASF factor.

e. **Diversification of Funding Sources**: It has been our experience that most banks can, and often do, participate in several retail brokered deposits programs simultaneously, utilizing multiple source institutions for their funding needs. More often than not, these banks also utilize more than one deposit broker/processor. As a result, a decision by a source institution and/or deposit broker/processor to either exit the brokered deposit business or remove a bank from its program typically results in the bank(s) simply reverting seamlessly to another existing program. This serves to greatly mitigate single-source outflow risk, providing banks with significant depth and breadth of funding options in the retail brokered deposits space.

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In addition, the ability of banks to further diversify their wholesale funding portfolios remains a critically important aspect of sound liquidity management. Provided that the banks maintain robust contingency funding plans that are tied closely to their enterprise-wide risk appetite, liquidity and treasury policies, ALM, and stress-testing, retail brokered deposits play an important role as a mid-tier funding option.

Before the NSFR is finalized and implemented, it is critical that the ASF factors be revisited and calibrated with greater granularity. The proposed rule essentially aggregates large classes of assets and liabilities and assigns ASFs and RSFs homogeneously across the groups. It then assumes the most conservative treatment of these broad categories, thereby distorting the NSFR's treatment of products with far greater and more detailed liquidity attributes. These include, but are not limited to, the aforementioned fixed/term brokered sweeps with their substantive barriers to withdrawal prior to the stated deposit period; operational deposits, which receive more favorable treatment under the LCR and first-lien residential mortgages greater than 1 year and risk-weighted less than 50%. In addition, the binary approach whereby liabilities are deemed stable or unstable has the potential to create cliff risk for funding vehicles with tenors of one year. This can serve to create an inaccurate view of, and approach to, longer-term funds management.

While such granularity may appear to run counter to the benefits provided by simplicity, the methodology must ultimately achieve an accurate weighted average outcome of the NSFR. In doing so, the rule will better complement the LCR, both in consistency and the application of each rule. Similarly, accurate and appropriate calibrations will serve to ensure that the Basel III liquidity rules are complementary to new and existing regulations, not the least of which are Section 165 of the Dodd-Frank Act, CCAR, CLAR, and TLAC.

Conclusion

TBS appreciates the opportunity to provide its views on the Agencies' proposed Net Stable Funding Ratio rule.

Sincerely,

Eric A. Pierce
Managing Partner

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