May 7, 2019

The Honorable Jelena McWilliams, Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

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

Re: Unsafe and Unsound Banking Practices: Brokered Deposits & Interest Rate Restrictions Comment Request (RIN 3064-AE94)

Dear Chairman McWilliams and Mr. Feldman:

Thank you for the opportunity to comment on the FDIC's regulatory approach to brokered deposits and interest rate restrictions. WebBank (Bank) urges the FDIC to recognize the important benefits that brokered deposits provide to insured banks and to permit their responsible use as part of a bank's business and funding plan.

I am the President of WebBank, an FDIC insured Utah chartered industrial bank (IB or ILC) regulated by the FDIC and Utah Department of Financial Institutions. WebBank is a recognized leader in the online lending space with significant regulatory oversight experience in managing partner platforms. We have earned a best-in-class reputation for strong risk management while allowing servicing platforms the ability to control the brand experience, thus making us the "Bank Behind the Brand." The core operations of WebBank are dedicated to extending regulatory compliant credit products to consumers and small businesses through relationships with Strategic Partner Platforms that include marketplace lenders, retailers, original equipment manufacturers, finance companies and financial technology companies. The Bank also offers retail consumer deposit products through its website.

My experience with the utility of brokered deposits spans two decades across multiple financial institutions.

Initial Experience with Brokered Deposits

I joined Flying J, Inc. (Flying J) as an assistant corporate controller in February of 1998. (Flying J owns and operates a petroleum refinery, approximately 130 travel centers and plazas throughout the U.S. and

Canada, and several other companies that support the logistics industry). About one year after I assumed that role, I was asked to be the Chief Financial Officer (CFO) of Flying J's de novo ILC, Transportation Alliance Bank (TAB). This was my introduction to banking.

Flying J started TAB to offer financial products to its customers, including a checking account with a Mastercard debit card, receivables factoring, equipment loans, and a credit card for recreational vehicles that fueled at Flying J locations. TAB became profitable in its first year when it deployed more than 100 ATMs throughout its operations.

As TAB's CFO, it was my responsibility to determine how to fund TAB's asset growth. At the time, I was unfamiliar with brokered deposits, so my team and I developed TAB's certificate of deposit (CD) products and posted our rates to a popular bank rate website. Not long after TAB publicized its CD interest rates online, it was offering the third or fourth highest rate on the internet. Soon thereafter, a number of the banks offering a higher rate through the bank rate website reduced their interest rates. As a result of these reductions by other banks, TAB was offering the highest available rate(s). I learned of this when the manager of TAB's call center told me the phones were ringing nonstop with consumers telling TAB that it had the highest rate based on that morning's *USA Today* newspaper. At the outset of my efforts, I was only looking for about $3 million in funding and was subsequently forced to turn away a lot of customers. This was a negative experience for the consumers TAB denied and for me personally.

Shortly after that experience, I became aware of brokered deposits. Once I understood how they worked, it became clear that deploying them was a prudent business decision for TAB because brokered deposits were about 100 basis points less expensive than online deposits, easier to source, and required no customer service support. The bank could obtain one master CD for a specific term and amount and interest payments were handle by the Depository Trust Corporation. This made liquidity planning much simpler and more efficient. Brokered deposits, unlike retail deposits, were more stable because the bank was not dealing with individuals shopping for the highest rate. In the four years I was at TAB, I used hundreds of millions of dollars in brokered deposit funding and only had a few instances where a small part of the master CD was required to be paid before the maturity date because of a death of one of the customers in the master CD pool. Brokered deposits were the primary and best source of funding during my time at TAB.

WebBank Experience with Brokered Deposits

WebBank entered the deposit market with assurances from the FDIC that brokered deposits are an acceptable and diversified source of funding. In WebBank's initial application to the FDIC more than twenty years ago, the Bank disclosed plans to finance its operations by utilizing brokered deposits in part because the Bank was not permitted to offer demand deposit products. The FDIC's treatment of brokered deposits is especially important to WebBank because this agreed upon plan remains in effect and the Bank continues to rely on brokered deposits to make innovative, affordable financial products accessible to the public.

When I started at WebBank in 2006, its total assets were under $15 million. Today, the Bank's total assets are over $800 million and may exceed $1 billion this year. Over the past several years, approximately 80% of WebBank's funding has come from brokered deposits. However, this year WebBank launched its own retail deposit products sourcing customers via online channels. This is a very costly way to fund the Bank.

Although the spread between brokered and online retail deposits has narrowed to 20-50 bps (from 100 bps years ago), a bank must pay an additional 50-90 bps in marketing costs to acquire a customer (with the average cost trending closer to the high end of this range). Additionally, when overhead costs to implement and run an internet banking application and the personnel to support it are factored in, it makes the total cost approximately 200 bps higher than brokered deposits. The only variable cost that a bank can reduce of the total 200 bps cost is to reduce internal overhead by scaling to several billion dollars in deposits. This solution is cost prohibitive for smaller banks and community banks.

In the aftermath of the 2008 recession, the FDIC concluded that there had been a correlation between banks that failed and banks that grew rapidly funded by brokered deposits. As a result of the bank failures that occurred over a several year period, the FDIC insurance fund was depleted, and it needed to be rebuilt. At that time the message that was communicated to IBs was that the FDIC was restricting growth and that brokered deposits were generally not viewed favorably. Because of pressure from the FDIC in this regard, several IBs were either required to start an online retail deposit program or strongly encouraged to do so.

Even today, several IBs and former IBs currently offer the highest interest rates available in the market and are the main providers of such deposits. For example, GE Capital Bank was required to start a non-brokered deposits program when it had about $15 billion in total assets. GE Capital Bank built an online retail deposit platform and raised several billion dollars in deposits. GE Capital Bank then sold the operation to Goldman Sachs, who currently markets deposits under the Marcus brand. Ally Bank (formerly GMAC Bank) is another example of a former IB that also regularly offers competitive interest rates as well as CIT and TAB Bank (also formerly IBs). Some of the more recent IB entrants to source these deposits online are Merrick Bank, Comenity Bank, and WebBank.

Less than ten years ago, the online retail market was not as robust as it is today, but two things have driven growth in this market. First, the availability and use of the internet by people with liquid funds to deposit; and second, the number of IBs that have entered the market thereby increasing demand and availability. While these developments may have been inevitable, FDIC policy may have accelerated the growth. This has increased both the cost and unreliability of retail deposit programs as a funding source for banks. Finally, current market dynamics will continue to put particular pressure on smaller banks and community banks making it harder to retain and or source new deposits.

The following anecdote illustrates the current challenges. Last August, while I was attending the National Association of Industrial Banks' Annual Conference, a deposit broker approached me in response to my comments from earlier that day during a panel discussion on de novo IB charters and the use of brokered deposits. She stated, "I used to call community banks all the time and explain brokered deposits to them, and they would never purchase any. But now I have community banks calling me."

I hope this letter is helpful as you consider the FDIC's policy and treatment of brokered deposits. Brokered deposits should be allowed and supported by the FDIC as an appropriate source of funding. Limiting brokered deposits today, in my opinion, has not protected the insurance fund from failures. In the future, if not appropriately handled, restrictions on brokered deposits may increase the financial stress on smaller banks and community banks as their traditional deposit customers migrate to internet deposits with higher interest rates.

On behalf of WebBank, I welcome further collaboration with the FDIC on this topic and the opportunity to fulfill WebBank's commitment to working creatively and openly with our regulators in solving the complex challenges facing the financial industry today. Please contact me should you have questions about the importance of brokered deposits to WebBank, to the financial sector, and to our local and national economy.

Sincerely,

Kelly M. Barnett
President
WebBank
215 South State Street, Suite 1000
Salt Lake City, Utah 84111