CDBA
COMMUNITY DEVELOPMENT BANKERS ASSOCIATION

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November 18, 2024

Mr. James P. Sheesley
Assistant Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

RE: Comments on Notice of proposed rulemaking Brokered Deposit Restrictions, Comments-RIN: 3064-AF99

Dear Mr. Sheesley:

The members of the Community Development Bankers Association (CDBA) respectfully submit the following comments in response to the FDIC's August 26, 2024 proposed changes to its regulations relating to brokered deposits.

CDBA is the national trade association of banks and thrifts whose primary mission is promoting community development. The majority of our members are U.S. Treasury-designated Community Development Financial Institutions (CDFIs). This means that they have a primary mission of promoting community development and target at least 60% of their total lending and activities to low- and moderate-Income (LMI) communities and customers. Many of our members are also Minority Depository Institutions (MDIs).

CDBA members serve our nation's most distressed and credit starved communities – places that have limited means to support banks' requirement to raise deposits to meet the demand for credit. The deposits community development banks do raise go on to fund loans and investments for underserved small businesses and farms, the preservation and development of affordable housing, and support the provision of responsible consumer products, technical assistance and financial mastery.

Exacerbating matters, the community development banking sector is undergoing an enormous transformation, one that requires these banks to raise large volumes of new deposits to leverage the approximately $6.2 billion in investments made by the U.S. Treasury through its Emergency Capital Investment Program (ECIP). Deposits are also required to leverage investments from private sources, such as the FDIC-inspired Mission Driven Bank Fund, the Economic Opportunity Coalition and partnerships encouraged by the Community Reinvestment Act (CRA). Since 2020, CDFIs and MDIs have made significant, but insufficient, strides diversifying and growing their deposit sources in line with prudent liquidity management, and in pursuit of their community development missions.

General Comments

Community development banks are in desperate need of more, diverse sources of funding, not fewer. Unfortunately, the proposed rule changes will limit efforts to raise new, diverse deposits, all without a clear justification.

CDBA respectfully requests that the FDIC withdraw the proposed brokered deposit rulemaking. First, the proposed changes are not supported by a rigorous, transparent analyses and public review. Second, the reclassifications introduce risk into the operations of community development banks that threaten the delivery of products and services in low- and moderate-income communities.

Proposal Provides Inadequate Analysis and Public Input

The FDIC's 2020 amendments to the brokered deposit rule followed a multiyear review that included public comments and outreach. Those changes were clearly explained, and resulted in reasonable, practical reforms.

In contrast, the proposed 2024 proposal would roll back the existing policy without a rigorous review or adequate justification. While the proposal does present evidence highlighting the risks associated with brokered deposits, it does not present evidence that the deposits it seeks to reclassify as brokered, pose comparable risks.

CDBA members support bank policy that results from clear-eyed, rigorous analysis that transparently incorporates public input. The FDIC should revise rules only after providing data and analysis to support proposed changes and allowing ample opportunity for public review and comment.

Proposed Changes would Undermine Important and Legitimate Funding for CDFI Banks

The FDIC's proposal threatens to increase the proportion of deposits classified as brokered deposits. Banks and affiliates will consequently need to reassess deposit arrangements, leading to significant changes in customer access to financial services, despite limited benefits. Additionally, classifying deposits as "brokered" will introduce new costs in the form of increased deposit insurance assessments, and introduce risk in the form of revised assessments from rating agencies, depositors, and investors.

The potential impact on low- and moderate-income communities is clear. Community development banks increasingly leverage diverse and innovative funding solutions to promote economic opportunity. By jeopardizing key funding sources for community development banks, the proposal threatens the delivery of affordable and flexible financial products and services, financial education, and technical assistance to low- and moderate-income customers, small businesses, and underserved rural, minority and Native American communities.

The ability of community development banks to lever many funding tools is also fundamental to prudent liquidity management. The FDIC's proposal appears to discount the value of modern banking practices, such as online and app-based engagement, and relies on outdated views of deposit sources, failing to consider the quality of deposits despite evidence. For example, CDBA members report increasing success in accessing diverse funding sources after being directed to do so by FDIC examiners, only to see those sources restricted again in 2024.

Conclusion

The proposed changes to the brokered rule will limit the options for community development banks to raise deposits just when those deposits are most urgently required to ensure the provision of financial services in underserved communities. We urge the FDIC to withdraw the proposed rule, and return with a process that includes transparent data sharing, analysis and public engagement that is appropriate to this very sensitive subject.

We sincerely appreciate the opportunity to comment on this important issue. Please feel free to contact Brian Blake, Chief Public Policy Officer, at (202) 689-8935 ext. 225 or blakeb@pcgloanfund.org, if you have any questions about the positions in this letter.

Sincerely,

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Brian Blake
Chief Public Policy Officer