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May 6, 2019

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

Re: RIN 3064-AE94 – Unsafe and Unsound Banking Practices: Brokered Deposits

Dear Mr. Feldman:

On behalf of the Iowa Bankers Association (IBA), I am writing to comment and express concerns relative to the FDIC's Advanced Notice of Proposed Rulemaking (ANPR) undertaking a comprehensive review of the regulation of brokered deposits and interest rate caps applicable to banks that may be less than well capitalized. The IBA is an Iowa trade association with members compromising 98% of the state and national banks and federal savings banks located across the state.

Specific Proposed Changes Causing Concern

In addition to restrictions on the acceptance of brokered deposits by less than well-capitalized insured depository institutions (IDIs), Section 29 of the Federal Deposit Insurance (FDI) Act also prohibits such institutions from paying rates significantly exceeding their normal market area or the "national rate" as established by the FDIC by regulation.

As recent as 2009, the FDIC has defined this "national rate" as a simple average of rates paid by all insured depository institutions and branches for which data are available. In response to the difficulty experienced by IDIs in determining prevailing rates in its market areas, the FDIC in 2009 created a presumption that the prevailing rate in any market would be the "national rate." This presumption may be rebutted by presenting evidence to the FDIC that the prevailing rate in a particular market is higher than the national rate. If the FDIC agrees with the evidence, the IDI would be permitted to pay as much as 75 basis points above the local prevailing rate. In addition, the FDIC may consider evidence as to the rates offered by credit unions *but only* if the IDI competes directly with the credit unions in the particular market (emphasis added).

Credit unions are a large and quickly growing segment of the financial services industry across Iowa, yet their deposit rates are not yet routinely included in the national rate calculation. In Iowa, community banks in every corner of the state face fierce competition from credit unions, as several state chartered credit unions in Iowa have a statewide field of membership.[1] The University of Iowa Community Credit Union for example as of May 1, 2019 is offering a 15 month special CD with a $1000 at a rate of 2.60%. That offering, which is mailed to citizens in every corner of rural Iowa, *is 101 basis points higher than the FDIC weekly rate cap of 4/29/19 and 176 basis points higher than the national rate on a 24 month CD* (emphasis added). These rates are a severe handicap to Iowa banks struggling to fund loans that may be less than "well capitalized." Rates from Iowa credit unions operating within individual market areas or on a statewide basis should always be considered in these local rate surveys.

Furthermore, it is also concerning and somewhat counterintuitive that many large and growing online banks are offering rates significantly above the market and are direct competitors for local Iowa banks. One local well capitalized Iowa bank commented in this ANPR that year end 2018 FDIC rate caps on money market and short-term CDs were between .75%-1.00% when online banks were offering 2.20% on money market accounts. This rural Iowa banker stated they could never operate in their market if they were ever restricted to comply with these rate caps or other brokered deposit restrictions. For a local survey under current FDIC rules, shouldn't these online financial institutions be considered in this analysis?

The FDIC weekly national rates are also determined by the simple average of rates offered by all depository institutions (other than credit unions) and their branches both large and small across the country. Of the more than 5500 bank charters in the United States, approximately one percent (55 charters) account for more than 50 percent of total U.S. branches, thereby heavily weighting the established weekly national rates to the largest charters operating in the largest metropolitan areas. A "one bank, one entry" calculation of the highest rate offered within each deposit category would be much more reflective of the realities of the marketplace.

To return to the purpose of the regulation on national rate caps which is to protect the FDIC deposit insurance fund from "bad actors" who deepen the financial failure of banks by attraction of above market funds to sustain an unsustainable business, the better solution is to address the assets that are producing loss of capital to these institutions. These regulations could be amended as stated above to improve the survey processes for national and local market assessments.

Finally, across Iowa loan demand remains strong – in both rural and urban areas of every corner of the state. As IBA member banks serve as the economic engines for their communities, opportunities for deposit growth in many of these markets has significantly lagged with this loan demand. With stagnant population growth in many rural Iowa communities and increased competition from online sources, credit unions, insurance companies, investment firms and fintechs, raising deposits locally is a significant challenge. Current restrictions on brokered deposits on addressing these funding needs along with an inaccurate and nonsensical rate cap is exacerbating this problem among Iowa banks and if left unaddressed could lead to additional unintended consequences.

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[1] For example, the University of Iowa Community Credit Union (UICCU), a $5.3 billion state chartered credit union headquartered in Iowa City in Eastern Iowa, has all 99 Iowa Counties and four Illinois counties within its field of membership. The UICCU, as well as several other large Iowa state chartered credit unions, routinely solicit deposits from Iowa citizens in every county in Iowa with statewide mailings and other advertisements.

Thank you for consideration of these observations and recommendations as the IBA respectfully requests swift movement from the FDIC on this critically important issue.

Sincerely,

[redacted]

Robert L. Hartwig

Legal Counsel