Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

November 4, 2019

RE: RIN 3064-AF02

Mr. Feldman,

QwickRate appreciates the opportunity to comment on the NPR addressing Interest Rate Restrictions on Institutions That Are Less Than Well Capitalized. In response to the FDICs original ANPR and request for comments (February 6, 2019), QwickRate suggested that the FDIC conflate the previous rate cap rule with today's existing rule allowing for the rate cap to be the greater of (1) 120 percent of the current yield on similar maturity U.S. Treasury obligations; or (2) as a simple average of rates paid by U.S. depository institutions as calculated by the FDIC.

We still believe that combining both rules allow for competitive and realistic deposit rates in either a falling or rising rate environment. However, it has become increasingly clear that for this or any proposed method to work, the FDIC must first establish a source of data that will be reflective of the actual deposit rates being paid by financial institutions. Without first updating the source data gathering process to reflect "true" deposit rates no method can be expected to be successful. Secondarily, is also important that he FDIC recognize the drastic difference in funding and deposit gathering goals of community banks versus very large (Assets > $10 billion) financial institutions and consider excluding them from the data survey.

When compared, this information gathered by Rate Watch proves to be drastically different from the information gathered by the FFIEC and reported in the UBPR analysis (page 3). Looking at the UBPR data from 09/30/2019 we see that the median and trimmed average rate on time deposits for all banks was 1.75%. The national rate for a 12- month CD, as reported on the FDIC Weekly National Rate and Rate Cap publication for September 30, 2019, was 0.53%. This demonstrates that the current methodology for establishing the national rate is significantly underestimating the true cost of deposits in today's market.

Every bank has "lobby" rates; however they also have the leverage to negotiate higher rates for specific populations or customers. This allows them to stay competitive by attracting and maintaining funding without cannibalizing existing depositors. Industry participants agree that this negotiated rate activity greatly impacts the rates that other competing financial institutions must pay to generate deposits. Unfortunately it has become clear that financial institutions who are asked to respond to a private non-binding survey are quoting their lobby rates as opposed to actual rates being paid, including those negotiated rates. As a result the rate cap established by the private data aggregator misrepresents the actual cost and rates necessary to generate deposit funding.

Simply changing the methodology without developing a realistic source for data will lead to continuing misrepresentation of the true national rate. Rather than changing the averaging methods associated with the national rate it would be more effective to work on the core of the problem, the survey data. One way to resolve the issues of data reliability would be for the FDIC to take more control of the survey process. For example: If banks were required to provide their average cost of funds for each deposit category to the FDIC on a quarterly basis the survey data would be a closer representation of actual rates. The rate average information could be included as part of the bank's quarterly call report filing process. In this example banks might also report rates to their regional director who could then produce a geographic average which would be beneficial for local market considerations. The FDIC could then average the rates being presented by each region into a national rate and apply that rate to the calculation of the rate cap utilizing the either/or method referenced above.

Producing data directly to the FDIC would give the FDIC firsthand knowledge of the actual rate market and any geographic anomalies that may arises. Instruction by regulatory guidance will generate a true average rate paid for each deposit category as opposed to a teller simply reading off lobby rates to meet a private survey request.

As stated in our original comments to the ANPR, the current national rate is also being overly impacted by the per branch inclusion of outlier large financial institutions who consistently offer below market deposit rates. The NPR attempts to address this problem by proposing to weight each institutions rates by their total domestic deposits stating that “weighting the national rate and national rate cap by domestic deposits is more representative of the amount of deposits placed at offered rates than weighting by branches”. This sounds like the FDIC is looking for a number representative of current market activity and current rates, right? However, the domestic deposits on a banks call report represents deposits that the banks have generated over time not necessarily in the current interest rate environment. If the FDIC feels that some sort of weighting is absolutely necessary then consider a calculation based on deposits generated in the last 90 days which would be more reflective of current activity.

Weighting by total domestic will continue to allow larger intuitions to overly impact the calculation of the national rate and rate cap. To help align a rate survey with actual funding cost the FDIC should consider excluding financial institutions with assets > than $10 billion in assets from the survey. These overly large financial institutions utilize methods and sources of funding that are generally much more sophisticated. They simply don’t compete with smaller community financial institutions on rate and instead impact the survey by diluting the national rate calculation until it is no longer applicable for community banks.

Lastly, we again encourage you to equally factor both local and national market activity. Most community banks rely upon the ability to supplement local market funding through a national market presence as a part of their overall funding strategy. Current technology allows banks to move effortlessly among both local and national deposit markets. Rate strategies and any limitations on interest rates paid must allow the bank to compete locally and nationally in a fair and equitable manner.

Thank you for your consideration. If you have any questions or require additional information please contact me at shawn.obrien@qwickrate.com or 800-285-8626 ext. 4078.

Respectfully,

Shawn O’Brien

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