



Farmers and Merchants Bank

November 4, 2019

Attention: Comments

RE: Proposed Rulemaking – RIN 3064-AF02

Federal Insurance Deposit Corporation

All banks should be able to compete for deposits without regulations that prohibit the retention of core deposits. A relationship lost is seldom regained. Retaining core deposits helps banks maintain an adequate level of liquidity and, therefore, promotes safe and sound banking practices. Eliminate rate caps. Instead, regulators should be allowed to use other enforcement actions to restrict a bank's growth. In the interim, the FDIC should grant rate waivers for banks less than well-capitalized, which would allow for fair competition to retain core deposits and adequate levels of liquidity. However, asset growth should remain restricted and monitored frequently.

If rate caps must remain, mitigate the harm they impose. There seems to be no one rule that can account for all types of interest rate environments. As a result, Farmers and Merchants (FMB) believes that in regards to the national rate cap, less than well-capitalized institutions should be able to choose between the higher of: (1) the proposed weighted average national rate cap rule; or (2) the methodology used by the FDIC between 1992 and 2009. Having a choice between the two would still allow banks less than well-capitalized to be somewhat competitive when dealing with a multitude of interest rate environments in markets where the national rate cap applies.

For local rate cap restrictions, FMB wishes to continue to be able to use the method that is currently in place. The proposed local rate cap rule is too punitive, especially in rising or high rate environments. For example, if the bank across the street is offering 2.80% APR on a particular CD product, FMB could only provide 90% of that rate, which is 2.52%. Excellent customer service alone cannot overcome a 28-basis point difference. Under the proposed scenario, FMB's core CD customers would leave for the competitor across the street. FMB believes that the proposed local rate cap restriction limit should be at least 95% of a competitor's rate. If a less than well-capitalized institution wishes to offer an off-tenor product not marketed by their competitor, linear interpolation should be able to be used instead of using the next lowest on-tenor maturity. An institution should also be able to calculate its local rate cap based on rates that are tied to deposit balances and use competitors' rates that are not published. Several of FMB's most prominent competitors do not publish their rates to RateWatch. The ones that do often publish rates that are inaccurate or include rate specials tied to deposit balances.

Regulations should help provide a rehabilitation plan to the banks, not expose the bank to higher risk. Please consider the above recommendation and all others that accurately depict a community bank's ability to compete for core deposits while still limiting growth. Small communities, as well as the insurance fund, are put under undue pressure when community banks are unable to effectively obtain liquidity in a competitive market.

Thank you for allowing comments.


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