June 5, 2020

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

Re: Brokered Deposit Restrictions (RIN 3064-AE94)

Celtic Bank (the Bank) appreciates the opportunity to comment on the Federal Deposit Insurance Corporation's (FDIC) proposed rules on brokered deposits.

In May of 2019, the Bank responded to the FDIC advance notice of proposed rulemaking on brokered deposits and interest rate restrictions. While the FDIC summarized issues raised by commenters, the FDIC response to specific concerns was missing.

The current broad and outdated concept of brokered deposits has led to supervisory bias against what has proven to be a source of stable funding. We re-iterate our feedback and respectfully request that the FDIC rethink its regulatory approach to brokered deposits with consideration of the following:

- **Amend Deposit Insurance Fund Assessment regulations that penalize well capitalized banks**. Section 29 of the Federal Deposit Insurance Act was intended to make resolution less costly by limiting the weakest institutions from holding brokered deposits. Celtic Bank is well capitalized and has achieved favorable exam ratings. Nevertheless, the Deposit Insurance Fund assessment penalizes the Bank through higher assessed premiums with the brokered deposit adjustment. Approximately 60% of the Bank's Depository Insurance Fund quarterly assessment dollars are attributed to the brokered deposit ratio adjustment. These excess premiums are unnecessary, unfair and would be better served re-invested in the Bank's efforts to provide innovative and competitive financial services to its customers.
- **Celtic Bank experienced brokered deposit market depth and efficiency through the financial crisis.** Celtic Bank was issued an Industrial Loan Corporation (changed in 2004 to "Industrial Bank") Charter in 2001 by the State of Utah. Since Industrial Banks are not allowed to offer demand deposits, they are often primarily funded with brokered deposits. At the beginning of the financial crisis, non-core deposit funding of the Bank represented well over 90% of total deposits. The Bank has maintained brokered deposits as its primary funding source throughout the financial crisis and to the current day. Although the Bank experienced a significant amount of regulatory pressure regarding the possibility that banks could very likely be denied access to this

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type of funding, the reality was that Celtic Bank never experienced reticence of any kind on the part of deposit brokers to provide abundant access to such deposits, with no evidence of a risk premium, during the worst financial crisis since the Great Depression. In addition, because of the standard brokered deposit contract through the Depository Trust Corporation (DTC), these deposits are among the most "sticky" of all deposits, since the only way for a depositor to take an early withdrawal is to die or be adjudicated incompetent.

- **Recognize that current Rules and Regulations create un-intended pressure to take on more "risky" deposits.** Brokered deposit and interest rate restrictions, along with the Deposit Insurance Fund adjustment, incentivize Banks to identify creative deposit alternatives. High yield online savings accounts, for example, are considered core deposits, but could prove to be much more volatile than brokered deposits, particularly given the DTC withdrawal protections afforded brokered deposits.

- **Recognize that a liquidity crisis has a greater threat to less than well capitalized institutions than brokered deposits. Allow adequately capitalized banks to replace maturing liabilities.** Revamped rules should remove brokered deposit and interest rate restrictions placed on adequately capitalized banks to the extent that they should be allowed to replace maturing liabilities. Otherwise, adequately capitalized banks with maturing liabilities may spiral into failure as the result of funding restrictions.

- **Focus on rapid, risky growth**. If the regulatory concern is rapid growth in risky assets without adequate controls, we respectfully request that the FDIC address the issue directly through focus on asset quality, pace of growth, and capital adequacy rather than focusing on the source of funds, which is ancillary and not the cause of the concern.

- **The Proposed Rules do little to curtail unnecessary burden and in-efficiency.** While intended to help modernize an outdated statute, the proposed updates to the Primary Purpose Exception Process, for example, would be inefficient and burdensome. Efforts would be better directed towards advancing legislation to clarify and modernize the statute so that it accommodates modern banking.

We appreciate the FDIC efforts to modernize the brokered deposit rules and look forward to reviewing changes to the proposed rules that address the Bank's concerns.

Sincerely,

[redacted]

Reese S. Howell Jr.
Chief Executive Officer

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