TOUCHMARK
NATIONAL BANK

Sent by Federal Express and by Email

May 3, 2019

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

Re: RIN 3064-AE94: Brokered Deposits- 12 CFR 337

Dear Mr. Feldman,

Thank you for allowing Touchmark National Bank to comment on the above referenced RIN concerning brokered deposits, self-extended to a relative inclusion of an institution's entire wholesale funding regime including equally competitive, but not wholesale, newspaper advertising. All such funding is the nexus of current regulatory oversight, and in need of being addressed by the FFIEC and the FDIC.

Attached is a compendium of 12 articles from the American Banker on the subject. Change in technology is recognized by the FDIC, and is gratefully the impetus for this RIN.

Concern by regulators and Congress put into place the current framework for sources of all wholesale funding, and not just brokered, by way of a complicated array of definitions as to who is a deposit broker. This is aggregated with the cumbersome assumption that availability of brokered funds has empirically meant, per the RIN published in the Federal Register, that:

a. Such deposits could facilitate a bank's rapid growth in risky assets without adequate controls;
b. once problems arose, a problem bank could use such deposits to fund additional risky assets to attempt to "grow out" of its problems and increase the bank's losses; and
c. brokered and high-rate deposits are sometimes volatile because deposit brokers (on behalf of customers), or customers themselves, are often drawn to high rates and were prone to leave the bank when they found a better rate or they became aware of problems at the bank.

None of these above concerns matter if the regulatory agencies are authorized to understand the ***use*** of brokered and wholesale deposits instead of measuring mathematical percentages over the balance sheet and the origin of stable wholesale funds.

What the FDIC recognizes is that it is time to change the way banks do business in the deposit arena. The easiest way to understand the issue is to imagine what the real cost of those "core" deposits is after cost accounting the bricks and mortar, and personnel; not to mention the increased and often heavy activity and maintenance requirements of a branch network for all things necessary.

"Core" is not synonymous with loyalty. Core deposits are viewed as being less risky as compared to brokered deposits because they are not driven by rate. However, a Bank may be at risk of losing core deposits due to other factors such as inadequate staff, lack of advanced technology product offerings, location of branches, the bank's reputation, etc. Therefore, the risk management of core deposits is multi-faceted while the management of brokered deposits is predicated on the Bank's capital position.

If every institution copies all others, there will be no room for innovative ideas, competition and better service to the customers (depositors and borrowers).

Regulatory Agencies should be authorized to evaluate how an institution (Bank) deploys wholesale funds, how it manages interest rate risk, how liquid are Bank's assets, what is the net cost of funds to Bank, what is the net profitability of the Bank and overall results of the Bank. This should be the individually assessed institution's prerogative in consult with regulatory understanding of the individual playbook of the institution. This is at the nexus of what needs to be addressed.

The common practice has been to assess an institution's liquidity risk by reviewing balance sheet ratios. If ratios are not satisfactory, usually due to being outside of peer range comparisons, scenarios are required by regulators based on poorly defined attempts to describe volatility and dependence without assessing the totality of the balance sheet management.

Quality demand for loanable funds continues to thwart the full potential for economic growth when arbitrary regulatory metrics interfere. There is an historical decline in core bank deposits as a percentage of its total liabilities.

When money market funds were introduced by non-bank brokerage houses in the 1970's, and began the draining of deposits from the banking system; very likely tantamount to those funds which are today found in the brokered/wholesale market. Indirectly, the idle funds in brokerage money market accounts are indeed related to that pool of funds which was proportionally in banks decades ago. Using an intermediary to source these stable funds is the reality of today, not drive in lanes.

Wholesale CDs are some of the most stable and cost-effective deposits available. How relevant is loyalty when CDs tend to stay put in an institution until they mature? The supply of brokered deposits has consistently been abundant for decades. When failing banks were losing deposits, as a result of credit losses, brokered deposits were used as a safety net for banks to meet their liquidity needs since they were a stable source of funds that were not at risk of being lost which was not the case for other deposit sources.

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Brokered deposits are not responsible for any tenet of the Great Recession, which reinforced regulatory fears over such funding. The transparency is all of those banks failed because they made bad real estate loans (mostly A & D loans).

These loans would have been just as bad if they had been funded with core deposits.

It needs to be acknowledged that during the recession, some of the safest banks held even higher percentages of brokered deposits than banks that failed. Some of the safest banks held only brokered deposits. Many of these banks also grew quickly but they were well-capitalized, with quality and consistent profitability. Failed banks may have held brokered deposits but not all banks that had brokered deposits failed during the Great Recession.

Also needing acknowledgement is that the growth of brokered deposits has happened with the rapid advent and adoption of technology where numerous geographic locations are unnecessary for a sound, safe and profitable institution serving the public and creating commercial activity through meeting quality loan demand.

Please marshal a delegated approach with oversight among all federal bank regulators that would allow the qualified and well-experienced examining personnel the authority to determine the safety and soundness of any bank, as outlined above, instead of diligently enforcing guidance promulgated in times before cell phones and the internet.

Furthermore, please consider removing the surcharge currently assessed on brokered deposits which is economically biased to progress we believe is safe, sound and profitable, a reason for our charter.

This business model was not possible twenty years ago. Brokered/Wholesale deposits have proven their stability even in poor economic times. We need contemporary insight by the FDIC in order to safely maximize the opportunity for which we were granted a license and FDIC insurance.

Technology and internet are the way Americans conduct retail shopping and banking. Please help us remain competitive so we can serve our consumers and small business customers well.

On Behalf of the Touchmark National Bank,

Sincerely,

[redacted]

Dr. J.J. Shah
Chairman of the Board and CEO

cc: Touchmark National Bank Board of Directors.

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Compendium of Relative Articles in the American Banker by most recent:

1. Small banks try new approach to stanch deposit bleeding-American Banker, Paul Davis, 4-5-19.
2. BankThink: Look forward, not backward to fix FDIC's flawed brokered deposit rules, Paul Clark, 4-1-19.
3. BankThink: A simple fix to brokered-deposit battle, William Isaac, 3-12-19.
4. FDIC crackdown on brokered deposits goes too far: ABA report-American Banker, Rachel Witkowski, 3-4-19.
5. BankThink: What's missing from FDIC's notice on brokered deposits, George Sutton and Larissa Lee, 2-20-19.
6. FDIC review of brokered deposits has big implications for branches, Kevin Wack, 1-30-19.
7. Cheat sheet: FDIC pitches brokered deposit update, other reg reforms-American Banker, Rachel Witkowski and Joe Adler, 12-18-18.
8. BankThink: Brokered deposits' bad rap is undeserved, George Sutton, 12-11-2018.
9. BankThink: Outdated brokered deposit rules need a revamp, Alison Touhey, 11-21-18
10. BankThink: A cautionary tale on brokered deposits, William Isaac, 11-9-18.
11. FDIC poised to revamp deposit rules. Banks say it's about time, Rachel Witkowski, 10-16-18
12. BankThink: Brokered Deposits Don't Deserve Their Bad Rap, George Sutton, 3-4-16