October 25, 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,

Please accept this as my second comment letter on this topic.

In my previous comments, I cited the Uniform Bank Performance Reports to note the higher cost of deposits seen in the UBPR data compared to the national rate surveys. Further research has revealed that even the common interpretation of UBPR typically understates actual deposit pricing. I hope here to clarify and emphasize even more the need for reconciling the rate cap approach to consider what financial institutions are actually paying on time deposit portfolios.

I commend the proposal to move away from weighting the pricing assessment based on number of branches. I fully support associating the size of the portfolios and therefore their impact on industry activity. However, limiting the analysis to quoted offerings of selected conventional terms that are often not integral to the resulting deposit volumes needs to be addressed. At minimum, we must factor in the non-conventional terms. Ideally, the rate cap methodology should fairly calibrate the actual industry cost of funds on a timely basis.

Comparison of the UBPR median and trimmed average cost of time deposits to the actual industry cost shows that the portfolio median and average cost materially understate the actual industry cost of funds. This is because the median COF is based on the aggregated costs at the portfolio level for each bank rather than transactional level data for the industry. By considering the magnitude of the portfolios that represent the spectrum of cost of funds, we find to no surprise that the portfolios that are paying higher interest rates are accumulating bigger proportions of the industry's volumes. Therefore, while 50% of banks did have a cost of funds less than the industry median of 1.73% as of second quarter 2019, those banks only held about 18% of the CD portfolio volumes.

We can get an accurate assessment of the industry's cost of CDs in the second quarter by simply summing the CD interest expense and comparing it with the average balance of CDs. The aggregate cost of CDs was 2.16% for the second quarter of 2019.

When the portfolios were ranked and analyzed by cost of time deposits for the second quarter 2019, we find the following yields by percentiles and deposit balances associated with those percentile ranges:

Portfolio CD Yield	Percentile	$ in Range	% of $ in Range
1.05%	10%	57,773,605	2.8%
1.34%	20%	91,040,889	4.4%
1.54%	30%	88,335,588	4.3%
1.69%	40%	77,388,553	3.8%
1.81%	50%	100,638,650	4.9%
1.93%	60%	99,222,893	4.8%
2.04%	70%	132,983,712	6.5%
2.17%	80%	332,746,584	16.3%
2.33%	90%	213,790,082	10.4%
4.17%	100%	853,443,073	41.7%
Total	....	2,047,363,629	

This report tells us that 10% of the banks had portfolio yields less than or equal to 1.05%. However, that group of banks that made up 10% of the banks only held 2.8% of the time deposit dollars. As we analyze the more expensive time deposit portfolio buckets, we find the size of those portfolios generally grows, however we must get to the bucket at the 80th percentile to get volumes equal to or greater than the 10% level representative of the proportion of these banks holding those volumes. We find that as of June 2019 over half (52.1%) of the time deposit volumes are held by banks that have portfolio yields greater than the 80th percentile of time deposit portfolio cost of funds.

I hope it is obvious that a volume-based validation process is necessary to assessing relevant current market pricing. Offering rates that are posted on surveys but not materially selected in volume by depositors should have an appropriately modest impact on any assessment of current market pricing.

After looking at their rate surveys over time it is surprising to learn that time deposit portfolio yields of the largest four banks in the U.S. as of the second quarter 2019 were 2.05%, 1.17%, 2.46%, and 2.40%. Only the 1.17% appears to be somewhat in line with the rate survey data that is typically associated with that bank. For comparison, here are the reported industry averages of CD offerings at the beginning and end of the second quarter:

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

Non-Jumbo Deposits (< $100,000)

Deposit Products	National Rate [1]
Savings	0.10
Interest Checking	0.06
Money Market	0.18
1 month CD	0.12
3 month CD	0.21
6 month CD	0.39
12 month CD	0.66
24 month CD	0.84
36 month CD	0.99
48 month CD	1.08
60 month CD	1.27

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

Non-Jumbo Deposits (< $100,000)

Deposit Products	National Rate [1]
Savings	0.10
Interest Checking	0.06
Money Market	0.19
1 month CD	0.12
3 month CD	0.21
6 month CD	0.40
12 month CD	0.64
24 month CD	0.81
36 month CD	0.94
48 month CD	1.03
60 month CD	1.19

Comparing these industry level rate surveys to the actual industry average portfolio yield results for the quarter of 2.16% confirms that the surveys fall far short of adequately reflecting the market price of these deposits. This is due to the significant impact of 1) non-conventional term promotions that have been excluded from average calculations; 2) privately negotiated deposit pricing; and 3) brokered deposits booked by these banks that never show up on any of their rate surveys.

When the actual quarterly results of individual specific bank CD portfolio yields are compared with the offering survey data for that same institution over the historical timeframe that would have created the portfolio volume and yield results, it is often very clear that the standard CD offerings reported on individual surveys are not representative of the market rates of interest that are actually applied to the deposit accounts associated with those portfolios. Therefore, the aggregation of these surveys produces an inaccurate assessment.

As the FDIC considers its approach to deposit rate caps it would be advantageous to incorporate a methodology that considers actual cost results at the industry level regarding volume as well as yields when assessing recent market level pricing. Reconciling the actual yields would bring much greater integrity to the offering rate assessments used for the FDIC rate caps.

Considering where the money is flowing in addition to the rates associated always provides more relevant cost analysis than when pricing alone is evaluated based on surveys or at aggregated portfolio levels.

Thank you for the opportunity to comment.

Neil Stanley, CEO
The CorePoint
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