ENTERPRISE BANK

May 7, 2019

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

RE: Unsafe and Unsound Banking Practices: Bank Deposit and Interest Rate Restrictions

Submitted via Email

Dear Mr. Feldman,

This letter will serve as Enterprise Bank's comments regarding the FDIC's proposed rulemaking regarding unsafe and unsound Banking Policies. Enterprise Bank is a small business niche bank. It is a commercial bank that specializes in assisting start up small businesses and small businesses in distress. It began operation in 1998 and has grown to approximately 300 million in total asset size as of the date of this letter. The Bank utilizes brokered deposits and Federal Home Loan Bank borrowings to supplement its' funding needs which exceed deposits from its' small business customers.

The Bank has organized its' comments around three topical risks which the FDIC seems to associate with brokered deposits; 1) Volatility 2) High Cost and 3) Bank Failure Predictability.

Deposit volatility is a risk which all banks must be concerned about. In the current market places, almost all banks have their deposit interest rates electronically available. Depositors are aware of every bank's deposit rates via the internet. Almost all publish their rates on their websites. This "online" competitive environment makes traditional checking, savings and money market accounts very volatile. In fact, much more volatile than local certificates of deposit which typically have prepayment penalties associated with the deposit. A broker deposit in the form of a master certificate of deposit is typically made up of numerous $1000.00 deposits from clientele who cannot redeem their deposit unless they have passed away or are deemed to be mentally incompetent. The fact of the matter is in the current deposit environment, a brokered deposit in the form of a master certificate is less volatile than an interest rate sensitive bank transactional deposit.

The cost associated with deposits is a risk which all banks must be concerned. The true cost of the deposit is not just the interest rate charged. It also includes the costs to administer, account for and maintain the deposits. By contrast, a brokered deposit in the structure of a master certificate has almost no overhead cost to the bank. The client deposit is administered, accounted for and maintained by the broker so the total "all in" cost to the Bank is the stated interest rate. The traditional in house cost for the equivalent transaction account or CD includes the stated interest rate, advertising costs, documentation costs, accounting costs, teller costs and more. Our Bank's experience over the last fifteen years, which included the 2008 recession, has been that brokered deposits are less expensive than the "real cost" of local consumer certificates of deposit. The fact of the matter is that there exists a robust

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brokered deposit market that shifts excess deposits from certain geographical areas to ours at a lower cost in relation to the alternatives. The current competitive "on line" deposit rate environment has eliminated the old concept of low cost legacy deposits.

Bank failures were not directly caused by broker deposits but rather the bad investments that were made with the deposits! The mathematical correlation made between brokered deposits versus bank failures does not necessitate a blanket conclusion that all brokered deposits are bad. There is a 100% mathematical correlation for all banks that failed. They all had FDIC insurance! Does that mean FDIC insurance is a bad idea – of course not. Brokered deposits enable bank growth. Growth is not bad when that growth is done in a safe and sound manner. It is the mandate of the regulators to verify that growth is safe and sound. Eliminating or reducing the availability of brokered deposits harms the economy by making it harder for safe and sound growth to occur for banks that operate in a prudent fashion. Eliminating an option for a bank that runs well to grow is NOT the mandate of the regulator.

Brokered deposits create value for banks and assist them in operating in a safe and sound manner. The ability to utilize deposits to obtain long term certificates of deposit assists the banks in mitigating interest rate risk. The ability to "ladder" brokered deposits to mitigate interest rate risk is very important to the Bank.

Brokerage deposits also create value for banks by offering a liquidity option in times of stress. Our Bank utilized brokered deposits during the recession to bolster our liquidity position. Unlike transactional deposits, the brokered deposits that originate from a master certificate will not "run out" of the bank if economic or reputational risk is put on the bank's shoulders. The long term nature of a five year broker deposit master certificate is a liquidity option that is very sticky and is an important asset to Banks and its regulators in managing interest rate risk.

It should be noted that the current computational formula used to calculate the national average deposit rates does not result in an accurate result. If the purpose is to estimate the interest rate banks charge to attract deposits, it is not accomplishing this result in the Western Pennsylvania market place. A new computation that includes banks special pricing programs is needed to accurately reflect actual market pricing.

In summary, there is currently an active, competitive brokered deposit network that shifts deposit on a geographical basis that helps community banks to compete no matter where they are located. These deposits are not as volatile as transactional deposits and are not high priced when the true deposit costs are analyzed. They represent an important liquidity source for community banks. The ability to ladder deposits and mitigate bank interest rate risk is very important. There is no reason not to promote the use of brokered deposits in today's electronic environment as this option of deposit enables a community bank to operate in a more safe and sound manner.

We appreciate the opportunity to comment upon the existing detrimental brokered deposit regulatory mindset versus the enormous value brokered deposits bring to the community banks.

Sincerely, [redacted]

Charles H. Leyh
President and CEO