INVESTORS
COMMUNITY BANK

May 6. 2019

Robert E. Feldman
Executive Secretary,
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

MAY 8 '19 PM4:21
EXECUTIVE SECRETARY

Re: Brokered Deposits RIN 3064-AE94

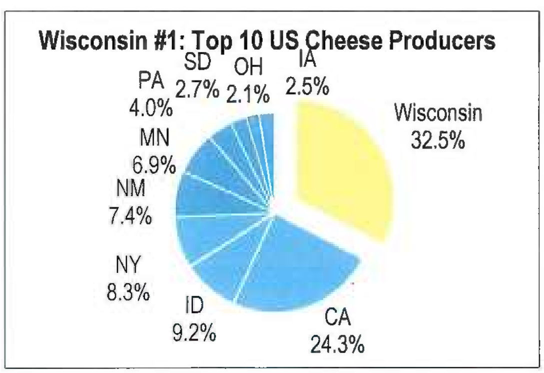
We appreciate the opportunity to comment on the Federal Deposit Insurance Corporation's ("FDIC") advanced notice of proposed rulemaking (ANPR) on brokered deposits. We are very supportive of this comprehensive review and strongly agree with the FDIC that significant changes in technology, business models and products warrant a review of the regulations, interpretations and guidance that make up the FDIC's approach to brokered deposits.

I have participated on the American Bankers Association task force on this matter and will refer you to its response as a great analysis on the classification of brokers. My response will focus on how brokered deposits and the FDIC national rate caps are used to evaluate our Bank's funding structure.

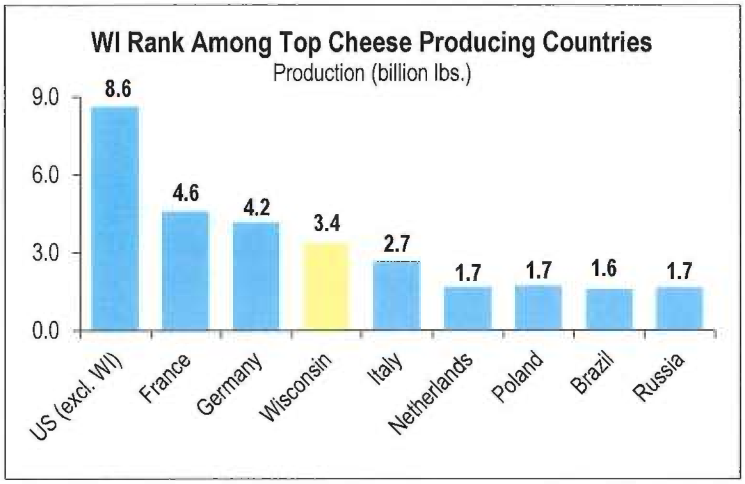
Background

Investors Community Bank ("the Bank") was established as a De Novo bank in 1997 in Manitowoc, Wisconsin. Our founders formed the Bank because they noticed how larger banks in Wisconsin did not appear to be focused on serving the needs of dairy farms in the state of Wisconsin.

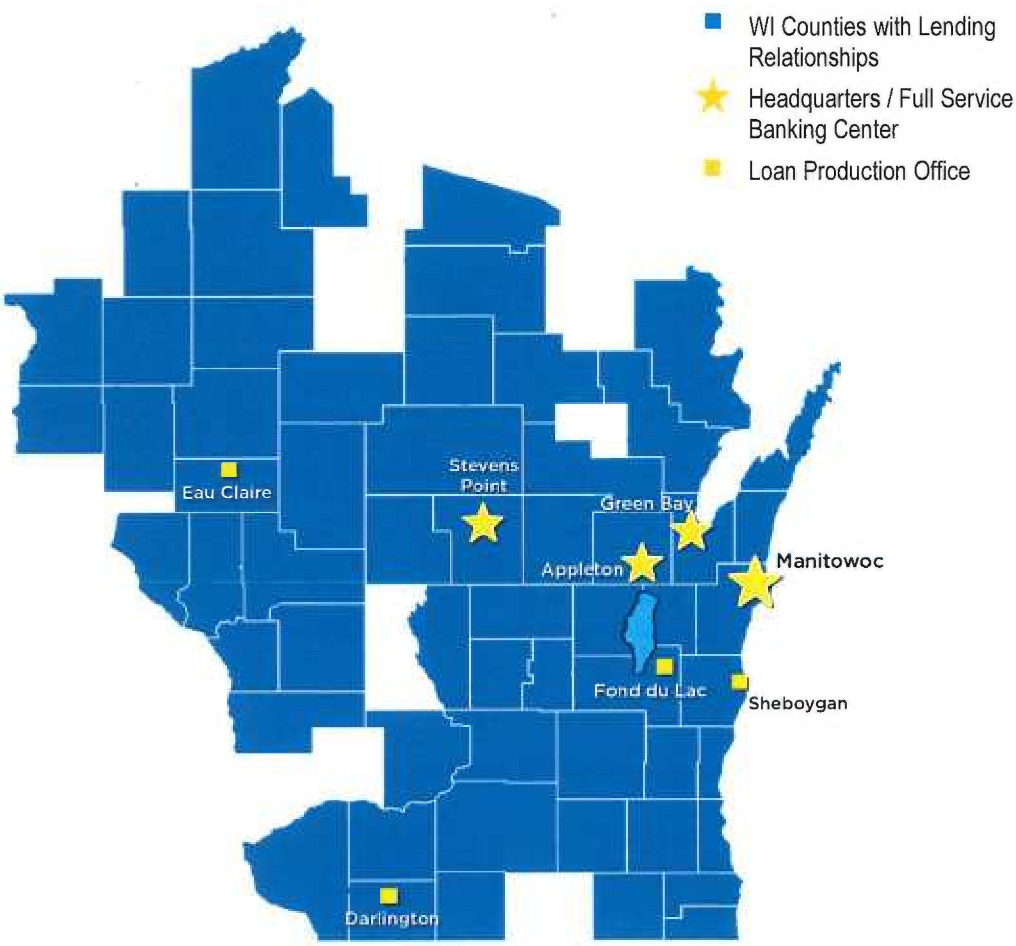
The dairy industry is a vital cog to the Wisconsin economy as it contributes $43.4 billion in revenues to Wisconsin farmers[1]. Wisconsin's impact on the dairy industry is also illustrated as follows[2]:



[1] Source: State of WI DATCP 2019
[2] Source: USDA/ Economic Research Service 2017; EuroStat Online Database; United Nations FAOStat Online Database; 2014



Our Bank also serves business and retail customers throughout Wisconsin with a focus on the northeastern and central regions of the state. Below shows where we have clients as well as our banking offices.



As of March 31, 2019, we had total assets of $1.5 billion with loans of $1.2 billion and loans sold and serviced of $0.7 billion. Of our $1.2 billion in loans, 50.7% of those loans were to the dairy industry and 10.3% to other agricultural business ("ag"). We are currently in a stressed dairy environment as we are in our fifth consecutive year of low milk prices. Our adversely classified asset ratio is at 48.59% as of March 31, 2019 and has been as high as 57.12% in 2018. Even with our dairy ag concentration and strain in our portfolio, we have only experienced $5.9 million in net charge offs to our ag portfolio since inception in 1997. We have never experienced a net loss since our first year of operation in 1997. We think this shows our commitment and understanding of ag lending which includes our utilization of Farm Service Agency ("FSA") guarantees as part of our overall underwriting of ag loans.

Our model since inception has also been focused on overall efficiency as noted with our branch-lite model. We utilize wholesale funding (brokered deposits, internet listing time deposits, Federal Home Loan Bank advances) as a key part of our funding strategy. Wholesale funding was 34.9% of total assets and brokered deposits was 18.2% of total assets as of March 31, 2019. Because of our branch lite model, our efficiency ratio was 49.82% and noninterest expense / average assets was 1.93% year to date through March 31, 2019. Our efficiency has always been part of our ability to generate solid net income quarter over quarter and year over year with an average return on average assets of 0.91% since inception.

Because of our extensive use of wholesale funding, we perform quarterly liquidity stress testing. We only experience liquidity stress if wholesale funding, including brokered deposits, were to be taken away as a source of funding. I understand the FDIC wanting to limit a Bank's use of brokered deposits especially in times of stress including elevate classified assets. However, I believe the use of classified asset levels can be an ineffective tool, especially when a Bank has more than sufficient capital to stay above well capitalized and conducts capital stress testing as I will note

Because of our concentrations on the asset and liability side of our balance sheet, we have always maintained capital ratios well in excess of the definitions of well capitalized. Our average total risk based capital ratio and tier 1 leverage ratios since inception has been 12.78% and 10.18%, respectively. Currently, our total risk based capital and tier 1 leverage ratios are 15.87% and 12.83%, respectively.

Our risk management practices on capital have been further enhanced since 2017 by capital stress testing. For the last 2 years, we have engaged a third party to assist us in conducting capital stress testing. The stress testing is comparable to the big bank stress tests under DFAST and CCAR, but have been adapted to our Bank's market and unique strategy. This degree of stress testing is not required for our Bank, but we think that it is a valuable tool to help manage our capital as well as our dairy concentration. We updated this stress testing as of September 30, 2018.

We utilize loan level data and assume no growth or dividends as part of the stress testing. The severe adverse case mimics the recent recession on the commercial side and the 1980s crisis on the ag side.

Under this severe adverse stress scenario, we experience $67.7 million in loan losses in a 2 year stress period which results in $31.2 million in lost capital after adding back earnings. This assumes no management actions such as deleveraging the balance sheet. Even with the stress, we show $42.1 million in excess capital to stay in compliance with our internal policy limits on total risk based capital of 11.5% and tier 1 leverage of 9.5%.

We believe we manage the overall risks of our funding very well through our capital and liquidity risk management tools.

Brokered Deposit Regulations and Rate Caps

Enacted in 1989, as part of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA), Section 29 of the Federal Deposit Insurance Act (FDIA) sets restrictions on the acceptance of brokered deposits by institutions with weakened capital positions. The statute was intended by Congress to prevent *troubled institutions* from holding funds placed by third-parties whose primary business is "placing deposits or facilitating the placement of deposits of third parties" with insured depository institutions.

In addition to setting restrictions on brokered deposits, Section 29 directs the FDIC to calculate a national rate cap on the interest rates weaker institutions may offer on deposits. The cap is established by adding 75 basis points to the "national rate." The national rate is currently established by taking a "simple average of rates paid by all insured depository institutions and branches for which data are available". Because banks with the most branches drive the calculation of the average rate, the current rate does not accurately reflect the cost of deposits for community banks, and others, that do not have extensive branch networks. It is my understanding that the rate caps also do not factor in credit unions who are direct competitors of ours in our branch footprints.

Ally Bank currently shows $115 billion in deposits as of March 31, 2019. Their current online savings account rate is 2.20% APY on all balance tiers. They only show one branch. Marcus by Goldman Sachs offers a savings account at 2.25%. Goldman Sachs Bank USA reported $145 billion in deposits from 2 branches. Under the weekly national rates and rate caps as of April 29, 2019, the rate cap for savings products was 0.85%. These Banks would not be effectively evaluated in an average rate paid based on their limited branch network. If our Bank had a product similar to Ally or Marcus, those funds would be considered volatile funds by our FDIC exam team because the rate was over the FDIC's national rate caps. The strict regulatory definitions does not factor in the overall relationship with the client. Banks now have the ability to market their products nationwide via digital platforms, so the use of branches to calculate rate caps to evaluate a volatile liability needs to change.

We have developed a funding analysis tool to determine what funding is considered volatile and what we consider stable. For client deposits, we score each account based on 5 criteria: age of relationship, total balances in relationship, proximity to our branches, transactions conducted in accounts and balance of the account. We also established a local rate cap including all banks and credit unions in our branch markets using the average and adding 75 basis points. A 12 month, $100,000 certificate of deposit would have a 1.48% FDIC rate cap versus our local rate cap of 2.04%, which shows the ineffectiveness of using the national rate caps by the FDIC. The max score for any account is 100 points and each category receives a max of 20 points so that any one category cannot drive the overall score. Deposits under FDIC insurance limits or paid a rate under local rate caps are considered stable funding. For those uninsured deposits and those paying a rate over the local rate caps, if the account has a score over 50, we consider that stable funding. For those with a score under 50 we consider that volatile funding. For wholesale funding, we consider anything with a maturity of less than a year to be volatile funding and the rest to be stable funding. Using our criteria, as of December 31, 2018, our volatile funding totals 48% of assets as compared to the FDIC definition which would be 77% of total assets. The evaluation of the volatility of a client deposit is much more art than science, but the strict regulatory definition of volatile funds including the use of rate caps does not appear to properly reflect the actual risk of these funding sources.

Chase Bank has thousands of branches and has billions to spend on technology to attract low cost deposits from a myriad of sources as one example. One of the ways for community banks like ours to compete for funding is to use a branch lite structure and pay higher rates for deposits and utilize brokered deposits.

Evaluating what we pay for our deposits with four branches against a bank like Chase and terming our deposits as volatile because they exceed national rate caps warrants review by the FDIC.

In order to identify outlier interest rates, as directed by the statute, we recommend that the FDIC investigate the use of robust, transparent, and widely used benchmarks to determine a market interest rate, with an appropriate and dynamic add-on to establish a threshold for rates that are tolerably above market. For example, as a base rate the FDIC could use the top ten rates posted on bankrate.com, a median of FHLB advance rates or a composite rate of widely understood and accessible benchmarks, or a combination thereof. The add-on to the base rate should be dynamic to ensure the FDIC's national rate is well above that of the deposit market rate. I recognize the difficulty of creating a rate that remains robust through all stages of the economic and interest rate cycles.

I really appreciate the FDIC reviewing the regulations on brokered deposits and the use of rate caps. I can be reached at (920) 686-5658 or gstiteley@icbk.com if you have any questions.

Sincerely,

[redacted]

Glen L. Stiteley
Chief Financial Officer