Core and Brokered Deposits Roundtable

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>>SHEILA BAIR, CHAIRMAN OF THE FDIC

Okay, so welcome everyone. It's a very full house here. As you know, Dodd-Frank requires the FDIC to undertake a study on core and brokered deposits and I think this is an excellent idea. We would have I think done this without that congressional mandate. But we are very supportive of this because we really like a full and open discussion on this and I for one am very open in my thinking about how we approach this important issue going forward. We learned through the crisis the importance of liability structure to bank stability and Deposit Insurance Fund exposure. I don't think we have it right. I think there are some things probably that we treat now as brokered that should be core and I think there are some things perhaps treated as core that perhaps should be viewed as more volatile. And so I think there really is a completely open playing field to reconsidering how we approach this. On the other hand, the liability structure of banks as Bill Isaac is going to share some thoughts with his very unique perspective on brokered and some of the problems during his tenure here. The liability structure definitely impacts our cost and funding and deposits in particular that do not have franchise value costs us a lot in terms of liquidity as well as our loss to the Deposit Insurance Fund and that ends up costing the banks money in their premiums so that is something we need to be mindful of. So I think also there is legitimacy in reviewing that. We should be looking at what you know as much with what where deposits come from as what they fund right, so I think that is clearly an approach we use now with the healthier banks in our premium structure and that is also an area where I would look forward to hearing some thoughts and perspectives. So I would like to thank all of our board members for being here today. I think that just underscores how important this issue is to the FDIC and before turning it over to our former Chairman Bill Isaac for some very thoughtful opening remarks I would ask our board members if you would like to say anything. Okay, great. Bill, take it away.

>>William Isaac

Well thank you Chairman Bair, Vice Chairman Gruenberg and other distinguished members of the FDIC Board. It is really my pleasure to participate in this very important roundtable discussion on brokered deposits. I have been asked to provide some historical context since this is a major issue we struggled with mightily during my tenure during the banking crises and thrift crises of the 1980s. I will keep my opening remarks as brief as possible, but I have submitted for the record of the roundtable four statements I presented on brokered deposits to the Senate and House committees in 1984 and 1985. Those statements provide a good description of the problems we were having with brokered deposits in those years and our attempts to address them. Extraordinarily high interest rates during the late 1970s and early 1980s during which the prime rate rose to a shocking 21 1/2 percent caused a massive outflow of deposits from banks and thrifts into money market funds, Treasury Bills and other instruments paying higher rates of interest than banks and thrifts. We were forced to eliminate deposit interest rate controls on banks and thrifts actually pretty speedily in order to prevent a complete meltdown of the industry. Deregulation of deposit interest rates gave rise to the practice of money brokers raising vast sums of money from individuals, businesses and even other depository institutions such as credit unions and placing those funds in banks and thrifts that paid the highest rates. The banks and thrifts paying the highest rates were those that had the highest risk profile. As the bank failure rate began its dramatic rise we found an increasing number of failed banks had large amounts of fully insured brokered funds. The Congressional statements I have made -- that I have submitted list the bank failures, the percentage of brokered funds in those banks and the sources of those brokered funds. We felt we had to take some strong actions to stop this massive abuse of the Deposit Insurance System which was intended to protect relatively small, unsophisticated depositors, not institutions sweeping up vast sums of money from investors to fund the reckless growth of high risk banks and thrifts. We addressed the problems on every front available to us including publicizing the amount of brokered funds in each failed bank and naming the brokers who placed those funds. We took enforcement actions against banks making excessive use of brokered funds. Our strongest and most controversial action was to adopt a regulation eliminating pass-through Deposit Insurance coverage on deposits by brokers. In short, we treated the broker as the depositor, not the broker's customers. This meant that if the money broker placed $200 million in a bank, the broker was limited to $100,000 worth of coverage. Our intention was to allow the free market to operate. The brokers were sophisticated in terms and were perfectly capable of analyzing the conditions of the banks and thrifts in which they were placing vast amounts of money. They could weigh the risk versus the reward, unlike smaller depositors that the FDIC was created to protect. Money brokers contested the FDIC's new regulation by every available means including an intense media campaign and litigation. Regrettably the Court of Appeals for the District of Columbia sided with the money brokers and ruled that the FDIC did not have the authority to interpret the law in this manner. By the way, one of the FDIC lawyers who was on that case is with us today and he informed me that the judge who made that ruling was none other then Anthony Scalia. [laughing]

Who until now I always thought was a very smart fellow. [laughing]

Anyway. All kidding aside, this was a real problem, losing that case. The floodgates were opened. Money brokers raised tens of billions of dollars collecting fees from investors along the way. They placed the money in troubled banks and thrifts collecting placement fees along the way and then they asked or required the recipient banks and thrifts to purchase junk bonds issued in corporate takeovers arranged by the money brokers and their various friends. It was the worst taxpayer scam in history. At least up to that point. I'm not sure if we may have topped it lately. We do not have accurate data because the FDIC stopped collecting information after I left the agency at the end of 1985. But I have no doubt that the brokered deposit junk bond scam needlessly cost taxpayers tens of billions of dollars in the S&L fiasco. It did not need to happen. We saw the problem coming; we reacted to it quickly and strongly. We pleaded for help from Congress and got none. After taxpayers footed the 150 billion-dollar bill for cleaning up the S&L mess Congress finally addressed the brokered deposits issue. It restricted the use of brokered funds by banks and thrifts that fell to unsatisfactory capital levels. In other words Congress allowed the regulators to close the barn door after all the horses were gone. Here we sit nearly 30 years after this problem surfaced and after it again caused very substantial losses to the FDIC in the latest crisis. When are we going to summon the courage to solve this problem? I know that the usage of brokered funds has become more sophisticated and more complex in the past decade but surely we can find ways to substantially curtail the abuses. With the Deposit Insurance limit now set at $250,000 with even less justification to allow schemes to further expand the coverage. I commend the FDIC Board for holding this hearing and this roundtable and I truly hope that this will be the beginning of the end for the abuses stemming from brokered funds. Thank you for inviting me to participate today. It is truly an honor to be here.

>>SHEILA BAIR, CHAIRMAN OF THE FDIC

Thank you for joining us. So Paul, Diane.

>> PAUL NASH - FDIC

Hi. Thank you Chairman and thank you Chairman Isaac. I appreciate your comments. We have a lot of ground to cover today and looking around the room you can see how many voices that we have to hear. So we are going to try to keep the conversation moving and we will do our best to not talk over each other and to not allow anyone to monopolize the discussion. So we will keep it moving and as a reminder we are being webcast today so this will be available on the Internet. So with that I will turn it over to Diane Ellis, Mindy West and Kym Copa who will be facilitating our discussion.

>>DIANE ELLIS - FDIC

Thank you Paul. I am Diane Ellis. I am the Deputy Director in the FDIC's Division of Insurance and Research and I am accompanied today by Mindy West, Chief of Policy and Program Development in our Division of Risk Management Supervision and Kym Copa, Senior Counsel for Assessments and Legislation in the Legal Division. We are some of the staff working on this study of core and brokered deposits and we are here today to try and frame the issues, answer any questions you have throughout the roundtable. It's not our intent to do a lot of talking since we want to hear your views. As you have already heard, the FDIC has historically had some concerns over the use of brokered deposits. We believe those concerns are well-founded. However, we acknowledge that the definition of brokered deposits which really essentially just means placed by a third party and the statutory restrictions placed on them were developed after the banking crisis of the late '80s and early '90s. And since that time obviously changes in technology have resulted in new different ways of gathering deposits perhaps making some of the rules and the definitions that we use such as core and brokered somewhat outdated. Given these changes one of the goals of our study is to try and develop a new framework for viewing the complete range of deposit products. We are trying to get beyond the definitions that we currently use and perhaps classify deposits along a spectrum of stable versus volatile. So we have divided today's discussion into three sections the first being a discussion on what characteristics determine whether a deposit is stable or volatile. Stable another term for core or volatile and another term for brokered. We will follow that with a discussion on how the different types of deposit affect the bank's franchise value and finally, a discussion to the extent we have not already covered it in the earlier discussions on the specific recommended changes to the statutory, regulatory or assessment framework. I am going to sort of kick off the first discussion of deposit characteristics. We've identified on the agenda three characteristics that we think determine whether a deposit is stable or volatile. They include customer relationship, insurance coverage, location of depositor and interest rate. We would like to hear from our panelists as to whether we have appropriately identified characteristics. In particular we'd like to focus a bit on customer relationship. We all talk a lot about customer relationship but we would like to hear from you exactly what that means. And how you would define that in the context of maintaining a core, stable deposit base. For example, I know the checking account I have where my mortgage is automatically deducted is a pretty stable relationship because it would be really inconvenient for me to change financial institutions however, really beyond that kind of an account I think it gets somewhat murky. So we would be interested in hearing from the panelists in particular who provide deposit products and the bankers on how you define this term. Is it based on the kind and number of services a depositor maintains, the length of time the depositor has been with the bank or other factors? And is there any evidence that the relationship as you define it results in depositors staying with the bank even in the face of deteriorating conditions or for example, a reduction in rates?

>> LETON HARDING

My name is Leton Harding. I'm the Executive Vice President of First Bank and Trust Co. in Abbington, Virginia. We are a $1.2 billion bank. I would agree in terms of stability but when you are looking at relationships, I think you have to combine not only the rate history, the longevity and the number of relationships but we are also finding now is technology and the involvement with our clients and customers has a significant impact. I brought a copy today of our most recent in-house newsletter. A young lady 31 years old opened her account with us 15 years ago is now moved. We called her a few weeks ago to let her know that her visa check card had been compromised and her response e-mail to us she indicated that over the years she had considered relocating her account to a bank near where she lived, but now given Direct Deposit, and other features and the quality of service that she chose to leave her account with us because of service. So I think whether you are a small organization or a larger organization, a number of aspects in terms of customer relationship can really be redefined given the new world of technology whether you are a larger organization or a community bank. So yes, longevity is one factor, rates and total relationships but I think the expansion of definition of relationships will have to occur. We also provide for example, to counties and cities technology to involve remote deposit which also includes remittance. And what we have found is that those situations, those counties have chosen to utilize us not only for deposit services, but other features at rates lower then they could have gotten at other facilities simply because of technological advantage we provide which they translate into direct cost savings in their organizations.

>> David Hayes

I am David Hayes and I am from Dyersburg, Tennessee and we are a 166 million-dollar institution in a town of 19,000. Relationships are important. And the trust relationship we have with our customer sometimes is multigenerational. Much like you said Diane, once you have that relationship in place with a bank, the ability to move that relationship is somewhat difficult because of all of the electronics that we have coming out of our accounts. But, the relationship and the trust that that customer has with us is utmost important. And so we have to be able to provide the trust, the relationship, the stability of our institution and the service. When you get to items like Certificates of Deposits, I personally believe we are almost at the Wal-Martization of that business because while the relationship is there, it is good as long as your rate is competitive. So the question is what is your rate? And we have to be competitive in that and that unfortunately sometimes is being competitive with institutions that don't have brick and mortar in their community. They just have one office and they are just selling a particular product or service. We have to be all things to all people in that relationship. But during the financial crisis, no question, the customer was concerned about the stability of our institution and the ability for them to get a hold of the president of the bank by calling his cell phone was available to them. We can answer that question and so the relationship is there but we have to have the electronic services, we have to have competition on rates but, you know, if you are not -- if you don't have that relationship or stability with your customer and your financials the customer looks elsewhere.

>>JENNIFER MARRE

Jennifer Marre from the Bank of America, Merrill Lynch. I just want to talk a little bit about a different kind of relationship. Obviously in the marketplace we participate in all different segments of this market. So sometimes as a conduit for placing deposits with affiliated or nonaffiliated banks and obviously we are a leading dealer in the brokered CD market. Our relationships as Merrill Lynch are with our brokerage customers and those are very stable relationships that have developed over years. So whether it is the sweep products where really again the relationship is defined by the brokerage relationship or in the brokered CD context, people come to us because they have a relationship with their financial advisor. They are much less likely actually to move their brokerage account if nothing else it's more difficult to do that. And we find that in the brokered CD space they come to us not so much for yield but because they are looking for either a variety of issuers, they have a relationship with their advisor that will be able to guide them to a particular issuer. And when you phrase it in the context of I think one of your main questions which are in times of stress what depositors are likely to stay and what depositors are likely to leave, the brokered CDs there is no early withdrawal from those CDs. You can only withdraw in the case of death or adjudication of incompetence and people are actually comfortable leaving those with us for longer maturities because there is also a secondary market for those. So we view that, it's all those different kinds of relationships from that with a number of other banks. It has proven to be just as stable in times of stress.

>> Kim Saunders

Good morning. My name is Kim Saunders. Thank you for the opportunity to be here and participate in this discussion. Mechanics and Farmers Bank is a 104 year old, a majority African American owned institution. And as has been stated relationships are very important to us. We secure deposits also based upon our mission. Because we are a CDFI institution and we are working with LMI borrowers, we are working in distressed communities; we have received funds from institutions that are very much interested in investing in the local economy, helping to create jobs and to sustain those economies. So we have actually secured reciprocal CDARS from really all over the country, large corporations as well as local corporations. So I think in addition to looking at the relationship, the longevity, the locality, we should also consider the mission of the institution and what is the purpose for the relationship and why it was established as a part of considering what is a relationship, how stable is that deposit relationship and its longevity.

>>Mark Jacobsen.

If I may. My name is Mark Jacobsen from Promontory. I -- I also thank the board for having this forum and also the staff for actively soliciting comments on this study that was not necessary and it's greatly appreciated. I absolutely agree that relationship is important. It's an important consideration when trying to value the worth of a deposit to the institution from whatever perspective. We obviously with our reciprocal product have been hurt by the unilateral focus on just the relationship. I'm very encouraged by what I have been hearing in terms of looking at a variety of characteristics but I would like to suggest that while relationship is important one can still have a very valuable deposit if you have a long duration, modest rate product with a different type of relationship than what is normally considered direct. And thus when you talk about a spectrum I could see a multi-dimensional spectrum and relationship would be very important, but to suggest that a high dollar, short term deposit with a strong relationship is necessarily better than a long-term, low rate perhaps very attenuated relationship or third-party relationship that is difficult for me to understand and I think it really goes to what the FDIC is most concerned about. But I raise that as a concern and issue.

>>Chris Whalen

Chris Whalen from Institutional Risk Analytics. You know, in our comments which we submitted for the record we talked a little bit about know your customer and about perhaps applying the existing industry standards especially in the securities industry to this whole question of relationship because obviously the bankers' relationships are very important with their customers but it's also important for regulators and other parties to understand those relationships and be able to characterize them. We have tens of thousands of retail customers who use our stress ratings to track single depositories. In fact, most of our subscribers only track one bank. And in most cases these are either advisors, family office type managers or they are high net worth individuals who want to be comfortable above the insured limit. So there is a type of customer out there who is not necessarily shopping for 100 percent cover, but they are shopping for safety and soundness and part of it is relationship but as we have discussed in our comments part of it comes from understanding the volatility of the deposit which is not merely a function of relationship it's a function of price and other criteria. We are particularly going back to Chairman Isaac's comments concerned about the proliferation of deposits that have no penalty for withdrawal and we will be talking about then I'm sure later in the program.

>>Todd Sandler

Hi, Todd Sandler from ING Direct. Thanks to the FDIC for the opportunity to participate in this forum and roundtable. We appreciate that the FDIC has asked us along with other key stakeholders to help it complete the Dodd-Frank deposit study. We are a direct bank. ING Direct has almost 8 million customers. We have been around since 2000 and we think about the stability and the relationship and the questions you asked about we really focus on how our customers interact with us. We are direct retail franchise so our customers bank directly with us. They bank with us over a multitude of channels whether it's through the telephone, whether it's through the mail, whether it's through the PC and our mobile platform has grown exponentially over the past 6-8 months. So when we think about being a direct bank and delivering convenience and service to those customers we really are focusing along the spectrum of delivering a fair value, a good deal and making it convenient for customers to access their money in a timely fashion. A recent study from 2011 JD Power and Associates came out with the 2011 US retail bank new account study and they found the most common reasons to change bank was life circumstances and that was moving. The second was rates and fees, the third was unmet expectations and the fourth is poor customer service. So relating to the first element in terms of life circumstance changes, ING Direct is a retail franchise and we operate as I said in many different channels and it's very often that our 8 million customers move and we don't know it necessarily because we have an electronic relationship with them and we have to actually go down and chase a return mail and a returned card or find out through the NCOA. So in terms of the stability of the relationships having a direct relationship with your consumer and understanding what their needs are, making it simple and easy and delivering upon a brand mission and a vision and ours is to save your money. That's our brand promise to our customers and then ultimately doing it through a low fee business model which delivers great expectations. ING Direct from our customers and through our studies is one of the highest customer satisfactions in the US among retail banks. And additionally 41 percent of our customers are responsible for the growth year-to-year over our customer base. So if you think about the direct relationship from a retail perspective it is really understanding the customer, delivering a fair value, doing it with a brand promise and making sure that you are delivering upon their expectations and their needs. And we have done this throughout all different rate cycles.

>> PAUL NASH - FDIC

Todd, do you find -- do you have any statistical data on the stickiness of your customer versus the more traditional brick and mortar institution?

>>TODD SANDLER

So relating to ING Direct that I can speak directly to, if you look at since we have been founded in 2000 from our vintage perspective every single year the customers that have signed up over a vintage year has increased their deposit base. Still within 2008, 98 percent of those deposits are still on our books. Every other year it's over 100 percent of those deposits. So I can't comment on ours verses others but I can comment on the stickiness of our customers. And we have seen acquisition growth in every one of those years.

>>PAUL NASH

That's good.

> LETON HARDING

Again Leton Harding. One aspect or a couple of aspects in terms of the geographic nature. Sometimes I think we may begin with the thought process that utilizing something like CDARS expands your geographical area, which is true. For us not only did it to expand but it allowed us to move back within our own geographical areas. The initial reason that we explored offering a CDARS products is because we had county treasurers who were tired of seeing their deposits flow out of their local communities and as a community bank, and I don’t have to remind folks where Treasury rates are right now, the ability to collateralize public deposits with something like a Treasury or other sort of government security, you can't make any money on it to be quite frank with you. So for us the opportunity to -- the motivation really came from our local Treasurer saying I am tired of sending my money out of the county is there not something you can do. The hour ride home, that's when I thought about CDARS. The second aspect I would say to you is that what we have found in our organization, we offer a lower rate on reciprocal or CDAR CDs than our standard certificates. So there is no incentive for someone to move into that. We feel like it's a service, they are getting some extra FDIC coverage. We are going to charge for it and we've had no negative responses to that from our customers. The customer's paying for what they want.

>>Mark Jacobsen

If I could just follow-up on Leton and his experience is not uncommon with many users of the service yet we have had scores of institutions decline to use the service because -- and use alternatives that we think give them far less stable, far more volatile and far more pricey sources of funding because they don't want to have the deposit reflected on the brokered line item of their call report. Scores and scores of people are making illogical decisions when they could enhance their relationship with their customer because they want to avoid the stigma that still exist today for brokered because of past abuses. But also there are legitimate reasons for brokered and a lot of confusion in the marketplace about it.

>>Jennifer Marre

I would add we have heard the same thing from the banks in our brokered CD program. A lot of them are still using the brokered deposit programs because they find them a very useful source of funding across all different market cycles and across all different geographies. But we have heard very much the same thing, they are getting pressure from their regulators to not show brokered deposits and so there are two parts to that. Again we have a lot of folks still coming to the program going this is still the best decision for the health of our institution but, you know, help us in trying to explain their relative safety of the products.

>>Larry Lanie

I am Larry Lanie. I am CEO of Farm Bureau Bank. We have a unique situation. I have been what I would call the infinity banking business since 1983 when I helped establish the USA Federal Savings Bank as its first president and CEO and for the last 12 years as CEO of the Farm Bureau Bank. Our situation I think is unique with regard to the customer relationship. We serve approximately 4.6 million member households in states where we market the State Farm Bureaus endorsed banks. We have approximately 2800 offices that -- county Farm Bureau offices, Farm Bureaus, is a grassroots organization comprised of members that live primarily in rural parts of the US. And they have pre-existing multiple relationships with the Farm Bureau organization not just with the bank. And I could list those, but in the trying to save a little bit of time I will submit that later. But, you know, our situation is that most of the business that we have about 90 some percent probably comes from referrals of their trusted Farm Bureau agent or there is somebody in the Farm Bureau organization because of the fact it's a referral we have to classify that as a brokered account. And yet we find that over 70 percent of our CDs even in the most difficult times renew at maturity and customers basically stick with us. So it's a relationship beyond you know what you would typically see.

>>Diane Ellis - FDIC

I think this conversation points to the fact that relationships -- there's a lot of different perspectives on what a relationship is. I think one of the challenges we will be trying to grapple with in this study is how do you define it objectively? What sort of reporting can banks provide us to demonstrate a relationship? It is probably not something we can answer today, but to the extent anybody else has any more specific recommendations we would certainly welcome those. There is another area we wanted to touch on here and I will pass it on to Mindy to talk about interest-rate a little bit.

>>Mindy West - FDIC

Thank you, good morning. We have touched on interest-rate a bit while we've been speaking. It's a far cry from the days when Chairman Isaac was here and we spoke about 20 percent interest rates. We track national average national rates and for this week the rates ranged from 0.9 for interest checking and these are national averages, to about 1.64 for five-year CDs. So it is a very different interest rate environment. But we do think that interest rate is important and as several of you have mentioned it. Jennifer indicated it may be was not as important, but we definitely think it is important in terms of defining volatility and stability. I think there is general agreement around the fact that high market rate interest are considered volatile. And I would like to get your thoughts on that because it is difficult to get our arms around just how we would define high rate given the various geographies and the differences across the country. So I open it up for your thoughts.

>>Chris Whalen

In our comments we talk a little bit about tying the asset together with the liability when you are trying to understand use. If you look at money centers for example, many of them use brokered deposits to fund credit card portfolios. So paying up is a relative thing because you have a book that is thrown off 1500 or 1800 basis points of gross yield. Right? So brokered in that case maybe the most flexible source of liabilities given the volatility in the asset. If you have a covered bond on the other hand and you have good underwriting and good collateralization you could pretty much duration match that with the asset and you are done. You just keep an eye on the default rate, right. So I think to understand this you have to look at what it is funding, what sort of activity it is funding. And the second issue obviously is the soundness of the institution. Going back to Chairman Isaac's points before many of those S&Ls back in the '80s that accessed those evil brokered deposits looked okay at the time. They actually met the hurdles of the capital. It was the capital hurdle, that's all it was [laughing]

>>William Issac

They didn't look good by any means. [laughing]

>>Chris Whalen

But they met the straw man test that we have. Last point, we all live in an environment that ultimately is beyond our control. Just as before we talked about high rates during Chairman Volcker's tenure at the Fed, now we have ridiculously low rates and there is embedded interest rate risk in the entire industry. If you read the clips, I won't mention the institution's name, but we are already starting to see supervisory concern about people who are selling duration and enhancing yield in part because the whole industry is trying to enhance yield. Now we may be going the other way. So I think in terms of crafting regulations you have to remember that you have to live in the house built by the Federal Reserve and their interest-rate policies may not help us get to where we want to be in terms of safety and soundness.

>>Leton Harding

If I could maybe speak to interest rates. Leton Harding. For a community bank, we focus a lot on net interest margin. And the gentleman's comment, our main focus if you will is growing demand deposit and savings accounts because what we view in terms of the Certificate of Deposit market whether it be traditional certificate market or CDARS market is that on the longer end quite often you cannot find retail customers who want to go there. So we may try to work with retail customers but we are also an OFI. We are a member of Farm Credit which means that we can go to Farm Credit and participate. We're a member of the Federal Home Loan Bank so we can do so and then, of course, with the CDARS program. So I think given even on a community bank basis the level of sophistication of asset liability management, you know, it would be much like a child walking into a doctor's office and the doctor looking at him and saying I know what is wrong with you. I think that to be quite frank with you from a regulatory standpoint in terms of interest rates and decisions about asset liability, you may have some broad based are you positively gapped or negatively gapped for example, but I think a simple kind of solution will not avail itself to you. It is going to be a combination of the underlying assets whether it be securities or loans, the market condition they are in, the strength of may be the traditional deposit base and what are they trying to do. What are they trying to manage their risk on the long end and what mechanism are they utilizing to do so.

>> Kim Saunders

I would echo that. As a small community bank our focus is on margins. We do not -- we actually enjoy an excellent net interest margin. We do not have to pay up for our deposits. I am a former CEO of a troubled bank where we were still very much able to secure deposits again because of the mission of that institution and the individuals and institutions that wanted to help sustain it. So irrespective of even capital and the condition of the institution, it does not necessarily lead itself to you having to pay very high interest rates in order to secure that deposit base. I also agree that and think that the regulators have done an excellent job in setting forth risk management practices and it really is taking those practices and applying them in the context of the specific institution and looking at its asset liability management asset practices, all of the guidance that you have provided with respect to liquidity and how to manage your deposit base, applying those principles on an institution by institution basis, looking behind the numbers just as we have to do with loans and our customers is really the key.

>>Todd Sandler

Todd Sandler from ING Direct. You know, I think one of the important things to do is when you look at a business you have to look at its cost structure and from our perspective our cost structure has enabled us to pay a very fair interest rate in the market because of the fact that we have one-third of the cost structure of the typical industry. If you think about industries outside of banking from the retail perspective if you look what's happening between, you know, Borders who just filed for Chapter 11 verses Amazon.com they are able to do it through their cost structure and still deliver fair pricing. So our perspective is our customers are not rate shoppers. Our customers are looking for transparency and they are looking for fair value and we been able to deliver that. So from an interest rate perspective I think it's important to look at in terms of A. not only what is fair, but also what the business is able to afford based on their ability to manage those margins.

>> PAUL NASH - FDIC

Sarah, how do you see this on the ground in West Virginia?

>>Sarah Cline.

Hi, my name is Sarah Cline. I'm the Banking Commissioner for the state of West Virginia. West Virginia is comprised of 60 of what I would consider to be smaller community banks. They range in size from $30 million to $5 billion. I think the greatest determinant for deposit stability would be number one the customer relationship. I think that our community banks have built their franchises based upon customer relationships. I think the second determinant would probably be interest rate. As Mr. Hayes indicated, you know, you have to establish the relationship first, but in order to keep them you have to be able to pay competitive rates.

>>David Hayes

I think the challenge a community bank has and I agree with Sarah is that as we sit there and deal with our customers, we have to build a value proposition that our institution brings to our community. You know, our investment in the chamber and the ball teams in all these things, you know, those are important parts that keep our community and keep us successful. So sometimes, you know, when our customer comes in and sees a rate that has been published in the paper from an organization outside of our community, we have to sit down and say let us explain to you our business. You know, our business depends on this community and while I would like to pay you, you know 50 basis points more then what we publish, I cannot do that and stay in existence and help our community. So it is the model of the institution. And I think somewhat that it's the model of the community in which that institution lives, breathes or dies. And we have to be able to have that relationship, gotta be competitive, but we also have to be able to know when to walk away and say look, that does not make sense to us. If you want to go there, go there and play in that game, but don't come back and complain to me.

>>Paul Nash - FDIC

I'm sorry, go ahead.

>>Sarah Cline

I don't know how you defined this but I believe that -- West Virginia has -- we are economically challenged I would say so I think you will have more volatility in some portions of the country than others. I think West Virginia is fortunate in that most of the banks I think would agree that for the most part their deposit relationships are stable. So I think you will have volatility in various parts of the country.

>>David Hayes

I would just like to add. I think there are products that we need as institutions to have available to us and not be restricted, but I think it comes back to management, board oversight and what are we trying to do. So if our institution wanted to participate in CDARS, certainly that is something we would like to do. I don't need to do that today but I may need to do that as we grow but it still comes back to our business model and what we are able to effectively do.

>>Jeffrey Zage

If I may, Jeffrey Zage, Financial Northeastern. I think banks generally do a wonderful job of nurturing their relationships and there is that balance of those relationships and the Wal-Mart characteristic that you laid out earlier. What we hear from our banks is that we have terrific relationships, but to get them to tie their money up for longer than 30 days is a real challenge for us. So where we come into play is for those banks that would like to level their liabilities out, lengthen the duration and just from a historical standpoint the brokered CD market for the last 10-15 years to give you an idea of benchmarking, if you were to pull the U.S. Treasury on any comparable term, the total cost of those funds range anywhere from plus 25 to plus 50 basis points above the comparable U.S. Treasury. That is total cost, that is just fee and rate paid to depositor. There are no additional fees on top. And the beauty of the national market is it allows them to attract deposits from outside of their local marketplace without cannibalizing their local market or having to compete with the three other banks that are right there on Main Street. So there is definitively usefulness in extending out the liabilities.

>>Shawn O'Brien

Shawn O'Brien with Quickrate. I would echo all those thoughts and I think what is clear is across the country banks of all sizes need as many opportunities to diversify their funding. I think the issue that we encounter with a lot of our banks is without limits and then banks -- there's the potential to always over concentrate and that seemingly is always the issue. For one particular bank in one part of the country a particular type of funding is perfect and another one it does not work because of economic activity, regional activity, economic activity so all these pressures drive a different bank to find their own funding plan so they all need them to be open to them, but I think the real risk obviously is when -- if there is a perception that one is better over another then the bank might tend to allow themselves to over concentrate in that particular area and we always think for the deposit itself to talk about relationship it comes back to investor behavior. Clearly a transaction account, that customer has a different objective versus a purchaser of a CD.

>>Chris Whalen

What is interesting about all these comments is that they are essentially describing several different marketplaces that function in our country. There is a national market, there's a local market, there's probably an institutional market too and I don't know how we categorize them or characterize them, but I think we should look into that. The other thing that strikes me is that again going back to my earlier point we have to be careful with technology because, you know, technology is our friend but it's also our enemy because it means the target is always moving. So again functionally is it better to have that lady there placing deposits with her national desk on a fixed basis, no penalties for withdrawal or would you rather have individual institutions banging away on national TV late at night with high rates and no penalty for withdrawal? As a regulator which makes you feel happier?

>>Mindy West - FDIC

You raise a good point and I think, you know, a lot of what we are hearing is that it depends on each individual circumstance and, of course, that's what we do as supervisors we look at each institution individually, we look at their overall liquidity and funding and I'm hearing that.

>>Chris Whalen

That's the point because what we have here is a coral reef. If I show you some of the banks we rate, I could show you some A+ banks that have very high returns that have not shown high default activity during the crisis and pay up. They like paying up because the gross yield on their book is in double digits. Again going back to the credit card bank.

>>Leton Harding

If I could just add one thing. Another aspect again is the efficiency ratio. I think that what our organization has found is that through technology and we have the same number of people in our operation center today -- we're $1.2 billion as we did in 1998 when we were $250 million. So there's lots of different ways that banks have expenses. And that's where I think again looking just not interest rate costs but how the bank is reacting in terms of overall expenses and what that cost is relative to total operating costs is very important.

>>Diane Ellis - FDIC

This seems like a good time to -- I mean -- the interest rate we have established it is a complicated issue I think. And one thing I would like to move onto are some of our supervisory concerns with volatile funds. And particularly how they can be used to fund imprudent growth strategies. We have empirical evidence that controlling for other factors, but in the crisis of the late '80s, early 90s and the more recent crisis the brokered deposits are associated with higher subsequent failure rates and higher FDIC loss rates. We also have our own material loss reviews, our postmortems on the failed institutions and they do show often in this institution that there was a growing dependence on brokered funds and other volatile funds. So I would like to next ask you your perspective on what role funding plays in risk taking for institutions.

>>Randy Dennis

Well, since I tend to be one here that has done a lot of undertaking of institutions.

[laughing]

I am Randy Dennis from Media Net Consulting Group in Little Rock and it appreciate all the kind comments about Wal-Mart [laughing]

[off mic comment] [laughing]

Since we have been selling banks or the FDIC has been selling banks for the last 35 years I've been doing it two things contribute to that failed bank scenario. One is the core deposits and I will talk about that briefly here. And the other is locations of branches, well located branches. I think going back to the RTC and the branches and the banks we see right now these things have not changed very much they still contribute highly to the value of failed banks and improving the returns for you guys or the lack of losses for you. And so I think sometimes you look at the bids and say well because there is no deposit premium on the bids, very few bids, maybe one-third or one- fourth perhaps list a deposit premium, but the reason they don't list a deposit premium is more a function of loss share and the true up than it is from the value they see in the deposits. So certainly there is a lot of value attributed to that and coming up with what the bid is by the institutions, most of our clients we bid on over 100 institution so far and closed about 24. Obviously the other side of the table we will talk about DDA accounts are far and beyond the most valuable to most of our clients. Reasonably cost money market savings type accounts probably second, multiservice CDs, single service CDs are not viewed very highly even if they are local. Some multiservice account CDARS, two-way CDARS are viewed very positively. In fact, in a failed bank scenario if you break the rate on a CDAR they pull the deposit so most of our clients don't break rates on CDARS because they want to maintain that customer relationship and it is usually a high dollar customer. Pooled deposits are viewed as valuable whether or not they are from mortgages or from prepaid cards and things like that. I believe the FDIC was very wise in the way they handled Silverton. They had a prepaid card portfolio basically deposits and they did not pay those out, they sold them. And I thought that was very wise because the people who depend on prepaid cards are the least likely to have other financial services available to them so I think that's important. Out of market, Internet and brokered deposits just round out the order. But, you know, what we find is that most of our clients will break rates on the Internet deposits and the broker deposits. The FDIC does not have CDACOs (ph) which are depository organization brokers. So we don't worry about those. But they typically take the rates down to 10 basis points.

And they vanish very quickly. Outside of the brokered and the Internet deposits, normally we only experience say 10 to 12 percent, 15 percent deposit runoff on the core deposits. So I think there's a lot of value there and in those types of deposits.

>>MINDY WEST - FDIC

We'll talk a little more about franchise value in the next. But were there other comments on the role that funding plays with –

>>Leton Harding

Not having access to all your empirical data and extensive research the FDIC has undertaken, just from practical experience and a few of my competitors in the marketplace that seem to have difficulties, what we have found is that more often than not, initially the appetite for less stellar credits leads them down a certain road. And once they kind of go down that road, then subsequently to fund those -- that kind of activity occurs, at least initially it is reflected in higher rates in a local market, as Mr. Hayes mentioned in terms of why you can't offer that. Oftentimes you're speaking to one customer why you can't offer the high CD rate. And his brother you tell him you can't make a loan. So it’s a contentious relationship. So what we see is again it sort of starts with asset acquisition and then it translates into the liability side.

>>LARRY LANIE

I would make a comment. I have been around this industry for a long time. I was in Oklahoma when Penn Square failed. One of two bankers that were asked by the OVA to handle Meet the Press, which was not pleasant. [Laughter]

But I think it goes -- I recall six months before Penn Square failed, having the discussion I was doing an asset liability management seminar, and the comptroller and his new assistant from Penn Square bank sat down with me and Dr. Olson out of Maryland and they said they were there to hear how he would tell him to handle the $2 1/2 billion off balance sheet funding participation sold for a $300 million bank. I looked at Ron and I said I'm glad I got the small banks and you got the big ones. [Laughter]

And it really -- I think the brokered deposit in that particular case, I know toward the end of Penn Square, they utilized brokered deposits. But it was all down to underwriting imprudent growth. And the same thing happened in the '80s. And good asset liability management practices. So that's where it starts.

>>Paul Nash - FDIC

Bill, what was the FDIC seeing at that time?

>>William Isaac

I'm sorry.

>>Paul Nash – FDIC

What was the FDIC seeing at that time? [Laughter]

>>William Issac

In what regards?

>>William Isaac

In Penn Square, frankly, we weren't seeing anything. I never heard of the bank until the Thursday before it failed. Senior Deputy Controller of the Currency called me and ran over to my office to meet. I said why are you talking to me about a $500 million bank. And he said well it's a little more complicated than that. [Laughter]

So we didn't know anything about the national bank because we weren't in the national banks. And that was sprung on us which is one reason why we developed immediately following that the practice of the FDIC starting to accompany the other regulators into these institutions because we didn't need anymore surprises like that. Penn Square got 3 billion dollars of participations it sold to major banks, such as Sea First, Michigan National, Chase Manhattan and Continental Illinois, all of which were thereafter in danger of failing; in fact, two of them did, Sea First and Continental. So that was a total surprise. That's one reason why I'm very glad that the FDIC has reinstituted the exam program where it goes in with the other regulators to look at institutions that need to be looked at. So the short answer is we didn't have a clue it was coming.

>>Chris Whalen

The industry treats interest rates as an asset liability management issue at best. But as you'll see in our comments which I circulated to a number of our colleagues in the regulatory community and also to Premea (ph), we think it should be more than that, it should be an enterprise risk analysis where you basically start with the question: What business are we in? Because I could show you a lot of core funded institutions right now that have almost no or no brokered deposits who are going to run into problems this year because of interest rates, on core deposits.

>>Mindy West - FDIC

That's obviously another risk.

>>Chris Whalen

It's from derivatives, it's from structured finance. It's entirely opaque. It's from many other sources. So even though we want to continue to be cognizant of the threat we can see, I think there are equal magnitude threats out there that need to be part of your diligence process.

>>Mindy West

Sure. Absolutely.

>>Diane Ellis - FDIC

We're going to sort of transition maybe into the next area of discussion which is on franchise value. Sort of in this transition I was going to try to draw in Haluk, because he's done some work and I think has some perspectives that speak both to the regulatory risk question and then also to the franchise values. Maybe you could kick this off.

>>Haluk Unal

Thank you. I'm Haluk Unal, Professor at the University of Maryland. Sorry about that. Thanks for inviting an academic to this distinguished round table. [Laughter] (indiscernible) By chaining, when we take an issue, we listen to it, try to conceptualize and then look for empirical evidence. I think that should be the approach here. One of the important features that differentiate a deposit institution from a nondeposit institution as we will all agree that both assets are liabilities are the product of the firm. Deposit institutions create value both from asset side and on the liability side. Consider McDonald's for example. It sells hamburgers. Hamburgers is the asset of the firm. It derives value from hamburgers. Advertises assets. However, we don't see McDonald's advertise its bond issues. They don't say we have the best bond issue. We have the best rates. Come and buy our bonds. So in contrast, Bank of America advertises both its assets and liabilities. Because both loans and deposits are products. In other words, Bank of America is a joint product firm. The product is both sides of the assets and both sides of the balance sheet. And values created through its loans and deposits. And the value a financial firm creates on deposits is the franchise value of the firm. Now, why is this differentiation important? When I listen and read discussions about brokered deposits, such arguments are put forward. And some along those lines is we are here too. And it goes as along these lines. They say brokered deposits are an input to production of loans. So the focus should be on the loans and not on the inputs of the production. With all due respect, such arguments demonstrate the lack of understanding of the nature of deposit institution. You may apply that logic to McDonald's because financing can be considered as input to hamburger production, but for a financial institution this logic doesn't apply. For a deposit institution, financing is not simply an input; liability is also the product of the firm. Deposit-gathering process creates the franchise value. And gathering core deposits involves, as we've talked here, building customer relationships, which creates franchise value. So the franchise value comes from a stable source of funding, which is usually source from customers with whom you have built a relationship, therefore any activity that dilutes this franchise value is not in the best interest of the firm. Thus if brokered deposits dilute the franchise value, they should be restricted. The question then becomes whether or not we have empirical evidence that shows that brokered deposits are related to the franchise value of the institution or reduces the value of the firm. And the answer is yes. And we have plenty of evidence. Well, we can view the evidence from two perspectives. One from the brokered deposits on loss-given defaults and the other is the impact on default probability. Let's start with LGD. In the paper that I'm working on, we examine factors that affect resolution costs in 1,084 failures that occurred during '86-2007. We find that as this gentleman indicated, high brokered deposits reduce the probability that the failed bank will be acquired by a healthy bank. It’s a deterrent. And high brokered deposits and total resolution costs are positively correlated during the banking crisis period of ‘86-‘91. Now let's get to the recent crisis. We have more evidence. In a recent paper by a (indiscernible)of Henry White of NYU, they show that brokered deposits in 2004 and 2006 is a significant predictor of failures in 2008 and 2010. This finding is quite plausible and compliments another study by Marcia Cornet, JB McNut, (indiscernible) of Boston College. These authors find that liquidity dried-up during the financial crisis of 2007-2009. Well there's nothing new here. We know that. But they show that banks that relied more heavily on core deposits continued to lend more than other banks. Furthermore, they provide evidence that during the crisis, banks used core deposits to fund loans and commitments. They act as a substitute for liquid assets. So they did not find similar results for wholesale deposits. These are important results and support the policy conclusion that we should encourage financial institutions to increase core deposits in addition to creating franchise value, core deposits also create positive externalities through the whole financial system. And finally in the paper that I'm working on, we look at the predictive power of CEO compensation structure on bank failures in recent crisis. Our sample consists of largest 100 banks. For this small sample our preliminary finding shows that CEO compensation structure is a significant predictor of bank default probability. But that's not the topic here, I know. [Laughter] But in the analysis, we have brokered deposits and other factor. We have heard that brokered deposits become a significant predictor of bank default rates only after we control for CEO compensation. And this preliminary result shows that there's an interaction between brokered deposits and compensation structure of top executives, which indicates that there are deeper agency problems that need to be investigated when evaluating the impact of brokered deposits on the value of banking firm. In summary, brokered deposits should not be viewed as an input to bank loan production function. Financial institution derives value from its deposit products. Empirical evidence supports that. FDIC has every reason to encourage financial institutions to not dilute the franchise value of deposit gathering efforts. Use of brokered deposits and core deposit add to value of the financial institution. Thus the FDIC should take measures to discourage the use of brokered deposits and provide every incentive to build core deposits.

>>William Isaac

I'd just like to ask a question if I might. I found what you talked about fascinating. I'd love to see some more of your work. But I didn't understand the tail end part about CEO compensation and brokered deposits and how all that fits together. Let me tell you what I was thinking as you said it. I'd like to know if I'm thinking correctly.

CEO compensation tends to -- is highly correlated to size of institution. Size does matter in that case. (laughter) So the bigger the institution, the more the CEO gets paid, for some strange reason.

>>Haluk Unal

We weren't looking at the size of the compensation. We were looking at the amount of deferred compensation and pensions as a ratio of the equity ownership. So therefore it's independent of the size.

>>William Isaac

So you weren't looking at overall size.

>>Haluk Unal

Yes.

>>William Isaac

What I thought you were saying is that because the CEO get paid more, the bigger the institution, for some strange reason, and because they can increase the size by going out and buying all sorts of odd money, brokered funds and everything, that there's a correlation between high CEO compensation and bank failure. But you weren't saying that? Okay. Then maybe you could enlighten me on what you were saying.

>>Haluk Unal

No, the more -- when we control for the amount of deferred compensation that the CEO has, when we put that as a variable, then brokered deposits shows up as significant. So that has to be controlled for. So there are studies which says that we don't find brokered deposits to be significant determinant of default probabilities, for example. So the compensation structure has to be controlled in those kind of regressions, that's what I'm saying.

>>Chris Whalen

Professor, good question. John Adams wanted us to live in farm communities and never travel more than 10 miles from home. How would you propose to enact your recommendations? With the Internet. With all the other functionality out there that enables people to place funds in other than walking through the front door of the bank branch, how are you going to put the genie back in the bottle?

>>Haluk Unal

If those are – in reducing if those are adversely affecting the franchise value and if I'm convinced, then I should take measures against it. Because that's a product.

>>Chris Whalen

What Draconian authoritarian steps would you use to make people behave such that we have a preponderance of core deposits in all banks?

>>Haluk Unal

Through deposit insurance premiums.

>>Chris Whalen

More government intervention? We have a highly controlled market now that is distorted by government. And you're suggesting that we put more governmental structures in place?

>>Haluk Unal

I mean it does protect and increase the franchise value of the firm, why not?

>>Chris Whalen

Well, all I can say is try and get people to behave that way, that's what I'm asking you. I use the Internet to place funds in four different banks. If I have to physically walk in the door to place those deposits, is that going to meet your goal?

>>Haluk Unal

Look, empirical evidence shows that core deposits affected the lending practices of the banks in the crisis period. So we're all in this boat. So therefore we can be short sighted and just look at short-term profits; however, if the core deposits levels are at that, that increases the safety and soundness of the system, we achieve this by government intervention or industry can do it by self-regulation.

>>Chris Whalen

Right. But my point is that the money exists. The Fed has created it. And it's looking for a return. I don't think anything you do with bank deposit regulation or anything else is going to prevent that money from going somewhere else. So if you don't take it in the door as a brokered deposit, it'll find another outlet. It already has in the retail market. What we call core today advertised on TV with zero penalty for withdrawal looks to me like a brokered deposit. And yet it's core. How do you put that genie back in a bottle in a practical sense is what I'm asking you from a human level?

>>Mindy West - FDIC

Could I just interject here? I think this is -- it's all very interesting, but I think it gets to sort of the point of this round table in that right now we have core and brokered, very defined terms statutorily. But we're sort of wanting to look beyond the core and look at some of the factors that would feed into what would make a deposit stable versus volatile. So we can maybe move away from just the definition of core and we could get to the same point that I think actually you were making in your comment.

>>Mark Jacobsen

Might I just follow-up? I appreciate what you're saying. I absolutely agree. Haluk, two questions. One, would your argument apply to all purchased funds such as Federal Home Loan Bank advances and so on, as well?

>>Haluk Unal

You know, the brokered deposit definitions that I used in my research and that is used in other research is the definition of current definition of the Call Reports. So therefore, there's no data that differentiates different types of funds.

>>Mark Jacobsen

But the logic would seem to apply, as well.

>>Haluk Unal

The logic applies whether that increases or affects the franchise value. Because it's the product's value that we should be sensitive to.

>>Mark Jacobsen

One, I guess, thought is -- and bankers are better able address this than I am. Is that the pace of deposit gathering in their local communities has not kept pace with the pace of the opportunities for non-speculative lending. There's a lot of reasons for that. Part of it is because I have my 401(K) Plan where my employer has its 401(K) Plan. And I'm not putting money in my bank. And we use mutual funds. Banks were disintermediated, to a great extent a few decades back. So taking away all those opportunities from banks does take you back to a very different world. And I want to make that point. The other point I want to make, we, too, studied the ‘80s, the thrift crisis. And we're trying to study the present. I recently read a study by Stan Silverberg. Many of you will be familiar with it. And what struck me is without question, everything that Chairman Isaac was saying, there were massive abuses through the use of brokered deposits, is absolutely true, there were. And without question it would affect those results. What was interesting was during the period that Silverberg studied the 1500 failures between '87 and '90, only 16 percent of the failed institutions had brokered deposits in excess of 5 percent of their total deposits. So similarly, looking at the 380, or I can't keep track anymore, failures thus far, actually that number is much higher this time around. But, still, you have the majority of the failures with a very modest amount of brokered deposits, but what you have is 30 percent of your failures with very, very high levels of brokered deposits. Which to me suggests a focus on the outliers, those that are truly using purchased funding to support rapid growth and get into risky assets and makes a great deal of sense. But the notion of permitting or strongly disfavoring an entire class of purchase funds is disconcerting.

>>Randy Dennis

Might I make one comment on when you look at failed banks, that I think the average overall tends to be 30, 40 percent. But it's not just brokered. It's what the FDIC deems marketplace deposits which includes CDARs, which includes QwickRate deposits, which includes true brokered deposits. So I think there's still overall a fairly high level of these non-marketplace deposits out there.

>>Leton Harding

If I could speak to -- I think we all agree that you know franchise value is very important and stability. And Chairman Isaac talked about my bank began in 1979, we were the last bank chartered in Virginia by the Commissioner. So we began with the coal business and went down in the coal fields and interest rates were 20 percent. We used boxes for trash cans. I can tell you the values are very important to us. But I can also say to you in addition to looking at a particular dollar amount. Historically I think even the definition $250,000, we opened an office, a new office and had a big CD campaign. And all the people that came to us were retail customers. And we had so many CDs that myself and the President of my bank were hand writing out CDs. We stayed there until 8:00 that night to put them on the system. We even had to have the computer people not take the system down because it was scheduled to lock up at 4:00. we thought what good boys and girls we were. Six months later, a year later, all those CDs left us. Conversely, some of the larger customers that we've been able to attract through CDARS program, they've moved additional business to us. The core, if you will the demand deposit account savings, but a strong component of that was our ability to offer additional features, particular to the counties and cities I referenced earlier. So I would hope that as you look at what you define as core deposits, that this aspect of a dollar figure, while it may be important, does not override in terms of long term.

>>Diane Ellis

We were curious. Has the increase in the deposit limit from $100,000 to $250,000 affected or changed the way deposits are valued from your perspective?

>>Randy Dennis

It has. And I think two things have affected it tremendously. One is the unlimited DDA account. And I would encourage an extension of that. Because when a bank fails, they fail on Fridays. And the problem with banks failing on Fridays is small businesses and businesses have their payroll accounts at the bank. And so you can go through, believe it or not, $250,000 in a payroll account very quickly. So I think that limited DDA account is very, very important. That is viewed very valuably the unlimited depositor because you have larger balances from businesses. Small businesses. And going back to the DDA. Small business accounts are highly, highly sought after. So I think the $250,000 has taken a lot of the pressure off of the institutions for fear of moving the deposits around. Almost all the transactions of failed banks are total deposits. Very few insured deposits only. But I think it's made a huge difference in valuing them, that you can increase your stable core deposits. In fact, $250,000 deposits we view as core deposits. And we think that that, on the Call Report, should be increased from 100 to 250.

>>Mindy West - FDIC

Those changes are being made. They have been made for the end of March Call..

>>William Isaac

I would also just add that way back in the, in history, 30 years ago, we actually recommended to Congress provide unlimited deposit insurance on DDA accounts because that's the most disruptive thing in the bank failure is what happens to those accounts and they're not chasing rate. They're just there because they have to be there in the banking system. And, again, a lot more flexibility handling the bank failure if you don't have to worry about disrupting the DDA accounts.

>>Sheila Bair – Chairman of the FDIC

I think it provides unlimited coverage for them. But it’s a – it is what it is.

>> Kym Copa - FDIC

So at this point I think we're going to move on to our fifth question. There's been a lot of interesting discussions about the limitations, I guess, of the current law. And I think we have heard some specific recommendations in the process of -- for purposes of conducting our study. But one of the things that we also wanted to explore with you is -- are there specific regulatory or statutory changes that you would recommend or suggest? I mean, certain amounts is in the law. The definition of deposit broker which drives all of this is the placement by a third-party. So are there things that you would suggest in that context of if the law wasn't that specific or if we had more flexibility in that regard, what suggestions would you make?

>>Chris Whalen

In our proposal, just to summarize, we suggested that you discontinue the use of core and non-core entirely. And that starting with the relationship base that you have now, you add to that pricing and duration. So you would actually have three legs of the stool for characterizing the liability. And the objective here is to be able to look at a deposit liability the same way we look at debt. In other words, I want price, maturity and relationship so I can compare and contrast those and score them based on the volatility. In other words, I want to know what the stated maturity is on the portfolio going back to the comment from ING and I want to know what the effective maturity. Are people pulling deposits out even though they have to pay a penalty, for example? On the other hand, if there's optionality and it allows me to withdraw without penalty, what is the duration of that deposit? Today it may be fine but if there's a change in market conditions, if there's a change in perception as we saw during 2007, then all of a sudden those can become demand deposits and walk out the door. So from an asset liability perspective, it creates some challenges. As long as everything is calm and there's no bad news on TV, that deposit is fine. And it looks fine. But the moment you get fear in the marketplace, you could have an institution literally seeing deposits walking out the door with no friction. There's no penalty. And the industry has that penalty for a reason, right? There's a historical thing that goes back centuries. So I would urge you to consider -- we laid it out in some detail. Last thing that I've learned working in the mortgage servicing world is I have suggested that FDIC have a conversation with the Fed about the interaction between the Fed's treatment of MSRs, mortgage servicing rights for capital purposes and the fact that FDIC gives large banks core deposit treatment for all of those transaction balances, taxes, interest, insurance. Are those really deposits? I don't think they are. And by giving banks that advantage over small community institutions and then the Fed forcing these same banks to sell loans with servicing released, we're essentially supporting the large bank cartel in the mortgage market. I'd like to empower small institutions. And part of that is in your hands.

>>Randy Dennis

All right. Comment. A couple things about that is I think here's a difference. We represent primarily community banks. I think the difference is certainly bonds and securities of companies are bought and sold all the time based on yields. In banking, the core deposit, Kymberly, I might be willing to pay for core deposit, but I'm not necessarily going to pay you a premium for your mortgage, which is your liability. And so I think there's uniqueness there about core deposits in that people -- that's why they pay because they want those multiple customer relationships. And that's not talking about duration or anything. But there is a uniqueness having to do with the core deposits at banks that buyers and other people view that as very valuable. So.

>>Todd Sandler

Todd Sandler, ING Direct. So we believe strongly that the current definitions are appropriate. There are many methods for depositing, for customers to deposit money to reach a particular bank. And to have meaningful definitions of those elements are kind of difficult. Imagine a bank that first started with branches and then from a core deposit that particular bank offered a phone service. Does that become a phone customer? I'm hearing a lot of terminology today around Internet deposit. I don't think there is such a thing. It's just a channel that a customer can communicate with the bank. Are we going to talk about an IPAD deposit or a Blackberry deposit in the future as mobile in the fourth quarter? Smart phones outsold PCs for the first time in history. So I think we have to be careful about how we're categorizing these types of things. Almost all banks have some type of on line service platform right now to deliver services to its customers. And the key factor is whether that particular customer has a direct retail relationship with that bank. And if the consumer is the one making their own deposits, then we feel that the definition is appropriate at the core deposit level.

>>Jennifer Marre

A small point in this broad discussion, but one thing we'd ask you to consider is to think about the strength of affiliate relationships. Because I note that any deposit referred to Bank of America from its affiliated broker dealer today falls under the definition of a brokered deposit. And, yet, that customer winds up having a direct relationship with the bank and just query as to why that relationship is any less valuable than anybody else. Small point.

>>Mark Jacobsen

If I had my dream, I would completely blow up the brokered terminology and instead focus on the characteristics of the deposit. Much like Chris was saying. It clearly has to reflect relationship as being valuable, but that's just one aspect. And a deposit can nonetheless be valuable for others. Nonetheless, one can't ignore what Chairman Isaac and Haluk mentioned, that there have been abuses of this. And maybe part of the rewrite also looks at this from the perspective of the FDIC. Maybe perhaps part of the reason why you've been experiencing problems with rapid growth funded by purchased funds is that you haven't had the type of tools needed to stop it since everything is tied to capital. And somebody here said that once the capital trigger is flipped, at least in the systemic crisis, the bullet's already in the body. The other, related to that, if you perhaps had more flexibility there, perhaps the actual remedy could be a little bit more flexible. Because now if an institution is no longer able to accept purchased funding, brokered funding, it is cut off from that marketplace. And as supervisors know, that often can trigger liquidity issues and perhaps unnecessarily hasten the end or unnecessarily increase the problems at the institution.

>>Kim Saunders

I was going to say I'd like to echo that in that I think it would be helpful if there could be an elimination of the labels. And I know that's partly why we're here. And that there could be again a focus on the characteristics and quality of the deposits. I think it would be great if we could eliminate the restrictions that are based on capital definitions. Because I think in this current market, where a number of us as community banks are working with our borrowers and therefore have a higher level of challenged assets that are going to take time to actually restructure and allow those borrowers time to repay their obligations to the bank. While that might heighten our risk profile, it doesn't have to hasten the failures that we have seen recently. And the way the current guidelines are structured, I think it facilitates banks failing unnecessarily because of the liquidity restrictions that are tied to capital definitions. At a minimum, I do feel that the reciprocal CDARS program should be carved out of whatever definition exists because those are relationship-driven deposits. And there is a reason that those customers are coming to the bank and looking behind the pure definition and looking again to the quality of the relationship is important.

>>Larry Lanie

One of the recommendations, I guess, we would like to put on the table and that's unique probably to us and maybe to the other institution that I mentioned is that we qualify on our deposits that we get referred from our folks around the country, we qualify under the affinity group exception, you know, virtually everything that is in that exception we qualify for. However, we would ask that you consider amending the affinity exception under which the bank fully qualifies to eliminate compensation as a factor.

Our folks get very, very small compensation, a fraction of the compensation. It's really proven to be very complicated and for us to eliminate that from the way we compensate our endorsing organizations and so we would ask you to take a look at that and, frankly, look at the nature of our deposits. Our average checking account is $5500, consumer account. Average money market account is $19,000 to $20,000. Average CD is $28,000 in average balance. So these are small, small accounts. Our money markets have over 85 percent retention rate. Our CDs have a high renewal rate. We would suggest look at the nature of the deposit. So that would be our request.

>>Chris Whalen

Could I mention one more thing? As you guys go forward, I think you have to take Home Loan Bank advances, to go back to some of the comments, and treat them the same as other funding. If you look at the period just before the crisis when the street firms were outbidding Fannie and Freddie for conforming collateral, where was the growth in balance sheets and funding? Home Loan Bank advances. In our system, if you go above 15 percent, you get a red flag. And there were an awful lot of institutions that came very close to failing that have since been able to collapse down their Home Loan Bank funding in large part with the encouragement of supervisory personnel. But it's very clear to me talking to people in the channel that these are just as risky and just as problematic from a supervisory perspective and other types of purchase funds. Remember the collateralization requirements for Home Loan Bank advances are very high. It's very expensive money. So when you see banks grow in advances, that's a red flag. It's a glaring red flag.

>>Randy Dennis

I might add going along with what Ken said and Christopher's comments, when a bank finds itself in a penalty box and having some difficulties with their loving regulators, then the Federal Home Loan Bank is the first to shut off the spigot. I mean they shut them down very, very quickly. And then, secondly, sorry, CDARS, number 2, right? Right after the Federal Home Loan Bank. And then brokers are the third. And God bless the QwickRate folks. They at least are a source of liquidity. [Laughter]

So, but it is a problem. When banks find themselves struggling. It makes it go faster, it makes the problems be much more intense and problematic. So something needs to be done. I'm not disagreeing. I think Federal Home Loan Banks advances have created problems from too quick funding too.

>>Shawn O’Brien

From QwickRate’s point of view, we would suggest that the definition stay the same. I think here today again we have not -- [Laughter]

In all honesty, there's no agreement on what's core and what's not brokered. We certainly served a role for banks that were having issues. We provided a contingency source of liquidity for them. I'm not going to apologize for that. Secondly, the point here whether it’s Home Loan Bank advances, whether it's brokered, the problem seems to arise when the bank sees a perceived, an attractive or highlighted source of funding, they over concentrate on it. And then when there's trouble, they have no place to react to. So banks should be actively manage liquidity to include multiple sources of funding, not over concentrated or not be allowed to over concentrate in any. And it seems to me you don't want to take away funding sources from smaller banks because water's going find the drain. Right? So for instance to CDARS point, right now there was a first movers advantage with CDARS in a community. If you were the first bank to have CDARS in your market, you had something that another bank didn't. Once it becomes a commodity and everybody has it, I find it hard to believe that rate won't become a differentiating factor. Sure relationship will be important. But there's going to be something that will come back to rate. Because now the perception is that it is a better deposit. So banks will employ people to go out and seek those types of larger, highly more concentrated deposits. And a smaller bank is going to be more vulnerable to a mid size or a larger bank who needs that deposit in their community but now this same product can be offered by a larger bank. They're going to be vulnerable to losing that particular deposit. So they don't have multiple funding sources in place, their liquidity risk goes up.

>>Randy Dennis

I would make one suggestion on your question 5, having to do with reporting. And I'm not for more reporting except that one of the great things that DRR does in a troubled bank is they list marketplace deposits, Internet deposits. And that's one of the first things we look at to see what level of their deposits, obviously not brokered. But what are Internet deposits? And that would be a helpful number in looking at the value of a bank.

>>Shawn O’Brien

And just to follow-up a little bit sometimes why we ended up in the autopsy is quite frankly, because we were the only source of liquidity available to them. It didn't mean that we were there when the problems arose. I think it's an important distinction to recognize that we did play a critical role for banks that had no other sources. But in many instances, we were not there when the problems arose.

>>Chris Whalen

Congress has mandated risk-based measures. I can currently look at a bank's assets and grind a gross yield. That spread tells me what business that bank is in. If they're above 800 basis points in gross yield then they're in the subprime world. And there are credit card issuers and others that are twice that. We need the same price information on liabilities, going to the point on disclosure. Then I can look at both sides of the house. But if you don't give the public and the analytics community and the supervisory community that data, then they can't do their jobs.

>>Jeffrey Zage

If I may, I, too, believe that this should really be characteristic-driven and not definition-driven. And I just bring -- I brought two pieces of paper with me that I think kind of bring everything to light here. Google, this Internet site that people use from time to time. [Laughter]

And I typed in high CD rates. And up came 15 banks that are paying three times the rate in which we are offering in our market base. None of you are here.

[Laughter]

But these are considered core, though. And so the concept of core here, stable core, unstable brokered, how stable really are these? And aren't these just interest rate-driven deposits? And to go further to your point about characteristic-driven, there is an article in the Wall Street Journal in the beginning of March, and Joe the plumber became very popular during the election, well this is Scott from Marblehead. And he's a retiree in Swampscott, Massachusetts and he goes on to say, CD rates are starting to tick up and what should he do? And what type of strategy should he employ? And he talks about buying five and ten-year CDs specifically looking at the early withdrawal penalty because he's out when rates go up. And he goes on to say how it's a much more effective strategy than just rolling over a 90-day CD. The data that we have provided over the years, I feel very strongly that we offer cost-effective funds, funds outside of local markets. They are longer in duration. They provide deposits that have no provision for early withdrawal penalty. And to give you a little data. I don't know if this would be interesting to anybody, but the deposits that we gathered for our institutional customers last year, 69 percent of them were of a duration of one year and longer. And of that, 55 percent was greater than one year. So the people that run the funding departments of these banks have an unenviable task of balancing very short-term liabilities with longer-term assets, taking away any funding tool, whether it's brokered, Internet, what have you, that gives them the ability to manage that risk better because of a definition and not its characteristic I think is a misjustice.

>>David Hayes

I agree with the characteristic look. All of us have survived or are surviving through the meltdown that's occurred. And the issues that have put in our customers' minds, whether you're Bank of America or a local community bank, we've all had to deal with that issue from our customer. But I think that the challenge that the regulatory authorities have is one of balance. While I may disagree with some people around this room relative to how they acquire deposits, I recognize when my regulator comes in to look at me, they're looking at our bank, looking at how we're dealing in our community, and what the results are in our community. So I think when you go and acquire deposits out of market, are those being deployed back to your local market to its benefit, or are they just pumping up the ability to end up growing an institution without real benefit? I'm forced to work for a family-owned bank. It's not mine, but I learned one thing: Capital is king. And at the end of the day, that's the most important thing in our organization is to grow the capital account, keep the loan losses down and keep our operating efficiency in place. But the challenge I see -- and I take your Google comment. My grandson who's 8 says you don't need to read all this stuff. You can Google anything. Google will tell you anything. So I really worry about as these young people who are totally tech-dependent buy all their product online and not know what's behind it. And that's a real challenge that we bankers have is: How do we keep in front of those customers that understand that that technology's a tool but it's not always a good tool on the other side because you really don't know that human being and that relationship and what the benefit is. So the balancing act is the challenge. Definitions are easy. But unfortunately when they become to be enforced back on the local bank, it's awful tough to say that Security Bank is the same as Bank of America or the same as the Farm Bureau Bank because I live and die what happens in Dyersburg.

>>Kim Saunders

And that is where the examination guidance and all of the principles that you have set forth in terms of how we ought to manage our banks from an asset liability perspective, from a liquidity perspective, from a contingency funding perspective, from a capital stress testing perspective get applied is when you come into that institution and you look at how the board and management are governing and managing the risk that really will make the difference and actually determine the risk profile. And you have excellent guidelines. And they have nothing to do, really, with definitions.

>>William Isaac

I think that there are two different topics here. One of them got discussed very thoroughly and one of them didn't get discussed at all, or barely discussed. The one that has been discussed thoroughly is -- and I tend to agree with those who say that the definitions are part of the problem. Not necessarily part of the solution. Because anything we do definitions, people find ways around definitions. And it's a never-ending cycle. I generally found that regulators can't keep up with the lawyers.

[Laughter]

>>Undetermined participant

Here here. [Laughter]

>>William Isaac

I mean when I testified back in '84 and '85 you'll see in one of the testimonies I was fairly irreverent, surprise. And I said if you can't give us better legislation than the Senate just did -- and I think the Senate was passing something like what they ultimately did five years later -- close the door after the horses are gone. And I said if you can't give us anything better than that, please don't do anything. Just stay out of our way. Because we're on top of this problem from a regulatory standpoint. And don't put anything out there that's going to keep us from doing our job. The issue that has been thoroughly discussed here is how stable is the funding source in these banks? I mean right now, nine months ago I became the chairman of a large bank. And trust me, that's very much on people's minds when they're running banks. Is we're making a bunch of commitments. And on the asset side and we've got to make sure that if something goes wrong, we've got the funding to keep those commitments going. And I was telling I think one of the people around this table just before we walked in here that back in the 1980s, the real Bank of America, back in California -- [Laughter]

>>William Isaac

Sorry. But it was the real one. [Laughter]

>>William Isaac

It's from what it came. The first Bank of America. And it was in deep, deep trouble.

And I felt certain it was going to fail. I really did. I thought it was gone. And it was in worse shape than Continental Illinois by most measures. It made it. And the reason it made it is it had a very large stable funding base. It had branches all over California, the FDIC-insured deposits. And they had the funding to get through a major crisis. And that's so important. And that is the issue. And I don't think -- I mean I think you can get funding from a lot of different places. Shouldn't be too much from any one direction. I think the pre-payment penalties, so that you know the funding is going to stay things like that, the FDIC insurance, those are really important. And then looking at where it's going on the asset side. Is the bank pumping up the balance sheet and putting a bunch of junk on or is it serving the community and really taking care of the business of the bank, which is to help people who are in business, who want to buy a new house. Is that what the bank's doing? Or are they just trying to become the biggest and fastest growing and get their PE pumped up and get their executives' compensation up and so forth? So I think all of that can be handled through a regulatory process. I really don't think that these definitions are all that useful for that. Prompt corrective action, I've never been a fan of that. You have to shut things down instead of letting people work out problems. Because a lot of these banks can be worked out when they're in trouble. And with the brokered funds things, you can't do that. You just shut them down. They're done. So I think all of those things, in my view, are counterproductive. I'd rather see the regulators use their good judgment, their good discretion and have -- you know, we know when banks are in trouble. It's when their growth rate is higher than their market. And we know that they're in trouble when they're getting extraordinary yield on assets that we can't explain. We know they're in trouble sometimes when there's a change of control or change of management. We ought to be all over those. Frequently they have been around 50 years, they haven't been in trouble, but there's change of ownership/management, now all of a sudden they're in trouble. We know what the warning signs are. All that has been very well discussed today. What hasn't been discussed today is the fact that this problem came up because we had a very coherent system of regulation of banks, whether you liked it or not, a very coherent system that came about during the Great Depression. We put -- we decided to limit the competition in banking in a lot of different ways. One of them was we dictated what banks could pay for deposits. And others, Glass-Steagal and banking restrictions, inter-state banking and all that, all of those have gone by the wayside. And those restrictions were accompanied buy a Federal Deposit Insurance Corporation system. And it scared people that we had deposit insurance because they felt it would bankrupt the country. But the counter to it was we're going to regulate banks very tightly. And, therefore, we can afford to provide the guarantee to the depositors, to the relatively small depositors, so that the deposit insurance system doesn't become exceedingly costly to taxpayers. That's the debate that occurred back then. Well because of technological changes and a whole lot of marketplace forces, all of those restrictions on banks are gone. And including the restriction on what you can pay for your deposits. And the question is: Can we afford deposit insurance without -- without any restrictions? And we've got a lot of aggregators out there now that are taking the deposit insurance limit well beyond $250,000 to millions and billions. Can we afford it? And if not, should we allow it? I don't think it's any -- I don't think it's a coincidence that we are getting more crises, more regularly, in this current environment than we used to have. We went 50 years basically without any major -- 40 years without major problems. And now they're happening boom, boom, every five, ten, 15 years. That's what I hope we can talk about, when you consider things. Is the system coherent anymore? Or do we need to really do something to change it in a fundamental way? I happen to think it's the latter, we need some fundamental changes. But I really thank everybody for participating and I thank the board for allowing me to be here. This is good stuff and I'm happy to be here.

>>Randy Dennis

Can I make one comment about that? I'm sorry. Real quick. We're involved in a bank closure right after back in '08 after we had a major problem in California, a lot of fear of depositors and that sort of thing. But I will say deposit insurance calms a lot of Americans' fears. It is amazing the soothing effect, the calming effect it does have. And that sort of judgment involved and the rules, regulations, what have you. We would have been a real mess right now had we not had deposit insurance and we closed 200-300 banks and yet people still aren't scared and running for the hills with their deposits. It’s confidence in the deposit system.

>>Chris Whalen

Yeah but every time we provide government support in our marketplace we weaken the banking industry. When we created the Federal Reserve system we undermined the Clearing House System. When we created Federal Deposit Insurance we undermined risk management and institutions by taking the onus off directors who used to have double liability for the shares in the bank and would have to produce cash to support the institutions in times of crisis. So, yeah, everybody feels great. But the fact is we have a population of consumers who are incapable of discerning risk. I go online to Schwab. They present me with CDs with QUSIP numbers on them. And I pick one and I push the button and I have just deposited money in a bank. I have no idea where that institution is. I will never speak to anyone who works for that bank. That's the reality of the market place.

>>Mindy West - FDIC

I wanted to build on something that Randy had mentioned. And I actually wanted to ask our deposit broker and our CDARs person, there has been some talk that there's this cutoff effect that's in the statute when a bank becomes less than well capitalized. If that didn't exist, how would you determine when you would place your funds and when you would pull your funds?

>>Mark Jacobsen

I'll take a first crack at it with CDARS. We don’t -- the bank is making a decision with its customer. We have participation limits across-the-board.

>>Mindy West - FDIC

I guess that's what I was referring to. I think you have ratings or something.

>>Mark Jacobsen

Yeah. We have participation limits. However, there's one aspect of those participation limits. Once a bank reaches a certain rating, we do not have access to the information, you do, CAMELS rating, but we have a LACE rating which is somewhat equivalent. Once an institution reaches a certain rating, they're capped. But they can hold those reciprocal deposits. That's what we were referring to, until you say they can't. And we will never interfere. So we never actively withdraw or force them not to roll over or whatever it might be the reciprocal deposits. But we do place a cap on them so they can't grow when the condition reaches a certain point.

>>Mindy West

That would be according to your internal rating?

>>Mark Jacobsen

That's right. And we try to seek as much feedback as we can from the community as to what those ratings should be.

>>Jeffrey Zage

I would add we rely on the regulatory guidance in terms of what banks have access to our market. So from our point of view, the customer or the prospective depositor of the bank that is going to come in through our channel has the same profile of those who would just come into the lobby of the bank. They are those that look very heavily on the financial condition of the bank. There are those that as long as there's a gold eagle on the glass door, they will make a deposit with that bank. We provide the customer with the financial data to make that decision. And we allow them to do the due diligence. So from the broker dealer community, we provide all of the data, all of the financial information. And the consumer makes the decision. You would be interested. So whether if they're well-capitalized, they tap the market with unfettered access, correct? So if they're adequately capitalized, obviously they have to go and apply for a waiver and get a waiver granted. In those instances, which are few and far between, that they do in fact get a waiver, we have not had a problem funding a bank that has a waiver. So the only time the broker dealer truly -- the broker dealer community truly cuts off the bank is when they are from a regulatory standpoint not able to use the brokered market. I think that as a side note, it's interesting that the cost of funds for a bank, if they have breached from well-capitalized to adequately capitalized is generally not substantial. They can usually fund right on top of the well-capitalized banks. And the conditions in that given week or given month can drive costs where the band could be 10, 20 basis points more expensive. So we rely on you to regulate the bank and tell us, the market, who we should be giving access to. There are always cases of abuses in any funding strategy. But I think there are a bunch of honest, hard working bank employees that have good intentions. And they fund themselves properly and tap our market when their local markets don't afford them the ability for the deposits they're looking for.

>>Mark Jacobsen

Can I follow-up on that? I'm sorry.

>>Mark Jacobsen

May I follow-up on that point? We took a look at -- the use of participation criteria in terms of who can join and then when their participation is capped has been helpful for us. We recently took a look at all of the banks that have failed during this cycle and broke it into quintiles by the percentage of brokered deposits they had. And it's an interesting little chart, which some might be able to see, the last quintile of 65 institutions, the average amount of brokered deposits they had at the time of failure was about 44 percent. Promontory is presently responsible, for good or for ill, for placing about 20 percent of the brokered deposits. And we don't place it or make members place it. Of this group of institutions, which I think you'd clearly call the outliers, we're responsible for 0.6 percent. So you can avoid contributing to some of the outrageous behaviors with relatively simple policy.

>>Haluk Unal

I have a quick question. We hear there are different types of brokered deposits like CDARS and Internet and so on. What is the fee structure in different types of deposit structure? How is that constructed? Are they constant or do you charge different rates?

>>Jennifer Marre

Well, let me talk to a couple of those. First of all, they're not rich fee structures. The sweep structures are depending on whether you're talking to affiliated or unaffiliated banks are 20 to 35 basis points. The brokered CD rates are 30 percent -- 30 basis points on an annual basis. There's some play in that. So --

>>Jeffrey Zage

Our marketplace is very similar. Generally it's 25 basis points per annum. And to go to Mark's point in terms of the brokered deposits showing up at time of failure, one of what we think is a very positive attribute to our product in that it has no provision for early withdrawal also leaves our deposit there when the bank goes out of business. So if there is a sign of trouble or media grabs hold of a particular bank having an issue and local depositors start fleeing, our deposits, for good or for bad, stay there. And so in terms of the spike in the brokered deposits being there, time of failure, I would have to think that that is certainly contributory in that we provide a secondary market for the CD product. It stays there to maturity. And in the event that there is a failure, it's there.

>>Jennifer Marre

And I would note that that marketplace has changed tremendously from the days where there were three deposit brokers to 15. So those rates are pretty much the same across the deposit broker community. And again they're not huge.

>>CHAIRMAN SHEILA BAIR

So, well you've given us a lot to think about. I think maybe we need to have another round table. I think what we’ve got now clearly has its warts and weaknesses. And some of you think going with those maybe we should keep it the way it is, and others say we should replace it with something else. But it's not clear to me about what we could replace it with. And so it occurs to me that there are really three different ways where we can interface with this issue. One, where we have the most flexibility is how our examiners rate liquidity as part of the examination process. There's a lot of flexibility there. So continuing to think and evaluate about how that's approached is one. The second area is with our deposit insurance premiums where we also have a lot of discretion what we assess as high risk where we charge an additional premium. And I want and we haven't touched this today, maybe the next round table we could, but we already do try to create disincentives for rapid growth by using brokered deposits or secured liabilities. That's built in now. I sometimes wonder whether it's enough of a penalty. And if thinking on that would be helpful. And a third area we really don't which is governed by statute which is how brokered is defined and the restrictions on once you fall below adequately capitalized there's very little discretion. I can certainly think of individual cases where there's been a problem for the FDIC. So -- but it occurs to me that some of this discussion may differ depending on which tool we're talking about using. I'm very taken by looking more characteristics as you know pricing and duration in particular, whether there's withdraw penalties, however robust those are, the history of the performance of the deposits. I think I felt -- heard some conflicting things about Internet deposits. You say they're quite sticky. And you say we don't like to buy them. So I think maybe is it just Internet or something within the Internet construct where you could differentiate what's stable and what's not? So I think this has been tremendously helpful. I do think we need to have more discussion on it because the road forward is still not clear to me. But I think it's certainly given me, and I trust the board members, a lot to think about. As I said, we do take this study very seriously and may be reengaging with you on some of the issues. So good. Thank you very much.