BANK POLICY INSTITUTE

September 13, 2018

The Honorable Scott Tipton
House Financial Services Committee
218 Cannon House Office Building
Washington, D.C. 20515

The Honorable Lacy Clay
House Financial Services Committee
2428 Rayburn House Office Building
Washington, D.C. 20515

Dear Representatives Tipton and Clay:

I am writing on behalf of the Bank Policy Institute (BPI) in support of H.R. 6158, the Brokered Deposit Affiliate-Subsidiary Modernization Act. BPI is a nonpartisan public policy, research and advocacy group, representing the nation's leading banks. Our members include universal banks, regional banks and the major foreign banks doing business in the United States. Collectively, they employ nearly 2 million Americans, make 72% of all loans and nearly half of the nation's small business loans and serve as an engine for financial innovation and economic growth.

The bill would importantly clarify that the definition of "deposit broker" does not extend to bank affiliates and subsidiaries that, as an incident to their business, assist customers who wish to place their deposits at affiliated banks. This clarification is needed to ensure that such deposits are not actively discouraged by Federal law, prohibited in cases where banks experience financial difficulties, or charged higher deposit insurance assessments. While we believe that existing law does not reach such deposits, the FDIC has failed to recognize this appropriate conclusion in supervisory guidance and practice.

The legislation's clarified definition is clearly consistent with Congress's original intent and policy in enacting our brokered deposit framework. When Congress passed the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, which amended the Federal Deposit Insurance Act to define "deposit broker," it excluded from the definition certain types of entities whose activities do not tend to result in "hot money." And in its 2011 Study on Core Deposits and Brokered Deposits, the FDIC itself found that these types of deposits are usually based upon a relationship between the customer and the affiliate, and thus it is unlikely that a bank could use these deposits to grow quickly. The Study further noted that these deposits may behave more like deposits where the bank has a relationship with the depositor and may be more stable and less likely to leave for higher rates or when the bank is under stress. These FDIC conclusions reflect the simple fact that funds placed by a depositor who also has a customer relationship with a bank's affiliate are more stable and reliable than typical deposits, not less.

In light of the significant evolution that has taken place in the banking sector since the statute regulating brokered deposits was enacted, it is important that these frameworks do not impose unnecessary restrictions on these and other stable funding sources. While we have other concerns related to the FDIC's stance regarding brokered deposits, we support this legislation, as it takes an important step towards rationalizing the regulatory framework.

Sincerely,

Anthony Cimino
Senior Vice President, Government Affairs

cc: HFSC Staff Legislative Assistants