March 11, 2025

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

Attention: [RIN 3064–ZA39] Regulatory Publication and Review Under the Economic Growth and Regulatory Paperwork Reduction Act of 1996

Dear Mr. Sheesley:

Reich & Tang Deposit Networks, LLC (d/b/a R&T Deposit Solutions) ("**R&T**") appreciates the opportunity to provide comments in connection with a review being undertaken by the Federal Deposit Insurance Corporation ("**FDIC**"), Office of the Comptroller of the Currency ("**OCC**"), and Board of Governors of the Federal Reserve System ("**Board**"), pursuant to the Economic Growth and Regulatory Paperwork Reduction Act ("**EGRPRA**").[1, 2]

Scope of this Comment Letter

R&T's comment letter focuses on the current regulations and guidance issued by the FDIC governing the regulation of brokered deposits and the interest rate cap on deposits.[3]

The FDIC's brokered deposit regulations and guidance were adopted pursuant to section 29 of the Federal Deposit Insurance Act ("**FDIA**").[4] Since the enactment of section 29 of the FDIA, and the adoption of 12 C.F.R. §337.6, as amended from time to time, the financial services industry has undergone significant transformations, particularly with the advent of financial technology ("**FinTech**") firms and the increasing digitization of banking services.

These developments have introduced new methods for deposit gathering and management that were not prevalent when Section 29 was enacted, and the brokered deposit regulation was promulgated and amended. Consumer behavior also has shifted, with a growing preference for online and mobile banking platforms. This evolution has led to the emergence of new entities and technologies that facilitate deposit placements, potentially blurring the lines of what constitutes a "deposit broker".

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[1] Regulatory Publication and Review Under the Economic Growth and Regulatory Paperwork Reduction Act of 1996, Proposed Rule, 89 Fed. Reg. 99,751 (Dec. 11, 2024).

[2] Founded in 1974, R&T is a leading deposit network administrator, providing cash sweep and deposit funding services to more than 450 participating financial institutions. Through the programs administered by R&T, we provide participating institutions, and their customers, with access to expanded deposit insurance on their funds swept or placed into the programs, and for banks and credit unions seeking deposit funding, a diversified source of stable deposits. R&T is committed to fostering a safe and sound financial system, while ensuring that regulatory frameworks remain fair, clear, and reflective of modern banking practices.

[3] R&T provided a comment letter in response to the FDIC's proposed revisions to its brokered deposit regulations issued in 2024. Our comments herein do not address the FDIC's 2024 proposal. Please refer to our letter in response to the 2024 NPR for our comments on that proposal.

[4] 12 U.S.C. 1831f; *See* 12 C.F.R. §§ 337.6 ("**Brokered Deposit Rule**"). See also 12 C.F.R. §§ 303.243(a) (Brokered Deposits Waivers), 243(b) (Application for Primary Purpose Exception); and FDIC, Questions and Answers Related to Brokered Deposits Rule (as of July 14, 2022), available *at https://www.fdic.gov/resources/bankers/brokered-deposits/brokered-deposits-qa.pdf*

Summary of Recommendations

We recommend that the FDIC consider the following changes to the brokered deposit framework, which, if adopted, would reduce unnecessary compliance burdens placed on insured depository institutions ("**IDIs**") and comply with the statutory language:

1) Reduce the complexity of the Brokered Deposit Rule under 12 CFR 337.6, by
    a. Refining the regulatory implementation of who is a "deposit broker"
    b. Reducing compliance challenges with 12 CFR § 337.6 (e)(2)(i)(c)
    c. Streamlining the waiver and exemption process for PPEs
2) Simplify the reporting requirements for brokered deposits
3) Work with Congress to increase the reciprocal deposit exclusion threshold
4) Reduce the overlap of the brokered deposit regulations with capital and liquidity regulations

In addition, we recommend that the FDIC should modernize its interest rate cap regulations contained in 12 C.F.R. § 337.7.

1. Reduce the Complexity of the Brokered Deposit Rule

The complexity of 12 CFR 337.6 creates significant challenges for IDIs, particularly for small institutions, due to a number of issues, including (a) the regulatory implementation of "deposit broker", (b) compliance challenges with 12 CFR 337.6(e)(2)(i)(c), (c) the cumbersome waiver and exception process for a PPE (defined below), and (d) the current interest rate cap framework. Our recommendations are set forth below for each of those issues:

a) Refining the regulatory implementation of who is a "deposit broker"

In our experience, the complexity of the Brokered Deposit Rule creates significant and unnecessary compliance challenges for IDIs, particularly smaller banks. Developments in the financial services industry underscore a need for a regulatory framework that can accommodate the dynamic nature of modern finance. Revising the regulatory definition of "deposit broker" would help ensure effective regulation and reduce compliance burdens.

Recommendations

While we appreciate efforts made by the FDIC to clarify certain aspects of the brokered deposits framework in 2020, IDIs continue to face unnecessary compliance challenges in connection with their participation in the brokered deposits market. To reduce these compliance burdens, R&T recommends:

- A more specific, operational definition of what constitutes "facilitating" to reduce ambiguity. For instance, the FDIC should explicitly outline activities that qualify as "facilitation" (*e.g.*, marketing, referral arrangements) and those that do not *(e.g.,* passive relationships without active involvement in deposit placement);
- Establish clearer thresholds or criteria for determining when a third party is considered "engaged in the business." This could include factors for consideration such as frequency, intent, and compensation for deposit-related activities;
- Develop a universal application template or pre-approved exceptions for common business models that meet specific criteria. This would streamline the process described in § 337.6(a)(5)(v)(I)(2), which currently requires agents or nominees not relying on a designated business exception to receive approval through an application process;

- Replace subjective criteria with objective, measurable standards wherever possible. For example, use quantitative metrics such as expected deposit duration or projected withdrawal patterns; and
- Conduct regular education sessions for banks as webinars or workshops to address issues under the brokered deposit framework, including reporting requirements.

b) Reduce Compliance Burden with the Reciprocal Deposit Exclusion
Section 337.6(e)(2)(i)(c) of the rules and regulations of the FDIC currently describes how "agent institutions" can qualify for the reciprocal deposit exclusion. It also details under what conditions an agent institution that falls to less than well-capitalized can continue to transact in reciprocal deposits in the short term.

IDIs already maintain accurate records of reciprocal deposit balances irrespective of their agent institution status, but Section 29 and the regulation currently requires tracking of balances for the last day of each of the four preceding quarters after an IDI becomes less than well-capitalized. In order for an IDI to accurately track and provide those records to the FDIC, IDIs need to have robust data tracking systems. However, in our experience, many smaller IDIs lack complex tracking systems and face the risk that errors in calculation could result in regulatory noncompliance.

Recommendation
To provide regulatory relief, especially for smaller IDIs, we believe that the FDIC should consider providing an automatic waiver for a short period of time after an IDI's capital status changes from well-capitalized to adequately-capitalized to provide IDIs time to file for a formal waiver or to adjust their funding strategies without abrupt disruptions in their deposit-taking strategies.

c) Streamline the Waiver and Exemption Process for PPEs
The Brokered Deposit Rule includes both a waiver process for adequately capitalized IDIs seeking to accept brokered deposits and, as revised in 2020, an application or notification process for IDIs or third parties seeking to qualify for the Primary Purpose Exception ("**PPE**") to the definition of "deposit broker."

We believe that the process for qualifying for a waiver for an adequately capitalized IDI imposes significant burdens on those IDIs, most notably, the uncertainty of whether a waiver will be approved. Similarly, the filing of PPE exemptions raises burdens from procedural complexity, lack of transparency, and resource constraints. For example:
- In our experience, the processing of waivers is not timely due, in part, to waivers being considered on a case-by-case basis after an application to the FDIC is filed.
- Transparency regarding decisions on waiver or exemption applications varies. Individual waiver application decisions are available to the public through formal orders on the FDIC's website. However, for PPE sponsorship applications, the public nature regarding the sponsoring IDI is not always subject to public disclosure and thus lack transparency as to the decision-making process.
- Despite ongoing clarifications, there remain areas of ambiguity regarding what constitutes "facilitating the placement of deposits" or qualifying activities under the PPE. This can lead to varying interpretations and the need for case-specific determinations.

- Entities seeking to rely on the PPE must follow a mandatory process, which can be detailed and resource intensive. For some designated categories of the PPE, a notice filing should be sufficient, while others could require a full application. Both processes necessitate comprehensive documentation and adherence to specific criteria to demonstrate qualification for the exception.

Recommendations

Accordingly, we believe that the FDIC could improve the waiver and PPE process by:

- Establishing clear, standardized guidelines for granting waivers to adequately capitalized IDIs;
- Utilizing FDICconnect or similar platforms to automate parts of the application process, such as pre-screening eligibility or tracking application status, to reduce administrative burdens on IDIs; and
- Publicly disclosing anonymized summaries of waiver and exemption decisions, including the rationale and criteria applied to enhance transparency of FDIC decision-making.

d) <u>Modernize the Interest Rate Cap Framework in 12 CFR 337.7</u>

We believe that the current framework for interest rate caps under 12 C.F.R. § 337.7, including the "national rate cap" and "local market rate cap," does not necessarily reflect actual market conditions. For instance:

- The national rate cap is calculated as the higher of either the national rate plus 75 basis points or 120% of the current yield on similar maturity U.S. Treasury obligations plus 75 basis points (or, for non-maturity deposits, the federal funds rate plus 75 basis points). However, we believe that these calculations may not adequately reflect competitive rates offered by institutions in high-rate areas or offered by digital-only banking platforms.
- The local rate cap, defined as 90% of the highest rate offered on a deposit product by an institution or credit union with a physical location in the institution's local market area, also does not account for digital-only banking platforms, which often can offer higher interest rates because of their lower overhead costs.
- In our experience, traditional banks subject to rate caps often find it challenging to compete effectively based on rates, potentially limiting their ability to attract deposits. While these rate caps aim to mitigate excessive risk-taking among less-than-well-capitalized institutions, application of rate caps has the adverse effect of placing community banks at a disadvantage in what has developed into an increasingly digital and nationalized deposit marketplace.

Additionally, we believe that the existing process for determining compliance with local market rate caps can be cumbersome. An IDI must notify the FDIC of the highest rates in its local markets and update calculations monthly. Streamlining or automating this process through modernization would have the positive effect of reducing regulatory burdens while maintaining oversight.

We note that the FDIC itself has acknowledged that competition for deposits is increasingly national in scope due to digital banking and mobile technology. However, as the local rate cap remains tied to geographic boundaries, this fails to reflect the true and actual competitive factors impacting rates offered by banks and poses undue burdens to smaller banks who compete against banks and platforms operating on a national scale.

Recommendations
Accordingly, to address the changes in the banking industry since the rate caps were adopted, we recommend that the FDIC amend the interest rate cap framework to allow for fair competition among all IDIs that compete against IDIs and non-IDI banking platforms operating on a national basis.

Such amendments would align the rate cap regulations with how the industry currently operates. Replacing the static interest rate cap with a dynamic benchmark tied to market conditions could entail:

- Updating the methodology for calculating national rate caps to better reflect prevailing market conditions;[5]
- Adjusting frameworks to account for competition from online-only banks and FinTechs; and
- Streamlining procedures for determining and reporting compliance with rate caps.

2. Simplify Reporting Requirements for Brokered Deposits

In our experience, the current reporting requirements contained in the Brokered Deposits Rule and other related requirements have created operational challenges for many IDIs. In particular, these reporting requirements are most burdensome for community banks and smaller institutions that often lack the resources to efficiently navigate the operational challenges, as evidenced by the FDIC's own observations of the widespread misunderstanding and inconsistent application of brokered deposit definitions that led to underreporting or misclassification of brokered deposits on Call Reports.[6] Inconsistent reporting among IDIs impedes accurate risk assessments by regulators and the general public.

- IDIs relying on exceptions such as the "25% test" or "enabling transactions" must submit reports to the FDIC, which increases ongoing administrative burden. Late submissions can result in revocation of exceptions, requiring reclassification of deposits as brokered on call reports.
- Reciprocal deposits, while a beneficial distinction and partially excluded from brokered deposit restrictions under the EGRRCPA, still require separate reporting to track compliance with caps (e.g., $5 billion or 20% of liabilities). This dual classification system adds complexity to reporting processes.
- Community banks often lack the resources to navigate complex reporting frameworks compared to larger institutions. Simplification would reduce compliance burdens for smaller banks, aligning with EGRRCPA's goal of regulatory relief for community banks.

Recommendations
To reduce the burden on IDIs, especially community banks, the FDIC should simplify the requirements for reporting brokered deposits by:

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[5] In today's digital-first environment, where consumers can move funds nationally with ease, this framework fails to account for broader competitive pressures and creates unnecessary disadvantages for less-than-well-capitalized institutions.
[6] FDIC, Statement of the Federal Deposit Insurance Corporation Regarding Reporting of Sweep Deposits on Call Reports (July 15. 2022).

- Consolidating brokered deposit reporting into a single, standardized reporting framework[7] that leverages the existing Call Report structure. Introducing technology-driven tools to automate data submissions and reduce manual compliance burdens also would help;
- Using API-driven platforms to automate the extraction, formatting, and submission of brokered deposit data across systems;
- Implementing data analytics tools for real-time monitoring of deposit trends, ensuring accurate and timely reporting; and
- Establishing standardized data formats and submission protocols to ensure compatibility with regulatory systems.

3. The FDIC Should Work with Congress to Increase the Reciprocal Deposit Exclusion Threshold

Section 202 of the Economic Growth, Regulatory Relief, and Consumer Protection Act ("**EGRRCPA**"), codified at 12 USC § 1831f(i) as implemented at 12 C.F.R. § 337.6(e), provides a limited exception for reciprocal deposits from being considered brokered deposits -- the lesser of: $5 billion or 20% of the agent institution's total liabilities. An additional "special cap" applies to institutions that are not well-rated or not well-capitalized. This "special cap" is based on the average amount of reciprocal deposits held on the last day of the four calendar quarters preceding the quarter in which the institution stopped being well-rated or well-capitalized.[8]

Since the passage of the EGRRCPA:

- The banking industry has experienced substantial deposit growth, particularly as institutions expanded their balance sheets in response to historically low interest rates, quantitative easing, and pandemic-era stimulus programs. Between 2019 and 2021, domestic commercial bank deposits grew by over 35%, driven by factors such as Federal Reserve asset purchases (quantitative easing), fiscal stimulus payments, and a higher personal savings rate during the COVID-19 pandemic.[9]
- Inflationary pressures have increased the absolute size of bank balance sheets, while reducing the real value of the current reciprocal deposit exclusion threshold. Fixed thresholds like the $5 billion threshold lose value over time. Reciprocal deposits often are used as a liquidity management tool, so the threshold may force institutions to find alternative funding sources, which could be more expensive or less stable.

Reciprocal deposits are a particularly valuable funding source for small and mid-sized banks, which lack the implicit "too big to fail" safety net available to large institutions. By enabling banks to leverage a commercial network solution to offer expanded FDIC insurance coverage for large deposits, reciprocal deposits help banks (particularly, small and mid-sized banks) attract and retain high-dollar depositors. This levels the competitive playing field and supports the growth of community banks, which play a vital role in local economies.

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[7] For example, institutions could report all reciprocal deposits in one section, with automated calculations or clear instructions to distinguish between amounts classified as brokered and non-brokered based on the applicable caps.

[8] Brokered deposits are typically subject to stricter rules

[9] https://www.occ.treas.gov/publications-and-resources/publications/economics/on-point/pub-on-point-deposit-growth-slowing-low-cost-funding-endure.pdf

Reciprocal deposits have consistently grown over the past five years, increasing from an aggregate $87B on December 31, 2019 to $417B as of December 31, 2024. Reciprocal deposits have proven to be stable during this period. (Please refer to Appendix One for further analysis on the stability of reciprocal deposits.) The Federal Reserve Bank of Cleveland also published a 2024 study that is complementary to our analysis.[10]

In our experience, reciprocal deposits simplify deposit management for both banks and depositors by enabling depositors to access an expanded level of FDIC insurance coverage on their funds, without the need to open accounts at multiple institutions. For banks, reciprocal deposits provide an efficient tool for retaining customer relationships and managing large deposits. In addition, banks avoid the industry-wide burden of administrative and operational complexity:

- Opening and maintaining new accounts involve Know Your Customer (KYC) procedures, anti-money laundering (AML) compliance checks, and other due diligence requirements. These processes are time-consuming and resource intensive.
- Each bank must integrate the customer's deposit into its liquidity planning. Large deposits can affect a bank's liquidity ratios or funding strategies, especially if they are not part of a broader network that facilitates balanced inflows and outflows.

By utilizing a deposit network, such as those administered by R&T, banks can maintain funding stability, optimize their balance sheets, and meet customer needs for expanded insurance coverage without incurring significant operational burdens. This arrangement enhances both depositor convenience and institutional stability.

By allowing depositors to choose which banks within the network receive their funds, reciprocal deposits incentivize prudent management by participating institutions.

Recommendation
To more fully realize the above benefits of reciprocal deposits for banks, and in light of the growth in demand for reciprocal deposits that we have observed from 12/31/22 to 12/31/24 (and which we expect will continue), R&T recommends that the FDIC work with Congress to increase the reciprocal deposits thresholds.

In our analysis presented in Appendix Two, we explore the benefits of setting the exclusion threshold at the lesser of 30% of total liabilities or $10 billion.

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[10] https://www.clevelandfed.org/publications/economic-commentary/2024/ec-202414-reciprocal-deposits-and-banking-turmoil-2023

	Banks with >$0 reciprocal deposits that exceed:							
	20% of total liabilities or $5bn		20% of total liabilities or $10bn		30% of total liabilities or $5bn		30% of total liabilities or $10bn	
Total Liabilities	12/31/2022	12/31/2024	12/31/2022	12/31/2024	12/31/2022	12/31/2024	12/31/2022	12/31/2024
> $100bn	1	3	0	0	1	3	0	0
$50-100bn	0	3	0	1	0	3	0	1
$25-50bn	0	4	0	3	0	4	0	1
$10-25bn	0	0	0	0	0	0	0	0
$5-10bn	1	5	1	5	0	1	0	1
< $5bn	55	164	55	164	13	48	13	48
Total	***57***	***179***	***56***	***173***	***14***	***59***	***13***	***51***
% of banks w/ recip. dep.	***3.7%***	***8.6%***	***3.7%***	***8.3%***	***0.9%***	***2.8%***	***0.9%***	***2.4%***

12/31/2022 Call Report statistics
▪ **1525** respondents reported >0 reciprocal deposits

12/31/2024 Call Report statistics
▪ **2086** respondents reported >0 reciprocal deposits

Source: Call Report

Using Call Report data for the period ending December 31, 2024, 179 banks exceed the current reciprocal deposit threshold of 20%/$5B. If the threshold were increased to the lesser of 30% of total liabilities or $10B, the number of banks that exceed the threshold drops down to 51, which is more in line with the historical performance observed at the end of 2022 before reciprocal deposits started to become a core source of funding for many banks.

We encourage regulators to continue their outreach efforts and solicit input from key stakeholders, such as banks and deposit network operators, to determine the optimal exclusion cap that addresses modern banking needs without undermining legislative intent.

From our analysis, increasing the statutory and regulatory cap to 30% of total liabilities would have several potential benefits:

- Allows institutions experiencing healthy, organic growth to continue using reciprocal deposits without needing to reallocate funds unnecessarily;
- Reduces the competitive disadvantage that community banks face compared to larger institutions, which can more easily attract core deposits or access diversified funding; and
- Places a limit on the total exposure of any one institution to reciprocal deposits, ensuring that institutions do not become overly dependent on these deposits.

In addition to increasing the percentage cap to 30%, a hard cap of $10 billion ensures that larger institutions do not accumulate disproportionate amounts of reciprocal deposits.

- The $10 billion limit preserves competitive balance by preventing the largest institutions from dominating reciprocal deposit markets.
- This threshold is consistent with risk diversification principles, ensuring reciprocal deposits remain a funding tool rather than a dominant funding strategy.

4. Reduce the Overlap of the Brokered Deposit Regulations with Capital and Liquidity Rules

The Brokered Deposit Regulations overlap with capital and liquidity regulations.[11] R&T makes several recommendations below designed to reduce redundant requirements between these rules and address the concern that brokered deposits are treated less favorably in deposit insurance premium calculations, effectively penalizing small banks.

a) Reduce Overlap with Regulatory Capital

12 CFR § 337.6 overlaps with capital adequacy and risk management measures (12 CFR § 324). Both regulations rely on the definitions of capital categories (well-capitalized, adequately capitalized, undercapitalized) as outlined in section 38 of the Federal Deposit Insurance Act. Both regulations interact through the Prompt Corrective Action ("**PCA**") framework within the FDIA. The PCA imposes mandatory supervisory actions based on an IDI's capital category, which directly influences its ability to engage in brokered deposit activities when the IDI becomes adequately capitalized.

Recommendations

Brokered deposits are already treated as riskier funding sources under capital adequacy frameworks, which require institutions to hold additional capital for riskier assets. The FDIC should reduce the unnecessary overlap between these rule sets by:

- Aligning the definitions and reporting requirements for capital categories to reduce redundancy. For example, use a single reporting framework for institutions to classify their capital status for both brokered deposit restrictions and capital adequacy purposes;
- Coordinating supervisory reviews of brokered deposit usage under § 337.6 with capital adequacy assessments under § 324 during examinations to minimize duplication of effort;
- Providing clearer guidance on how compliance with one regulation impacts compliance with the other, particularly in cases where brokered deposits affect an institution's risk-weighted asset calculations under § 324; and
- Integrating liquidity metrics from § 324 into the framework of § 337.6 to provide a more comprehensive view of an institution's ability to manage brokered deposit risks (e.g. institutions with strong liquidity coverage ratios or net stable funding ratios could be granted more flexibility in using brokered deposits).

b) Reduce Overlap with The Liquidity Coverage Ratio (LCR) rule

The Brokered Deposit Regulations also overlap with the Liquidity Coverage Ratio ("**LCR**") rule in terms of treatment of brokered deposits as a funding source and their implications for liquidity risk management.

Recommendations

The FDIC should reduce the unnecessary overlap between those two rule sets by:

- Developing a unified reporting framework that allows IDIs to report brokered deposit data once for both capital adequacy and LCR purposes;

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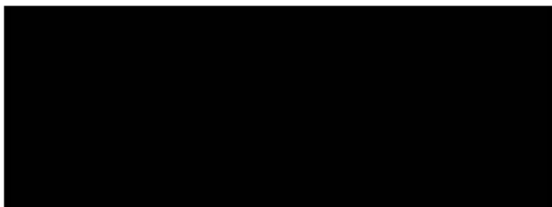
[11] Capital requirements are contained in: 12 C.F.R. Part 3 (OCC); 12 C.F.R. Part 217 (Federal Reserve System); and 12 C.F.R. Part 324 (FDIC). Standardized liquidity requirements are contained in 12 C.F.R. Part 50 (OCC), 12 C.F.R. Part 249 (Federal Reserve System), and 12 C.F.R. Part 329 (FDIC).

- Introducing proportional application based on risk:
    - For smaller institutions subject to § 337.6, consider implementing a risk-based approach to the quarterly reporting requirements for the "25 percent test" primary purpose exception. This could involve less frequent reporting for well-capitalized institutions that do not exhibit excessive reliance on brokered deposits or face liquidity concerns, while maintaining more rigorous oversight for those that do.
    - For large institutions subject to the LCR Rule, evaluate the potential for a tiered regulatory approach under § 337.6. This could involve reducing restrictions for well-capitalized banks that demonstrate consistently robust liquidity management and meet or exceed LCR standards.
- Providing clearer guidance on how compliance with one regulation impacts the other. For example, clarify whether meeting LCR requirements mitigates supervisory concerns about brokered deposit reliance under § 337.6.
- The LCR Rule should assign lower outflow rates to brokered deposits that are fully insured or that have demonstrated stability (*e.g.* reciprocal deposits; please see analysis in Appendix One). We believe that such a reform would reflect the increased stability of such deposits.

Conclusion

R&T appreciates the opportunity to provide input on this important issue and looks forward to working collaboratively with the FDIC to ensure a balanced, forward-thinking approach to brokered deposit regulations.

Sincerely,



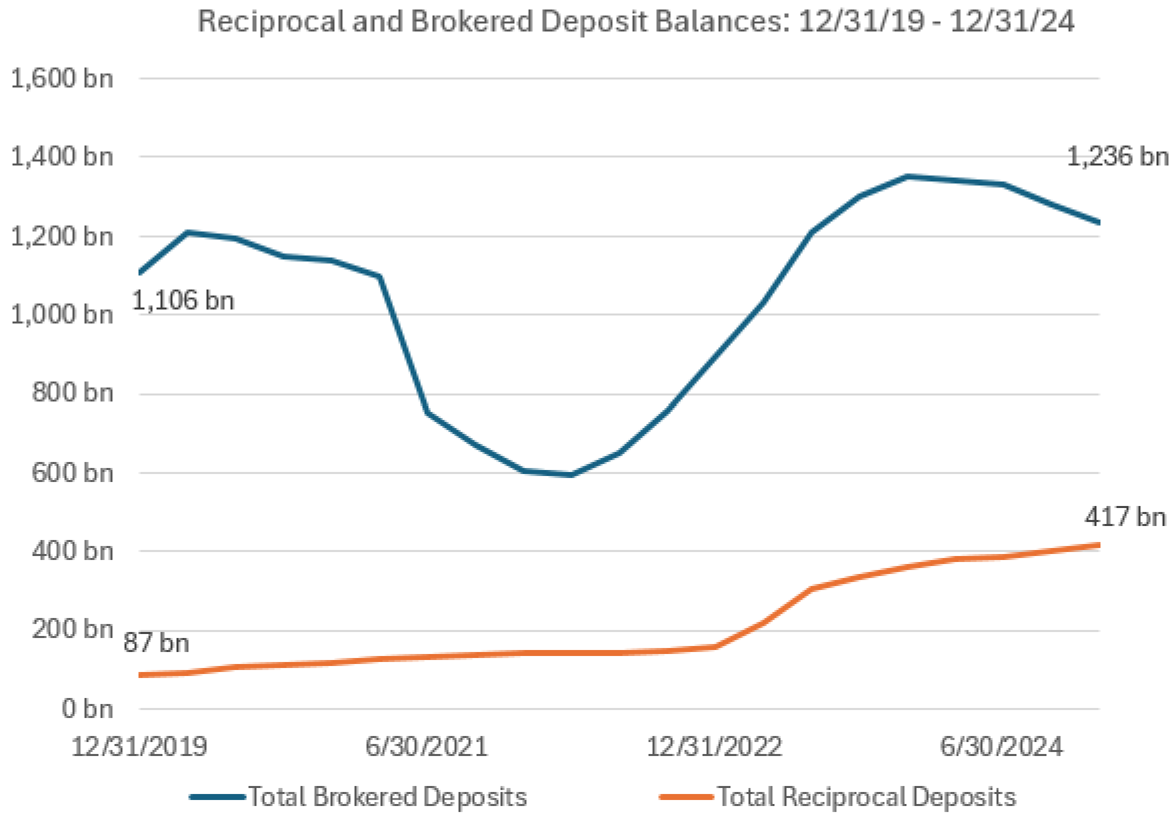
Susan Cosgrove
CEO
R&T Deposit Solutions

cc: Ann E. Misback
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW, Washington, DC 20551.

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E-218
Washington, DC 20219

Appendix One

Brokered and Reciprocal Deposit Trends



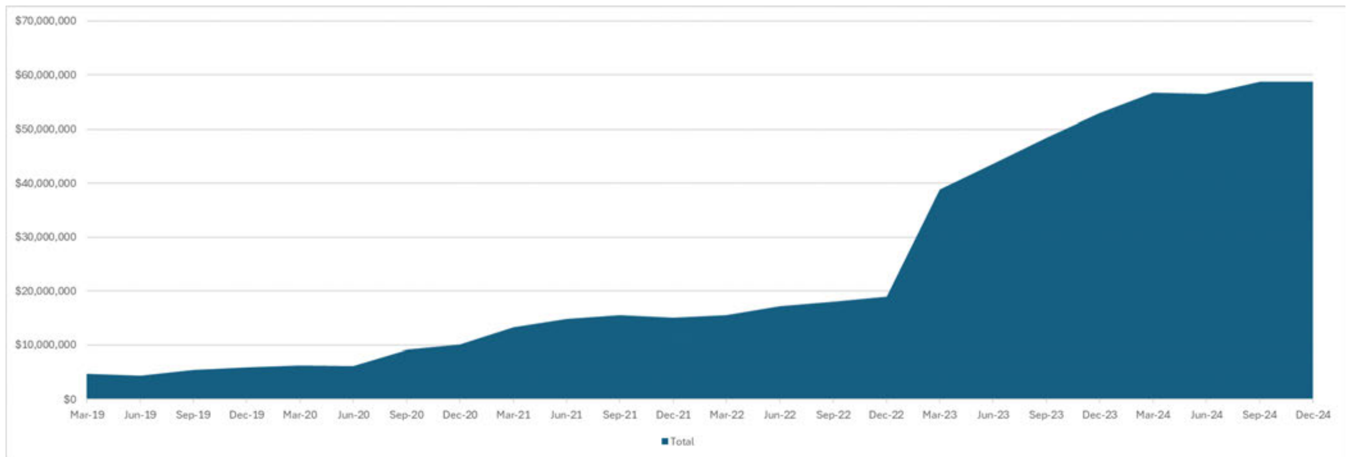
Source: CALL Report, Schedule RC-E (Memorandum items M.1.b and M.1.g)

Reciprocal deposits have consistently grown as a source of stable funding for banks over the past five years, increasing from an aggregate $87B on 12/31/2019 to $417B as of 12/31/2024. Balances nearly doubled between 12/31/2022 and 6/30/2023 (from $157B to $303B), reflecting customers' increased demand for FDIC insurance during and immediately following the regional banking crisis.

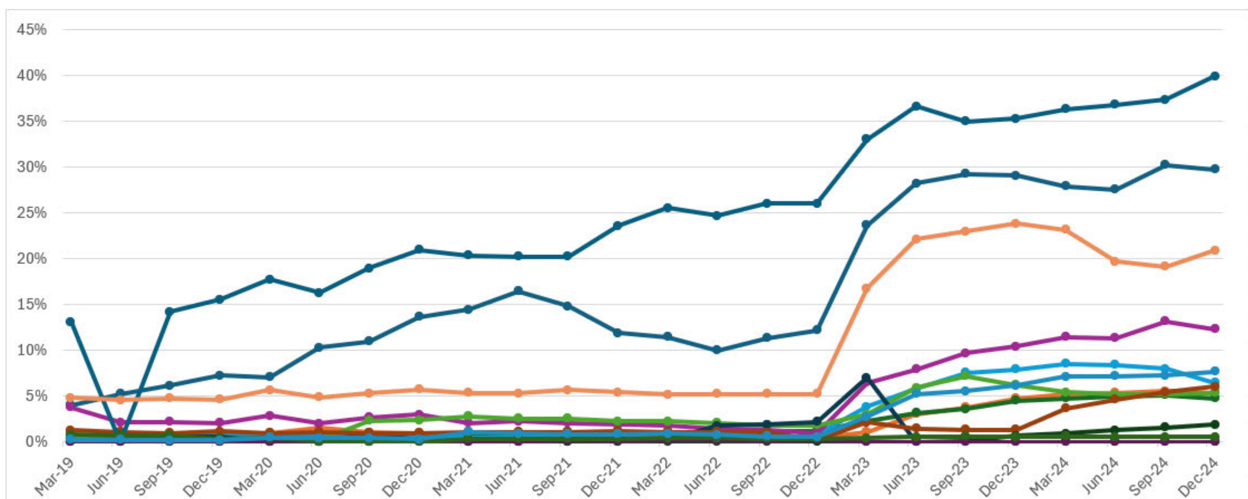
Notably, the growth in reciprocal balances persisted throughout the rate tightening cycle in 2022-2023, even as many other deposit categories experienced material run-offs, supporting the theory that these deposits are an effective, sticky source of funding.

The curvature of brokered deposit aggregates from 2021-2023 is indicative of some of the deposit pressures resulting from increasing rates, as banks increased brokered deposit issuances to offset declines in overall deposits. Brokered deposit footprints had previously been deflated in 2020-2021 as banks enjoyed a significant excess of cheap deposits stemming from the COVID pandemic.

$ Usage of Reciprocal Deposits – 14 Banks with Headline Risk (2023 Crisis)



Reciprocal deposits as a % of total deposits – 14 Banks with Headline Risk (2023 Crisis)



Appendix Two
Analysis of impact from a reciprocal exclusion cap set at the lesser of 30% of total liabilities or $10B

Figure (1)

Avg. Reciprocal Deposit Ratio*

Total Liabilities	Banks with > $0 reciprocal deposits		
	12/31/2022	*12/31/2024*	*Change*
100bn+	1.2%	1.8%	+0.6%
50-100bn	1.0%	5.8%	+4.7%
25-50bn	2.6%	6.7%	+4.1%
10-25bn	3.1%	6.7%	+3.5%
5-10bn	4.4%	7.9%	+3.6%
<5bn	5.8%	7.8%	+2.0%
Average	*5.5%*	*7.7%*	*+2.2%*

** Reciprocal Deposit Ratio: Reciprocal Deposits / Total Liabilities*

Figure (2)

Total Liabilities	Banks with >$0 reciprocal deposits that exceed:							
	20% of total liabilities or $5bn		20% of total liabilities or $10bn		30% of total liabilities or $5bn		30% of total liabilities or $10bn	
	12/31/2022	*12/31/2024*	*12/31/2022*	*12/31/2024*	*12/31/2022*	*12/31/2024*	*12/31/2022*	*12/31/2024*
> $100bn	1	3	0	0	1	3	0	0
$50-100bn	0	3	0	1	0	3	0	1
$25-50bn	0	4	0	3	0	4	0	1
$10-25bn	0	0	0	0	0	0	0	0
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12/31/2022 Call Report statistics
▪ **1525** respondents reported >0 reciprocal deposits

12/31/2024 Call Report statistics
▪ **2086** respondents reported >0 reciprocal deposits

Source: Call Report

In 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act established a framework for well-capitalized banks to begin recognizing a capped amount of reciprocal deposits as non-brokered. Until the regional banking crisis in early 2023, reported balances of these deposits

were negligible, but banks' reliance on reciprocal deposits as a source of funding has grown materially in the period since.

Using the Call Report observation period between 12/31/22 and 12/31/24, the number of respondents reporting greater than $0 of reciprocal deposit balances has increased approximately 36.7%, even as the overall number of respondents has declined. Calculating a reciprocal deposit ratio (see definition for the reciprocal deposit ratio under Figure (1) above) highlights the depth of increased usage of these deposits, particularly at institutions with less than $100B in total liabilities.

Current restrictions limit the amount of reciprocal balances a bank can recognize as core deposits to the lesser of 20% of total liabilities or $5B (beyond which banks must report these balances as brokered deposits, which are considered riskier from a regulatory perspective).

Although increases in average reciprocal deposit ratios were most material at the tranches between $5B and $100B, most banks with more than $0 in reported reciprocal deposits occupy the <$5B total liability tranche, which exhibits the second highest reliance on reciprocal deposits as a source of funding (only behind $5-10B banks, see Figure (1)).

Mathematically, firms with less than $25B in total liabilities will never be constrained by the $5B element of the regulatory cap, as 20% of their liabilities will always constitute the lesser amount. As a result, at these smaller banks, the functional cap on reciprocal deposits is 20% of total liabilities. The number of banks constrained by this limit grew from 56 to 169 between 12/31/2022 and 12/31/2024.

With technological developments rapidly increasing the magnitude and velocity of potential bank runs, today's customers place a high value on the availability of deposit insurance (supported by the behavior of uninsured deposits during the regional banking crisis in 2023), and if provided with the flexibility of a relaxed reciprocal deposit cap, smaller banks would have a better opportunity to compete with larger counterparts that enjoy the implied benefits of being "too big to fail."

At the same time, larger banks, which have also expanded their reciprocal deposit footprints in recent years, could provide reciprocal deposit networks with additional liquidity and provide expanded opportunities for continued growth in this space.