September 26, 2019

To Robert E. Feldman, Executive Secretary

Attention: Comments Regarding September 4, 2019 – Interest Rate Restrictions on Institutions That Are Less Than Well Capitalized; Comment Request (RIN 3064-AF02)

Federal Deposit Insurance Corporation, 550 17th Street, NW, Washington, DC 20429

Dear Mr. Feldman,

I have worked with several banks as an executive and many others as a service provider helping them price and sell long-term savings. I offer these comments after considering these situations and the FDIC's recent proposal.

Analysis of the call report data shows that what is being measured and reported as average deposit offering rates are not consistent with the deposit account yields that banks are booking. The June 30, 2019 UBPR analysis shows the actual cost of CD portfolios in all banks across the country…

UBPR Peer Group Average Distribution (by Percentile Rank) Report
All banks in nation
Noninterest Income, Expenses and Yields--Page 3
Reporting Period: 6/30/2019

Non Int Inc, Exp, Yields
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Percent of Average Assets	1ST	5TH	10TH	20TH	25TH	50TH	75TH	80TH	90TH	95TH	99TH	TRIMMED AVERAGE
Time Deposits	0.41	0.78	0.99	1.27	1.37	1.73	2.02	2.09	2.25	2.38	2.65	1.69

Keep in mind that these yields would be a blend of all terms offered. Yet, the 50th percentile was 1.73% and the trimmed average was 1.69%. Simultaneously, the FDIC rate averages and caps at the end of that period were reported as follows:

Weekly rate cap information for the week of July 1, 2019.

Non-Jumbo Deposits (< $100,000)

Deposit Products	National Rate 1	Rate Cap 2
Savings	0.10	0.85
Interest Checking	0.06	0.81
Money Market	0.19	0.94
1 month CD	0.12	0.87
3 month CD	0.21	0.96
6 month CD	0.40	1.15
12 month CD	0.64	1.39
24 month CD	0.81	1.56
36 month CD	0.94	1.69
48 month CD	1.03	1.78
60 month CD	1.19	1.94

Jumbo Deposits (≥ $100,000)

Deposit Products	National Rate 1	Rate Cap 2
Savings	0.10	0.85
Interest Checking	0.06	0.81
Money Market	0.29	1.04
1 month CD	0.15	0.90
3 month CD	0.25	1.00
6 month CD	0.45	1.20
12 month CD	0.71	1.46
24 month CD	0.86	1.61
36 month CD	0.99	1.74
48 month CD	1.07	1.82
60 month CD	1.22	1.97

The quoted average survey offering rates don't come close to matching the actual portfolio yields of all banks for YTD 2019. The deviations from the 50th percentile are striking…

Term	7/1/2019 Avg.	Compared to 1.73%
1	0.12	(1.61)
3	0.21	(1.52)
6	0.40	(1.33)
12	0.64	(1.09)
24	0.81	(0.92)
36	0.94	(0.79)
48	1.03	(0.70)
60	1.19	(0.54)
1	0.15	(1.58)
3	0.25	(1.48)
6	0.45	(1.28)
12	0.71	(1.02)
24	0.86	(0.87)
36	0.99	(0.74)
48	1.07	(0.66)
60	1.22	(0.51)

When the interest rate cycle is considered it becomes even more obvious that this survey process is deeply misaligned with actual bank yields. Bank time deposit portfolio yields have been rising significantly in recent quarters and years despite the modest increase in quoted average bank offering rates. The UBPR report shows CD yield increases that do not align with the surveys.

UBPR Peer Group Average Report
All banks in nation
Noninterest Income, Expenses and Yields--Page 3

Non Int Inc, Exp, Yields
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	6/30/2019	6/30/2018	12/31/2018	12/31/2017	12/31/2016
Time Deposits	1.69	1.12	1.26	0.95	0.87

Here were the survey average reports as we began 2019…

Weekly rate cap information for the week of January 7, 2019.

Non-Jumbo Deposits (< $100,000)

Deposit Products	National Rate 1	Rate Cap 2
Savings	0.09	0.84
Interest Checking	0.06	0.81
Money Market	0.17	0.92
1 month CD	0.11	0.86
3 month CD	0.20	0.95
6 month CD	0.34	1.09
12 month CD	0.61	1.36
24 month CD	0.82	1.57
36 month CD	0.96	1.71
48 month CD	1.06	1.81
60 month CD	1.25	2.00

We urge you to consider that typical financial institutions have expanded their CD offerings to include:

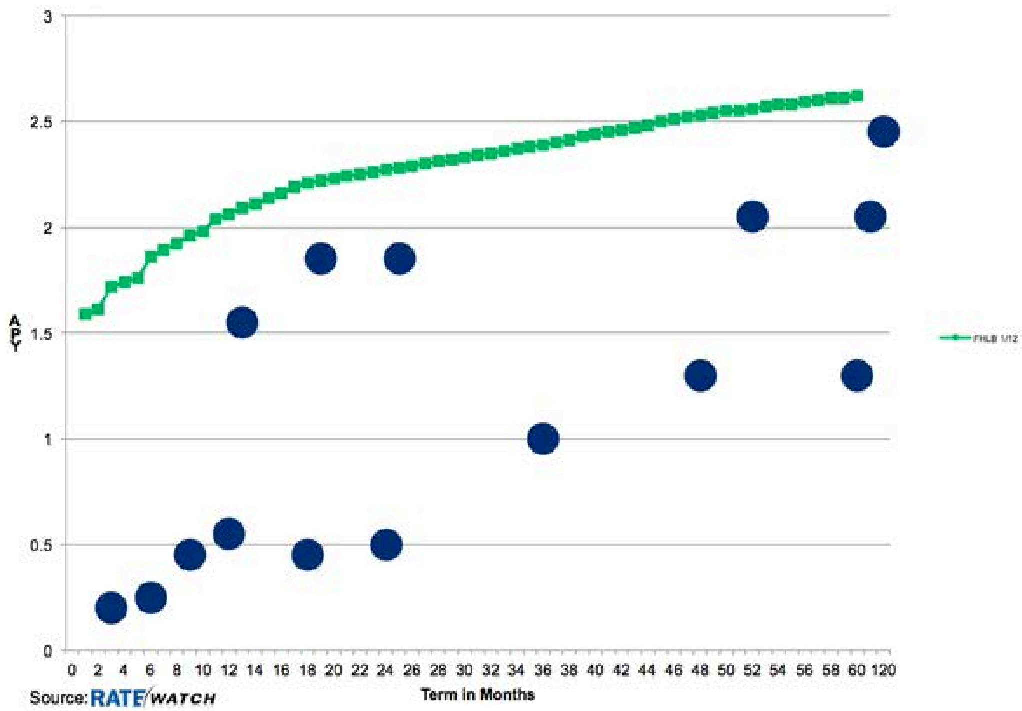
- Standard conventional terms that are identified in FDIC's surveys.
- Promotional specials for non-conventional terms that are surveyed but *not* currently incorporated into the FDIC averages.
- Negotiated relationship-priced offerings to preferred clients that *never* show up on any surveys.

As banks have improved their CD sales process and rates have risen from the levels of the Great Recession, bankers have lagged interest rate increases on standard terms. Bankers now offer a spectrum of special terms which more closely reflect market interest rates.

Many bankers have discovered the importance of sequentially introducing customized deposit offers to depositors in a consultative sales process. This enhanced approach is much more effective in attracting and retaining properly-priced deposits than relying exclusively on raising interest rates on conventional-term CDs. Introducing an expanded set of offerings has helped banks keep the weighted average cost of funds down. But, it also means that the actual deposit market pricing is no longer reflected in averages of conventional terms that ignore the considerably higher priced non-conventional terms.

Therefore, any pricing assessment that ignores the non-conventional terms will be significantly flawed.

Below are the offerings of one particular financial institution, as an example. The green line represents FHLB advance rates at that time. The low rates are standard terms and the higher APYs represent the concurrently offered non-conventional term specials from the same financial institution. The magnitude of pricing difference is highly significant.



To reform the analysis in order to achieve the original intent of the rate cap, these improvements to the process should be made:

- Include special rates for any terms of less than or equal terms in the averages.
- Include each financial institution only once—not multiple locations, which overweight large branch systems. (Although any weighting is problematic, the proposed weighting by portfolio size is an improvement over weighting by the number of branches)
- Respecting the relevance of online-only banks in local markets, allow bankers the opportunity to factor in online offers into the prevailing rate in their particular market.

This approach would allow a 11-month special to be consistently reflected in survey data of 12-month terms if the surveys were compiled by using the highest current offerings of any terms shorter than or equal to the standard term surveyed. This would much more closely reflect the deposit pricing choices of depositors as depositors engage them today.

If a 11-month special of the bank must be consistent with the 12-month rate survey, then the 12-month rate survey should reflect existing 11-month specials.

The averages need to reflect prevailing rates in the market by reporting for each term the highest rates offered on any terms shorter than or equal to the standard term being averaged. This would thereby include non-conventional term specials which often dominate the new and renewed deposit activity. This could be accomplished by adjusting the average calculation from the existing survey data. It could be changed simply, easily, and quickly.

Consider a financial institution with these current offerings:

Term	3	6	9	12	13	18	19	24	25	36	48	52	60
APY	0.20	0.25	0.45	0.55	1.55	0.45	1.85	0.50	1.85	1.00	1.30	2.05	1.30

This financial institution's contribution to the calculation of averages would be adjusted as follows:

	Rate Report	
Term	Current	Proposed
3	0.20	0.20
6	0.25	0.25
12	0.55	0.55
24	0.50	1.85
36	1.00	1.85
48	1.30	1.85
60	1.30	2.05

If this modification doesn't achieve equitable pricing, banks should be able to build a case that the local market also includes the existence of online-only banks that are clearly gathering deposits within local markets with the dominance of their ubiquitous marketing campaigns and their 24x7 online presence.

Additionally, credit union offers of insured deposits should also be included as they represent to the depositor a clearly comparable alternative which should be considered when assessing rate caps.

Significant and sustainable alignment of the process to the objectives of the rate cap can be achieved by interpreting the average to be an average not just of a discrete term, but by considering the highest yield of all terms less than or equal to that term. This survey approach would be consistent with the approach of depositors. They disregard lower yields in longer terms when higher yields for shorter terms are available. Making the national rate more reflective of the actual deposit rate market could be accomplished quickly and efficiently while producing more equitable results. Thank you for the opportunity to comment.

Neil Stanley, CEO
The CorePoint
www.TheCorePoint.com