KASASA

April 23, 2019

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington D.C. 20429
(comments@fdic.gov)

Re: RIN 3064-AE94: Request For Comment On Proposed Rulemaking To Amend 12 C.F.R. Part 337 To Review Current Brokered Deposit Regulations And Interest Rate Restrictions Applicable to Banks That Are Less Than Well Capitalized.

Dear Mr. Feldman,

After the announcement of the proposed Travelers Group - Citicorp merger during the run up to the passage of the Gramm-Leach-Bliley Act, Federal Reserve Board Vice-Chair Alice Rivlin met in the board room with representatives of the Montana Bankers Association who were visiting Washington. Such meetings between state bankers' groups and Federal Reserve Board governors were regular occurrences—giving the bankers some insight into Board thinking and the Board members some insight into banker thinking from beyond the beltway and the money centers.

Concerned about the merger and its potential implications for smaller banks, Vice-Chair Rivlin asked the bankers if the potential merger was a concern to them. The question was met with silence. Not one to be easily deterred, the Vice Chair repeated the question. This time a banker from the other end of the board table responded; "It's like when you put two big rocks together--there are gaps between the rocks. If you put two bigger rocks together the gaps are bigger. We live in the gaps."

The Montana banker's response would likely be very different today, if, in fact, his bank still exists. Unable to keep pace with FinTech innovation and unable to match the scale, scope and skill advantages that our country's large national banks enjoy; many community banks are struggling to survive. Yet the importance of filling the gaps between nationally offered financial services and financial services tailored to meet the needs of local communities still remains.

The numbers tell the story.

According to FDIC figures from 2002 to Q3 2018, on average, one (1) small bank (defined as less than $1 billion in asset size) has disappeared each business day over the past fifteen (15) years.

The purpose of this letter is not to champion community banks for their own sake or to promote banks' use of third party service providers. The purpose of this letter it is to call attention to the need for community banks to be able to use third party service providers - without running afoul of the deposit broker definition – so they can continue to provide locally-decisioned credit and tailored financial services to small businesses and consumers residing in small towns and markets that are largely ignored by larger financial institutions.

The Future of Community Banking is at a Crossroad

As shown below, community banks play an essential role in our nation's economy:

- *Access to Financial Products & Services*: 16.3 million Americans would have limited access to banking services if it weren't for community banks. Nearly one in five of our nation's 3,000 counties would have no physical banking presence if it weren't for community banks.

- *Access to Local Credit*: Over 900 counties across the United States rely exclusively upon community banks for extension of local credit.

- *Business Loans*: Community banks are responsible for 52% of all small business loans and 82% of all agricultural loans.

- *Local & National Economy*: Since the 1970s, small businesses have generated 55% of all jobs and 65% of all net new jobs.

While consolidation, due to other factors, is contributing to the attrition smaller banks are experiencing, the fact of the matter is that many community banks simply don't have the internal skills, technologies, marketing expertise, financial budgets or operational size required to successfully participant and/or compete in key aspects of today's rapidly evolving financial services industry.

This situation is not likely to improve as transformative changes, (artificial intelligence, automated marketing, mobile apps, omnichannel engagements, etc.) are reshaping the financial services industry at a rate never before seen and at speed that will never again be this slow. Large national banks have the economic wherewithal to aggressively invest in these initiatives while community banks do not.

Once again, the numbers tell the story as on average, large national banks spend approximately 50 basis points of their asset size on technology and innovation while community banks, on average, spend approximately 22 basis points of their asset size on technology and innovation with only 12% of these funds allocated for new products and services. *(Source: Celent, Bankrate.com, July 2018).*

To survive, community banks must leverage their limited resources by partnering with industry innovators and third party service providers to deliver the innovative financial products, the competitive rates, and the innovative customer experiences that will attract new consumers (and deposits) to their institution.

The Broad Definition of Brokered Deposits and the Case-by-Case Approach to Defining Brokered Deposits Hurts Community Banks.

Unfortunately, as currently interpreted by the FDIC, the brokered deposit rules are making it harder for community banks to gather deposits that are often the cornerstone of a banking relationship.

Banking is not just about taking deposits and lending money; it is also about cross selling financial services to customers. In many cases the bank's initial contact with a customer comes through a deposit account relationship, which gives the bank an ongoing view into the customer's financial resources and needs. In order to reach out to customers and offer them attractive deposit services in today's rapidly evolving world of digital communications, community banks must be able to work with third party service providers.

With 45% of all new checking accounts being opened in only three (3) banks (Chase, Bank of America and Wells Fargo) who represent only 24% of all branch offices within the United States *(Source: Wall Street Journal, March 2018)*, community banks must be empowered to, rather than restricted from, promoting themselves across all viable marketing channels (Internet, digital, social, direct mail, video, radio) to attract new checking account customer as those transaction accounts typically serve as the foundation of the depositor and bank relationship. But, the current deposit broker rules and FDIC staff interpretations are a web of broad interpretations of scope and coverage; and narrow interpretations of exceptions that makes it extremely difficult for community banks to use third parties to help them gather deposits.

The coverage of the rules is exceedingly broad and it is also ill defined and uncertain. For example, per question B2 (show below) within its June 30, 2016 (revised July 14, 2016) Identifying, Accepting And Reporting Brokered Deposits Frequently Asked Questions ("FAQ"), the FDIC states that <u>any</u> action of <u>any</u> third party that helps an insured depository institution attract new consumers <u>may</u> constitute the facilitation of deposits.

> "What activities qualify as 'facilitating the placement of deposits?"
>
> "When a third party takes any actions that connect an insured depository institution with depositors or potential depositors, the third party may be "facilitating the placement of deposits. Hence, the third party may be a deposit broker."

Similarly, the FDIC's process to determine what is and what is not a brokered deposit, as described below by past FDIC Chairman Martin Gruenberg in a Congressional Hearing in June of 2015, is exceedingly complex and provides no definitive clarity for bankers or industry participants:

> "In the FDIC's experience, the question of what constitutes a brokered deposit is very fact specific and can depend on varying product features, delivery mechanisms, fee structures, contracts and other governing documents, and evolving technology, among other things."

The ramifications of this broad interpretation and the FDIC's case-by-case evaluation process are enormous, particularly in light of the growth in Internet services and online sites that help consumers shop for, evaluate and select financial products and services and providers. In the current environment, with a dearth of clear safe harbors from the deposit broker definition, banks and service providers may need to engage in lengthy discussions with FDIC staff <u>before</u> using or offering valuable services such as the following:

- *Data Mining*: Organizations that host and analyze personal, financial, demographic and externally aggregated data to help community banks identify and market deposits to new consumers and households.

- *Marketing Services*: Companies that provide digital and print marketing services, frontline staff incentives, sales training, and deliver incentives to consumers when the consumers open a deposit account at a participating bank.

- *Digital Delivery*: Firms that send out targeted marketing messages across all digital channels – online, banner, blogs, text, mobile – to raise consumer awareness of the community banks operating within their area.

- *Customer Loyalty Programs*: Vendors who manage community-based "buy locally" programs where consumers receive discounts and special offers when they use a participating bank's debit or credit card to make purchases from participating merchants. Is a participating merchant a deposit broker if it refers a customer to a participating bank?

- *Switching Software*: Firms that make it easy for consumers to switch their deposit accounts from one bank to another by initiating direct deposits from an employer and mapping the individual's bill-pay transactions to their new account.

- *Search Engines*: Internet search engines that (a) provide users with a list of banks (b) offers a brief description of each bank, (c) summarizes ratings & institutional reviews, (d) visually shows bank locations and driving directions and (e) feature an active hyper-link that, if selected, connects the user directly to the bank's website.

- *Social Media*: Social media platforms that push tailored bank promotions to its users and provide those users with an active hyper-link that, if selected, will connect the user directly to the bank's website or featured offer.

- *Comparison Sites*: Firms that, in addition to providing online information about participating banks' deposit services, but also supply consumers with reviews, ratings, access to special promotions and self-help education and financial tools.

- *Cloud Services*: SaaS technology firms that enable banks to expand their deposit offerings by using application programming interfaces ("API's") to "plug & play" new products into a bank's core processor

- *Pooled Marketing*: Banks who pool marketing budgets together to secure media discounts, advertising placements, event space, etc. that if purchased individually, the institutions could not afford.

- *Common Branding*: Banks that offer deposit products with common characteristics and rely on common branding to call attention to those characteristics.

This process not only has a chilling effect on community banks' decisions to use third party services to help them compete for deposits, it also has a chilling effect on the investments third parties make – or do not make - to develop the innovative products, support services and digital capabilities that help smaller banks compete for new consumer relationships and deposits. The damage to community banks is incalculable as larger banks are able distribute their internal development costs over a vastly broader customer base.

And, the collateral damage continues as brokered deposits (other than low income status institutions) do not exist within credit unions. Consequently, the limitations imposed upon community banks by the FDIC, inexplicably cede an unfair market and competitive advantage to credit unions. Credit unions, for example, can utilized shared service organizations (CUSOs) and pool marketing funds and advertising activities among multiple institutions to attract new members.

The Definition of Brokered Deposits Should be Limited to Deposits that Inherently Pose Risks to Banks

We do not dispute that in the past brokered deposits have been a precipitating factor in the failure of some banks and have resulted in increased FDIC resolution costs.

We do not dispute the fact that high rate certificates of deposits, placed at institutions by traditional deposit brokers, enabled financial troubled banks to remain open despite engaging in imprudent business practices and investment strategies.

We do not dispute that these non-relationship-based deposits were rapidly withdrawn by these traditional deposit brokers as a bank's financial trouble became more acute, triggering many institutions to prop themselves up via Federal Reserve Bank discount window loans that reduced the assets available to the FDIC to pay for insured deposits.

Nor do we dispute that some insured depository institutions have used brokered deposits to fuel rapid growth that was not supported by adequate capital, management controls or prudent credit underwriting standards. However, these institution's difficulties were likely caused by these deficiencies rather than by the source or character of the deposits themselves.

<u>The fact that some deposits that are classified as brokered deposits under current FDIC rules and interpretations have contributed to, or increased the cost of some bank failures, does not mean that all deposits classified as brokered deposits under the current rules and interpretations, have caused or increased the cost of bank failures, or that all deposits classified as brokered deposits are even correlated with bank failures</u>.

For example, the Appendix to this letter describes the characteristics of the Kasasa Reward Checking Account that uses a reverse tiered rate structure to provide customers with a high yield on their transaction account balances. As detailed in the Appendix, these accounts have helped community banks attract and retain local and highly profitable depositor relationships. However, many of Kasasa's support services have had to be severely tailored to avoid running afoul of the

deposit broker definition. For example, among other things, we understand that Kasasa cannot provide any deposit (or loan) listing service capabilities to our clients; we cannot pool marketing funds from multiple banks to secure discounted process for digital marketing, print services, media buying and advertising placements for our participating institutions; we cannot implement switching software that would make it easier for consumer to move funds to our client institutions; we cannot contribute to, promote or participate in any community or "buy local" event sponsored by our client institutions; we cannot refer any consumer who calls our headquarters to any of our client institutions, etc.

The Kasasa Reward checking accounts and other account offerings that do not themselves pose material risks to the safety and soundness of banks need to be excluded from the definition of brokered deposits regardless of the marketing channel through which they are offered.

In sum, we believe that the challenge facing the FDIC as it revisits its brokered deposit rules and interpretations is twofold. First, the FDIC needs to focus the deposit broker definition on those arrangements that, in and of themselves, pose a material risk to the safety and soundness of banks and, second, the FDIC must to do so in a way that is clear to the entire financial services industry – banks, FinTech, third party service providers and the regulators.

Overcoming Fear, Uncertainty, and Doubt About Brokered Deposits

We do not underestimate the difficulty of this task and will not attempt to recommend a comprehensive definition of brokered deposits.

We recognize that that an inappropriately narrow definition of brokered deposits could put insured depository institutions, the deposit insurance fund, and ultimately tax payers, at risk.

At the same time, an inappropriately broad definition of brokered deposits is likely to accelerate further consolidation within the banking system, increasing the systemic implications of problems at individual banks, and potentially creating even greater risks to the deposit insurance fund and taxpayers.

Further, we recognize that focusing on individual arrangements that should not raise safety and soundness concerns, and therefore should not be classified as brokered deposits, runs the risk of perpetuating the current case-by-case approach and the uncertainty that it engenders.

We believe that bank decisions relating to deposit products will be facilitated most effectively, and without creating undue risks to individual banks or to the banking system itself, by identifying characteristics of deposits that the FDIC would not consider to be brokered deposits however they are acquired.

For example, the following deposits should be not considered to be brokered deposits.

- *Multi-Service Relationship*: All deposits (checking, savings, MMA, CDs) associated with an individual customer who has another ongoing bona fide financial services relationship with the bank should not be considered to be brokered deposits. The existence of another relationship,

such as a loan, demonstrates an ongoing relationship between the individual depositor and the bank.

- *Transaction Accounts*: Bona fide transaction accounts should not be considered to be brokered deposits. These accounts are used for transaction purposes, are difficult to move, and result is a stable relationship between the depositor and the bank.

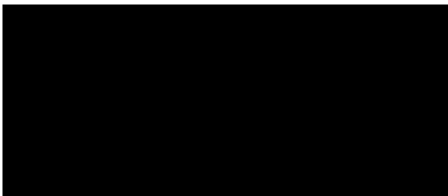
In addition, accounts that are opened directly by an individual depositor rather than by a third party and are held directly in the name of the beneficial owner of the funds and are subject to the individual depositor's control are less likely to be withdrawn in times of stress than accounts that are held in the name of unaffiliated third parties. These accounts should not be considered to be brokered deposits absent compelling evidence that the accounts are being controlled by a third party. The fact that a bank uses a marketing service provider or shares deposit branding with other banks should not be interpreted as the third party having control over an account regardless of the form of compensation the third party receives. Successful marketing and personalized messaging builds customer loyalty—the problem with brokered deposits in the past has been the absence of such individual customer loyalty.

Finally, consistent with the discussion above, we believe that there are other types of accounts that currently are considered to be brokered deposits that do not pose material threats to the safety and soundness of banks and should not be classified as brokered deposits. For example, sweep deposits from credit balances at an affiliated broker may also be more stable, lower risk deposits than the brokered deposits that trigger in passage of the original brokered deposit provisions in 1989.

We believe that a ground up review of the deposit broker rules and FDIC interpretations is important step in aligning depository regulation with twenty-first century consumer expectations, modern banking practices and our industry's ever evolving marketplace realities.

We appreciate the opportunity to share our perspectives with the FDIC as the agency reviews its current deposit broker / brokered deposit regulations and we look forward to the final outcome of the FDIC evaluation process.

Sincerely,



Patrick J. Laughlin
Senior Vice President
Kasasa. Ltd.
4516 Seton Center Parkway
Suite 300
Austin, TX 78759

KASASA

APPENDIX

Reward Checking Account Deposits Should Not Be Treated As Brokered Deposits

In the request for comment, the FDIC identified rapid growth in risky assets and deposit volatility as concerns with respect to brokered and high rate deposits. In an earlier report, the FDIC also identified the potential effect of brokered deposits on franchise value as a concern.

This Appendix illustrates how community banks, supported by a third party service provider, in this case Kasasa, can attract individually opened and controlled deposits that experience demonstrates, do not raise any of the concerns the FDIC fears.

Despite the demonstrable benefits of the Kasasa reward checking accounts to both community banks and their customers, historically, and today, the deposit broker rules have stood as an obstacle to the offering and marketing of reward checking accounts.

Reward checking accounts pay a high yield on account balances up to a specified amount when certain criteria are met. Reward checking accounts are often offered under to the Kasasa brand to take advantage of common marketing. Reward checking deposits are not typically used to fund rapid growth, are not volatile, and do not reduce franchise value. Rather, these deposits often serve as a community bank's most stable and lowest cost source of funds.

- ***How Reward Checking Accounts Work:*** Reward deposit accounts were introduced to the market in 2003. These accounts are free, interest-bearing checking accounts with no minimum balance that enables the accountholder to earn a high rate of interest and nationwide ATM withdrawal fee reimbursements when the accountholder meets certain account conditions ("qualifiers").

  Common qualifiers include engaging in a certain number of debit card transaction monthly (usually 10 to 15); making at least one direct deposit or Automated Clearinghouse (ACH) payment monthly; enrolling in the institution's online banking program and agreeing to receive electronic bank statements. These qualifiers permit banks to profit from interchange fee income, reduce expenses associated with printing and mailing statements, and decrease overhead expenses as consumers shift from engaging in branch location activities to conducting transactions online.

  In addition, to control interest expenses, many institutions establish a "cap" that limits the balances upon which the high interest rate will be paid and pay a separate, lower interest rate on the balances that are above the "cap" threshold when the accountholder meets their account's qualifications.

  Should an accountholder not satisfy her/his accounts qualifications during a specific cycle period, the account holder still earns a rate of interest that is typically comparable to the national rate published by the FDIC for interest bearing checking accounts and have the opportunity to qualify for their account's higher rewards during the next cycle period.

As will be discussed below, these qualifiers and rewards help community banks create deeply connected, actively engage, loyal, long-lasting relationships with individually acquired depositors who live within their local market area(s).

In addition, the non-interest income and operational cost savings generated by the accountholders banking behaviors significantly offset, and often completely eliminate, the expenses associated with the account's attractive rewards thus, making the associated deposits one lowest cost sources of funds within the institution.

- ***Extensive Proprietary Research***: Prior to writing this Comment Letter, Kasasa, Ltd. studied specific accountholder and deposit behaviors experienced over the last sixteen (16) years by nine hundred and seven (907) individual community financial institutions operating in six thousand and forty-nine (6,349) branch offices in all fifty (50) of our United States. This analysis reflects more than a half a billion individual data records associated with more than 3 million individually acquired reward checking accountholders relationships our community financial institution clients have established within their local markets.

- ***Reward Checking Deposits Create Depositor & Bank Value - NOT PROBLEMS***: This research confirms that reward checking deposits actually generate the following institutional benefits commonly associated with "core deposits":

  - ***Reward Checking Deposits Encourage Responsible, Managed Growth:***

    - Reward Checking Accounts Generate Local, Singularly Acquired, Individual Depositor Relationships:

      - 95% of all reward checking accounts are opened in an institution's branch office;

      - 49% of all reward checking accounts are associated with an institution's previously existing depositors;

      - 87.92% of reward checking accounts are associated with residents who live within 10 miles of one of their primary institution's branch offices.

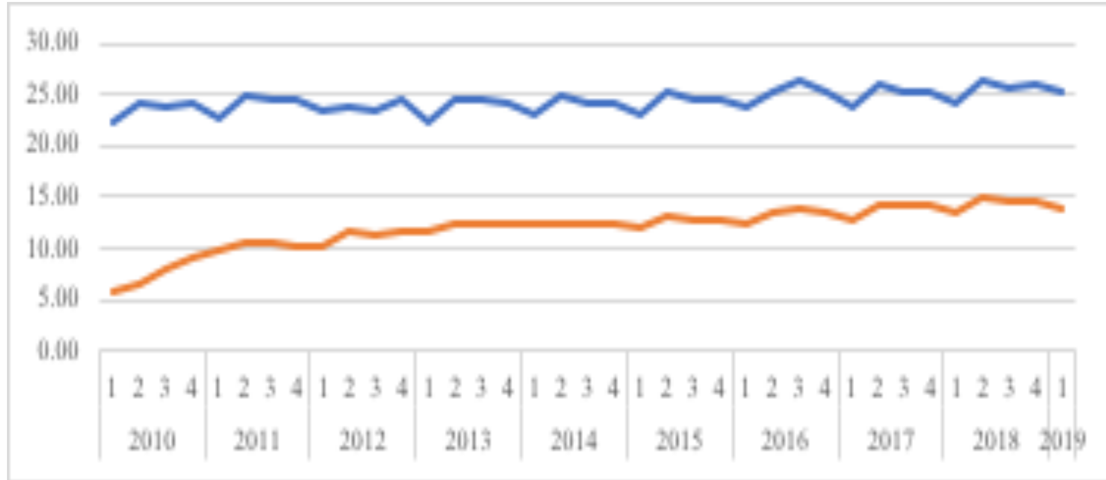
  - ***Reward Checking Deposits Serve As A Stable Source of Long-Term, Low Cost Funds***:

    - Deeply Connected and Actively Engaged Relationships:

Accountholder Behavior (> 1 x / month)	Free Checking	Reward Checking
Direct Deposit / ACH	65%	75%
Debit Card	45%	72%
Online Banking / Bill Pay	37%	73%
Accept e-Statements	31%	75%
Correspond via email with their institution	62%	83%

- Primary Transaction Accounts Within Primary Financial Institutions: As the graph below shows, reward checking accountholders use their debit cards twice as much as "free" checking accountholders confirming that these accountholders are using their reward checking account as their primary transaction account and their institution as their primary financial institution.

Average Number of Debit Transactions Per Account
Reward Checking vs. Free Checking



--------- Reward Checking --------- Free Checking

- Multi-Service Households: Raddon Research reports, reward checking accountholders are twice as likely to have a loan with their primary financial institutions and have 33% more financial products per household than do free checking accountholders, once again indicating that the accountholder considers and uses her / his institution as their primary bank.

- Reward Checking Deposits Are Fully Insured: As shown below, 99.88% of all accounts held within reward checking accounts are below the FDIC's $250,000 insurance threshold. 75.71% of all Kasasa Cash accountholders have balances less than $5,000, another indicator that these accounts are being used by the accountholder as their primary transaction account.

Insurance of Reward Checking Accounts by Balance Tier

Balance Tier Minimum	Balance Tier Maximum	% of All Accounts
Less than	$2,000	63.03%
$2,001	$5,000	12.68%
$5,001	$10,000	7.61%
$10,001	$15,000	4.69%
$15,001	$20,000	3.18%

$20,001	$25,000	2.07%
$25,001	$30,000	1.70%
$30,001	$35,000	0.94%
$35,001	$50,000	1.58%
$50,001	$100,000	1.69%
$100,001	$150,000	0.44%
$150,001	$200,000	0.17%
$200,001	$250,000	0.09%
$250,001+		0.12%

- Reward Checking Accountholder Relationships Are Long Lasting & Profitable: A number of studies have been conducted to try and establish what an appropriate life expectancy / duration estimate should be for a core deposit.

    - Long Duration: Using a methodology similar to how insurance companies calculate life expectancy reveals that reward checking accountholders maintain their depositor relationship with their primary institution approximately 48% longer (12.5 years) as those who utilize a regular free checking account (8.5 years).

    - High Retention: With a 33% lower close rate than free checking, reward checking accountholder annual retention rate equates to 92% - clearly demonstrating the long-term “core” nature of these reward checking accountholder relationships.

    - Highly Profitable: With an average annual profit of approximately $368 for reward checking accounts and $199 for free checking accounts, accountholders who utilize Kasasa reward checking accounts provide their institutions with a lifetime profit of approximately $4,604.95 vs. $1,683.06 for free checking accountholders.

    This analysis examines account balance, qualification rates, interest expense, operational expenses (i.e. statement, ATM fee refunds, check processing, fees), non-interest income (interchange and insufficient funds fees) and interest income from reinvestment of the deposits to calculate each account’s annual profit. These figures are then multiplied by each account’s life expectancy to determine each account’s lifetime profits.

- Reward Checking Deposits Are A Low Cost Source of Funds:

    - Qualification Requirements: Reward checking accounts require accountholders to meet certain requirements each cycle period in order to qualify for their account's rewards. These requirements generate non-interest income (i.e. debit card interchange revenue) or cost savings (e.g. e-Statements, online banking) for the bank that offset, and often completely eliminate, the expenses associated with offering the account's high rate of interest.

    - Rate Cap: In addition, institutions establish "rate caps" to efficiently manage the cost of their accounts associated rewards. Reward checking accounts feature a

reverse tier structure that pays a high rate of interest is up to a certain threshold ("rate cap") and a lower interest rate on any dollars that are above that threshold. Thus, the "blended cost" is substantially lower than the reward's interest rate and thus affordable for the institution to offer and manage.

- Failure To Qualify: On average, approximately 35% of all reward checking accountholders fail to qualify for their account's rewards during any one cycle period. Consequently, these individuals only receive a "base rate" of interest that is applied to the entirety of their account balance. Community banks typically set this rate to be equal to the national rate for interest-bearing accounts that the FDIC publishes each week and of course, the accountholder has the opportunity to qualify for the rewards during the following cycle period.

- All in Cost: When the non-interest income and operational cost savings generated by the accounts qualifying banking behaviors are factored in, the "all in" costs associated with the deposits is extremely low - in fact, these deposits are often the lowest cost source of funds within an institution.

The True Cost of Deposits
Reward Checking Deposits Compared to 1 & 5-Year CDs

Account Elements	Reward Checking	1 Year CD	5 Year CD
(A) Avg. Balance of All Accounts	$15,195,733,465	$15,195,733,465	$15,195,733,465
(B) Interest Expense	$ 126,749,828	$ 138,761,776	$ 227,064,724
(C) Cost of Funds *(Calc: B/A)*	0.83%	0.88%	1.44%
(D) Annual Non-Interest Income	$ 298,080,255	$ 0	$ 0
(E) Annual Non-Interest Expense	$ 39,220,523	$ 0	$ 0
(F) Cost of Deposits *(Calc: (B+E)-D)*	($ 132,109,904)	$ 138,761,776	$ 227,064,724
(H) Cost of Deposits % *(Calc: F/A)*	(0.87%)	0.88%	1.44%

- *Definition:* Cost of Deposits serves as a holistic "all in" metric of all revenues and expenses associated with the account.

- *Formula:* (Annual Interest Expense + Annual Non-Interest Income – Annual Non-Interest Income) / Average Account Balance

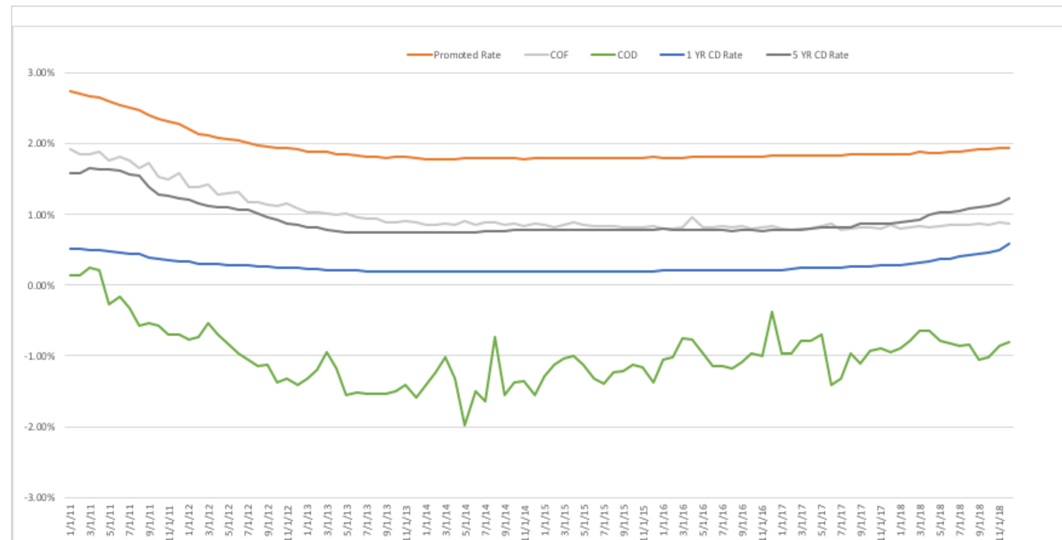
- *Note*: A negative Cost of Deposits means the insured deposit institutions are making money BEFORE deploying the deposits in loans or investments.

Community banks DO NOT have to invest in risky assets to fund the interest rates offered in their reward checking accounts. Since the account is a reverse tiered, qualification-based, reward incentive offering, accountholder behavior generates enough non-interest income and operational cost savings for the institution to significantly offset interest expenses making them consistently lower cost than alternative funding sources. And as the chart above indicates, in today's rate

environment, the overall Cost of Deposits for this account type is negative indicating that a return is being realized by the institution *before* the deposits are deployed as loans or investments.

And, as you can see from the chart below the Cost of Deposits associated with reward checking accounts are a consistently affordable source of funds when compared to 1 Yr. and 5 Yr. CDs :

Reward Checking Deposits Are A Low Cost Source of Funds



- Reward Rate: Orange line. Reward rate is the interest rate paid by the bank when qualifications are met

- Cost of Funds: Grey line. The interest expense divided by the avg. balance of all accounts

- Cost of Deposits: Green line. The "all in" cost including all interest expense and non-interest incomes

- 1 Yr. CD: Blue line. The interest rate paid for 1 year certificate of deposit

- 5 Yr. CD: Black line. The interest rate paid for 5 year certificate of deposit

- ***Reward Checking Deposits Create High Franchise Value:*** As evidenced by the information shared below, reward checking accounts help community financial institutions establish and maintain loyal customer relationships that provide the institution with a stable source of funds upon which it can responsibly manage its business and serve its local market(s).

- Extremely Satisfied Customers: In a recent study, 93% of the reward checking accountholders said they liked or loved their reward checking account.

- Stable Deposits Even In Times Of Institutional Stress**:** Very few institutions offering reward checking accounts have fallen into less than well capitalized status. One such institution provided the following information, reflecting a period of 11 months, after having to make a dramatic 50% rate reduction (1.50% APY to 0.75%) in order to adhere to the FDIC's Section 337.6 rate restrictions:

▪ Total Kasasa deposits pre-rate change	$19,105,176
▪ Total departed Kasasa deposits post rate change	$ 870,485
▪ Total % of departed Kasasa deposits due to rate change	-4.57%
▪ Departed Kasasa deposits as a % of Institutions Total Deposits	-0.41%

  Due to the connected nature of the accountholder's relationship with an institution through their Kasasa account, very few accountholders move their deposits to other institutions even when their account's rates are dramatically reduced.

- Managed Asset Growth & Minimal Bank Failures: Over the past sixteen (16) years, only seven (7) institutions offering Kasasa's reward checking accounts have failed as compared to the five-hundred and thirty-eight (538) supervised banks that are identified by the FDIC as having failed during this same period.

- Premium Price Paid To Acquire Reward Checking Accountholder Relationships: In March 2013, a large bank purchased a Kasasa client bank that was offering rewards checking accounts. Valuing the deeply connected accountholder relationships that the acquired institution had established through their rewards program; the acquiring bank paid a 2.3% premium for the acquired institutions reward checking deposits vs. the then national median value of 0.9%.