



November 5, 2024

James P. Sheesley
Assistant Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington D.C. 20429
(comments@fdic.gov)

Re: Unsafe and Unsound Banking Practices: Brokered Deposit Restrictions RIN 3064-AF99

Dear Mr. Sheesley,

On behalf of Pioneer Bank in Minnesota, I am writing in response to the Federal Deposit Insurance Company's ("FDIC") August 23, 2024, notice of proposed rulemaking ("NPR") about revisions to the current brokered deposit restrictions.

Pioneer Bank is a community bank with seven locations throughout southern Minnesota including Mankato, North Mankato, St. James, St. Peter, Madelia, Mapleton, and Lake Crystal. Pioneer Bank offers expertise in personal, business and agribusiness banking with bankers and staff that provide experience that is unparalleled. We actively support these communities we were humbled and honored to be named a top 3 extraordinary bank in the nation by The Institute for Extraordinary Banking.

As I read the proposal, it appears the revisions will significantly broaden the definition of "deposit broker"; unnecessarily restrict our access to the diverse funding sources that are essential for serving our communities; limit our ability to use third parties and listing services in our deposit gathering efforts; and add more subjectivity and complexity to the primary purpose exception process.

Of particular concern is the FDIC's expansion of the deposit broker definition regarding fees or remuneration paid to third parties who assist insured depository institutions in their deposit gathering activities. This addition is exceedingly broad and if interpreted literally, the proposed definition would capture any third party that receives any compensation, from anyone, for any service that assists any insured depository institution gather and/or retain any deposits. As FDIC Vice Chairman Travis Hill notes in his July 30, 2024, dissenting statement, "[t]his is a broad, sweeping criterion that—if applied literally and consistently—would capture a wide range of businesses that have any involvement in deposit arrangements."

This compensation criterion is so broad it will have unintended consequences. As an example, the expanded definition would dismantle our refer-a-friend program where we pay a small bonus to current customers who refer colleagues, friends and family members to our institution. Under the proposed definition, we would have to declare the referred individual's deposits to be brokered since our customers receive nominal remuneration for their referrals.

We believe it is the FDIC's intent to address fees that serve as robust incentives for third parties to place and / or move depositor funds at or to one or more insured depository institution. We do not believe it is the FDIC's intention to prohibit banks from paying loyal, satisfied customers a nominal bonus in exchange for personal referrals that result in new relationships being directly established between the referred consumer and the insured depository institution.

The fact of the matter is we operate in a “phygital” world where competition for depositors is fierce. To stay competitive, community banks must not only offer attractive deposit products but also deliver the technological advancements that accompany those offerings. Smaller banks, limited by time, money, resources, and technical expertise, have no choice but to partner with third parties to help them develop and maintain the digital banking platforms that enable consumers to easily open accounts, manage their daily banking activities, and oversee their personal and family finances. Smaller institutions simply cannot compete if they cannot partner with external resources and third parties cannot provide their services and capabilities without receiving commensurate compensation.

I ask that the proposed rule be overtly revised so that third parties (and current bank customers) who receive compensation in exchange for helping insured depository institution establish direct depositor relationships that the bank owns and controls and where the third party (a) has no legal authority to close an individual’s account or move an individual’s funds; (b) is not involved in negotiating or setting rates, fees, terms or conditions of an individual’s account; (c) is not proposing or determining an allocation of an individual’s funds are expressly and (d) whose platform does not serve as the system of record for the depositor’s transactions and deposits are expressly excluded from the compensation criterion and the deposit broker definition. Our institution, and community banks across the country, must be free to use third parties to attract new customers and their associated deposits which we then use to fund loans for local farmers and businesses.

I also urge the FDIC to remove its restrictions on listing services that do more than just display rates and list its participating institutions. “Proactive” listing services serve a genuine need in the market as informed decisions about financial services are based on more than just two data points.

Consumers have the right to research financial products, services and providers based on whatever criteria they choose. Robust online comparison sites enable consumers to evaluate potential providers based on detailed information regarding their products, rates, terms, conditions, fees, reviews, financial status, industry reputation, rewards, bonuses, locations, digital capabilities, special offers and community involvement, among other things. Informative sites help consumers identify financial institutions whose products, services and values align with their financial needs, geographic requirements, personal values and community involvement.

Additionally, many “proactive” listing services make it easy for consumers to establish a relationship with their chosen IDI directly from the site. By removing operational obstacles (while maintaining regulatory consumer protections) during the application, approval and funding stages of establishing a new depositor relationship, these platforms provide an efficient and increasingly frictionless way for IDIs, especially community banks, to acquire singularly sourced, independent, direct depositor relationships that the IDI solely owns and controls, at an affordable price.

Listing services provide valuable information to consumers. The FDIC should exclude such services from the “deposit broker” definition as long as the listing service does not have the legal authority to close a deposit account or move a third party’s funds from one IDI to another IDI; is not involved in negotiating or setting rates, fees, terms or conditions of any deposit account offered by any participating IDI; does not propose, allocate, or determine deposit distributions among participating IDIs; and listing service’s platform enables consumers to connect with an financial institution of their own choosing and apply for and fund their deposit account directly with that institution.

We respectively recommend the FDIC focus on the strength and characteristics of the direct relationships third parties and listing services enable community banks to establish direct relationship, that we own and control, with individual depositors who live in the communities we serve. As such we ask the FDIC to explicitly exclude reward-based and consumer transaction accounts deposits from being classified as “brokered deposits” when the account meets the following criteria: (a) it is fully insured; (b) it is opened and held in the name of an individual; (c) it is regularly used by the individual for payments, transactions, savings, and earning rewards linked to banking activities specified by the institution; and (d) the individual is the sole person authorized to manage withdrawals or close the account.

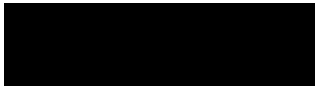
These accounts represent direct, individualized relationships that we own and control with depositors that reside within our communities. These customers often use multiple product and services from our institution (e.g., online bill pay, direct deposit, debit cards, credit cards, savings accounts) demonstrating an ongoing primary financial institution relationship and their deposits represent a low-cost stable source of funding for our institution to reinvest in our communities.

We also suggest the FDIC overtly define when bank – fintech partnerships are deposit brokers. To address the concerns the FDIC fears related to middleware providers like Synapse and non-bank organizations like Chime, we suggest the FDIC should revise the definition of "deposit broker" to include third parties whose platform, rather than the IDI's core processor, serves as the system of record for a depositor's transactions and deposits. This adjustment would more accurately reflect the risks the FDIC aims to mitigate with bank-fintech programs.

Lastly, we believe the best solution the FDIC can pursue is to work with Congress to replace Section 29 of the FDI Act with a restriction on asset growth. The Asset Growth Restriction Act (S.3962 (2020) and S.5347 (2022) introduced by Senator Jerry Moran's would serve as a good model for the FDIC and Congress to consider.

I respectfully request the FDIC review my recommendations and incorporate them, within its final rule as the current language within the proposed rulemaking harms consumers and hinders our ability to remain a viable alternative to our country's large regional and national banks, who, by the way, are choosing not to invest in the small and rural communities that institutions like ours support.

With appreciation,



David Krause
Chief Executive Officer