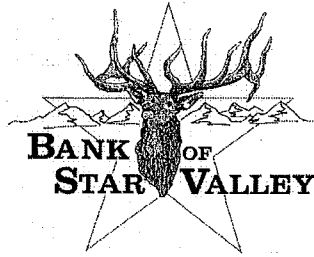


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March 24, 2020

Mr. Robert E. Feldman  
Executive Secretary  
Attention: Comments  
Federal Depository Insurance Corporation  
550 17<sup>th</sup> Street, N.W.  
Washington, D.C. 20429

Re: Unsafe and Unsound Banking Practices: Brokered Deposit Restrictions RIN 3064-AE94

Dear Mr. Feldman,

On behalf of The Bank of Star Valley, we would like to thank the FDIC for the opportunity to comment on its proposed new rule regarding brokered deposits.

We suspect that you are likely unfamiliar with our institution so let us introduce ourselves and our institution to you. Our names are Rod Jensen, President/CEO and Brook Merritt EVP/CFO at our bank. Our area of the country has prospered over the past 120 years due to the support of strong, local banks who personally know the great people of this special valley. This proud banking history began around 1907 with Freedom State Bank and Afton State Bank, who later merged to become Star Valley State Bank. When Star Valley State Bank merged with an out-of-area institution in 1994, Star Valley was left only with bank branches owned, operated, and headquartered by banks in communities hundreds of miles away. These branches' decisions were influenced by the goals and objectives of management and shareholders outside the area, not for the real needs of our Star Valley citizens and businesses.

In 1994, a group of citizens decided a locally owned and managed community bank was essential for Star Valley's businesses and citizens to continue to prosper. Over 140 individuals came together, pooled their hard-earned funds, and set out to charter a new community bank, The Bank of Star Valley. The Bank of Star Valley opened its doors to the Star Valley community on March 28, 1996. The vision and demands of the Bank's founders were to restore the long tradition of home-town banking, local market knowledge, and local decision-making processes, and also to provide a focus on each customer through exceptional customer service, honesty, confidentiality, and professionalism.

The Bank of Star Valley has received strong support from the great community it serves. Over the past 23 years, it has grown from \$2 million in assets to over \$220 million. The Bank has three full-service branches throughout Star Valley (Alpine, Thayne, and Afton), and an ATM network that provides customers with national access to their funds. In an era of “bigger is better,” mergers, and mega banks, The Bank of Star Valley continues to show that a commitment to ever-improving service, use of technology to enhance on-line services, and a long tradition of neighbors helping neighbors is alive and well.

As you can tell from the last sentence, we are aligned with the following statement that FDIC Chairman Jelena McWilliams made in her “Brokered Deposits in the Fintech Age” speech on December 11, 2019, the day before the proposed rule was announced:

*“The first goal is to develop a framework that encourages innovation within the industry and allows banks to serve customers the way customers want to be served. The approach is intended to reflect how consumers want to access banking services in 2020 and beyond, not how they did so in 1989. The proposal will clarify that various types of existing partnerships in which a consumer maintains a direct relationship with a bank generally would not result in a brokered deposit.”*

However, upon reading the actual proposed rule, our institution is concerned that, as currently written, the language within the proposed rule will make it nearly impossible for us to serve our customers the way they want to be served and continue our tradition of “neighbors helping neighbors.”

Let us share our concerns and recommendations:

Unlike the large regional and mega banks that operate throughout our country, small institutions like ours do not have unlimited budgets or the experienced programming personnel to develop the new technologies, automated platforms, innovative deposit offerings and digital delivery capabilities that consumers and small businesses want. We can’t build and deploy everything “in-house” so we rely on industry innovators and third-party service providers to help us remain competitive and to assist us distinguish our offerings from those of the impersonal too-big-to-fail institutions and the non-banks that solicit our neighbors from afar.

The Chairman seemed to acknowledge this reality when in her October 1, 2019 “The Future of Banking” speech she stated:

*“Why are more community banks not developing new technologies?...The cost to innovate is in many cases prohibitively high for community banks. They often lack the expertise, the information technology, and research and development budgets to independently develop and deploy their own technology. That is why partnering with a fintech that has already developed, tested, and rolled out new technology is often a critical mechanism for a community.”*

Yet, as we read the proposed rule, it appears, via the rule’s proposed new “facilitating the placement of deposits” definition, that our ability to engage third parties is now restricted to

engaging them only for administrative services and that we can no longer utilize industry consultants or asset liability management firms to help us optimize our deposit offerings and we are prohibited from receiving and utilizing any data from any third party or we risk all deposits touch by any of the above named services to be deemed to be “brokered.”

Hopefully we have an incomplete understanding of the proposed rule’s written language as surely it cannot be the FDIC’s intent to make it more difficult rather than easier for community banks to serve our customers and our communities the way they want to be served. Such intentions would be contrary to Chairman McWilliams comments made latter within the same speech:

*“It is my goal that the FDIC lays the foundation for the next chapter of banking by encouraging innovation that meets consumer demand, promotes community banking, reduces compliance burdens, and modernizes our supervision.*

*“This is not optional for the FDIC. We must lay this foundation because the survival of our community banks depends on it. These small banks face challenges from industry consolidation, economies of scale, and competition from their community bank peers, larger banks, credit unions, fintechs, and a plethora of other non-banks lenders.*

*“While the FDIC has limited ability to address the direct cost of developing and deploying technology at any one institution, there are things that we can do to foster innovation across all community banks and to reduce the regulatory cost of innovation. We cannot sit on that proverbial regulatory perch and observe the change from above. We have to get on the ground, roll up our sleeves, and get to work on supporting and advancing scalable technological change that works for community banks.”*


We also fear that by making every industry participant who may remotely be involved in the deposit gathering process apply for and then wait on FDIC staff determinations regarding their receiving a primary purpose exception, our ability to keep up with the speed at which the mega banks and fintech companies are introducing new products, mobile apps and incentive offerings will be compromised as the third parties we rely upon to keep our institution competitive will be stuck in limbo for a minimum of 4 months once they apply for the exception and that’s if their application is at the front of what will surely be a long queue of applicants given the exceedingly broad language of the proposed “facilitation” definition.

Likewise, we are also concerned with the idea contained within the proposed rule regarding the FDIC’s ability to review and eliminate long standing Advisory Opinions that institutions like ours and many industry participants rely upon and have invested heavily upon the understandings these opinions provide. We respectfully request that the FDIC maintain, in full force and effect, all prior Advisory Opinions so as not to disrupt the relationships and services that have been built upon these determinations.


Given that we have just made our first recommendation regarding revisions that we would like to see incorporated into the FDIC's final rule please see the additional revisions that we respectfully ask you to consider and implement:

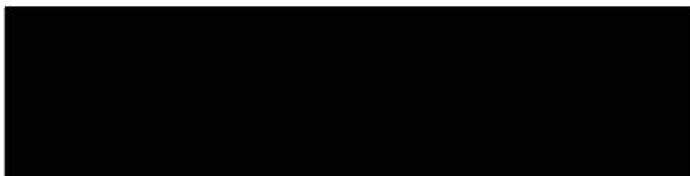
- **Honor All Direct Depositor Relationships:** Per the Chairman's quote that we opened this letter with, it would appear to us that, provided a direct relationship is established between the individual depositor and their bank, the FDIC could exempt / exclude stable sources of deposits following from the "brokered deposit" definition and third-party service providers from the "deposit broker" definition;
  - **Stable Sources of Funds:** Deposits residing in transaction accounts and deposits residing in other accounts (i.e. savings, CDs, MMDAs) that are associated within individual depositors who demonstrate a bona fide relationship with the bank (i.e. – have a checking account, savings account, loan or use multiple services from the bank – direct deposits, online bill pay, debit cards, credit cards, wealth management services, etc.) should be exempt from the brokered deposit definition. These individually established, direct depositor relationships increase my institution's franchise value and the deposits associated with these relationships are an extremely "sticky" source of stable, low cost funding upon which our executive team can prudently manage our business and serve our customers and communities.
  - **Third-Party Service Providers:** Provided that a third-party service provider has no contractual relationship with a depositor to place, manage or control that individual's money and provided that third-party service provider provides services to insured depository institutions for the sole purpose of assisting that institution establish, deepen and maintain a direct relationships with individual depositors, then the third party should be excluded from the "deposit broker" definition.
- **Narrow The Proposed "Facilitating" Definition:** The proposed "facilitating the placement of deposits" definition is exceeding board and ambiguously worded. We recommend that the following revisions be made:
  - Remove the 1<sup>st</sup> prong of the proposed definition as the exchange of data between 3<sup>rd</sup> parties and insured depository institutions does not make deposits a risk to the Deposit Insurance Fund or to the safety and soundness of my bank.
  - Revise the 3<sup>rd</sup> prong of the proposed definition to make it clear that the third party cannot negotiate or set the rates, fees, terms or condition of the account as those responsibilities should always reside with the bank since the bank should be the entity that owns the depositor relationship, not the third party
  - Edit the 4<sup>th</sup> prong so that it is clear that insured depository institutions can use third parties to enable banks to create and maintain depositor relationships. Said differently, third party services should not limited solely to administrative activities.

We believe these to be reasonable revisions and we encourage the FDIC to incorporate them in your final rule as overt exclusions, outright exceptions and/or refinements to the language of the proposed "facilitating the placement of deposits."

Respectfully, 



 Rgd R. Jensen  
President/CEO



Brook Merritt  
Executive Vice President/CFO