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From: Robert Rutkowski <[redacted]>
Sent: Friday, November 22, 2024 2:18 PM
To: Public Information; Comments
Subject: [redacted] The FDIC Should Close its Brokered Deposits Loopholes, Not Wait Until the Next Crisis

[redacted]

Martin J. Gruenberg
Chair (Acting)
Federal Deposit Insurance Corporation
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Re: The FDIC Should Close its Brokered Deposits Loopholes, Not Wait Until the Next Crisis

Dear Chair:

Better Markets' sunmitted a comment letter to the Federal Deposit Insurance Company on brokered deposits. In 2020, the FDIC approved a rule change on brokered deposits that significantly weakened important taxpayer protections that Congress put in place more than three decades ago, in response to the savings and loan ("S&L") and banking crises. The FDIC's new proposal would correct and undo the most dangerous parts of the 2020 rule and it should swiftly finalize the proposal or risk increasing the severity of the next banking crisis, at the expense of Main Street.

The safety and financial stability benefits of deposit insurance are considerable. The safety of insured deposits is a two-edged sword, however, since it can allow even weak banks to bring in large volumes of insured deposits, bundled and placed by deposit brokers. Risky bets placed with these deposits can deepen the bank's insolvency and increase the cost of the bank's failure.

The FDIC's styled its 2020 changes as modernizing its regulations and accommodating evolving industry practices. The effect of these changes, however, was to substantially weaken the taxpayer safeguards Congress put in place. As noted in the proposal, the dollar amount of reported brokered deposits immediately plunged after the 2020 changes; ***reported*** brokered deposits dropped about $350 billion or roughly 32 percent during the quarter following the effective date of the rule, ***but the risk remained***.

Why is this important? It is important because whole classes of insured deposits that brokers can bundle in large quantities for placement at banks are now fair game for weak banks to accept without restriction. These banks can grow their balance sheets and place risky bets, all without regard to their financial condition. The next banking crisis will be far more costly as a result. By not reporting these deposits as brokered, banks that take advantage of the loopholes, will effectively mask the extent of the liquidity risk they face, to the detriment of bank supervisors and the public, including investors and other counterparties. Time is of the essence and it's time for the FDIC to act on this urgent proposal.

Full comment letter: https://bettermarkets.org/wp-content/uploads/2024/11/FS-Brokered-Deposits-11-21-24.pdf

Yours sincerely,
Robert E. Rutkowski

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