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March 22, 2019

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

Re: Comment on Proposed Rulemaking – Brokered Deposits
(RIN 3064-AE94)

Dear Executive Secretary Feldman:

The current method for calculating the rate cap on deposits in less than well-capitalized institutions is dysfunctional and could lead to the very thing it was meant to prevent: the liquidity failure of a bank that might otherwise survive. There are several reasons for this, which include:

- The cap rates are heavily weighted toward the rates offered by the largest banks with the most branches. These banks pay less than community banks for their deposits, at least partly due to their perceived “too big to fail” status.
- Since rates began their upward movement following the long period of accommodation by the Fed, the cap rates are now much lower than the marginal cost for most banks to add or maintain funding.
- The calculation of the cap rates ignores rates paid by credit unions, which are strong competitors with community banks for deposits.
- Because of technology, savers can now shop nationwide for the best yield on their money. Every bank competes in the national market.

I believe that a critical examination should be made of the whole concept that a single set of cap rates can be set that can be applied to all less than well-capitalized banks. Methodologies to calculate whether local rates are significantly higher than national rates are also fraught with difficulties.

The best approach to controlling risk to the insurance fund posed by less than well-capitalized banks is to limit asset growth, and not to focus on funding sources. Caps on overall asset growth, or on the growth of risky assets are more straightforward and just as easy to enforce. Capping assets forces constraints on funding growth from all sources, including high-cost deposits. It is bad assets, after all, that cause banks to fail.



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Such a change in approach might require a change in legislation to fully implement. Even so, bank regulators already have broad authority to limit activity at troubled institutions. Within the framework of the existing law, I submit the following comments for your consideration:

- *Are there ways the FDIC can improve its implementation of Section 29 of the FDI Act while continuing to protect the safety and soundness of the banking system? If so, how?*

Raise the rate cap in absolute terms. This can be done a number of ways. By weighting the average rate by the number of institutions rather than the number of branches, the rate will better represent the competitive environment. Increasing the rate cap margin from 75 basis points to 150 basis points would be an incremental improvement. Include credit union deposits rates in the calculation. Some combination of these changes should be adopted.

- *Are there types of deposits that are currently considered brokered that should not be considered brokered? If so, please explain why.*

Reciprocal deposits should not be considered brokered for any institution. It makes no sense logically or practically that they might be counted as brokered in a bank with a poor exam rating but the same accounts would not be considered so once the institution has been rehabilitated.

- *Are there specific changes that have occurred in the financial services industry since the brokered deposits regulation was adopted that the FDIC should be cognizant of as it reviews the regulation? If so, please explain.*

Technology and online-only banks now allow savers to shop for the best rates, which are available nationwide. More broadly, bank savings (especially CDs) are increasingly in the same basket as other financial investments, including mutual funds, bonds, and annuities. Bank deposits must compete against other financial alternatives.

- *Are there areas where changes might be warranted but could not be effectuated under the current statute? Are there any statutory changes that warrant consideration from Congress?*

Congress should pass the necessary legislation to ensure that bank regulators can effectively and appropriately cap asset growth at less than well-capitalized institutions, and get rid of the rate cap restrictions on deposits raised by an institution



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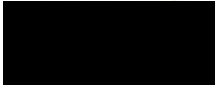
directly without the use of brokers. This will allow institutions to price-up their deposit offerings to bring in necessary funding at the margins to avoid liquidity crises if needed. A limit or cap on asset growth necessarily will also impose a limit on funding growth from all sources. No banker is eager to pay more than necessary for funding.

- *How should deposits with promotional or special features be treated with respect to the national rate or the prevailing market rate?*

Deposits with promotional or special features should not be unreasonably restricted for bank raising deposits directly without the use of third-party brokers.

Thank you for your consideration.

Sincerely,



Dwayne Kolly
CEO/CFO