

# Brokered and High Cost Deposits

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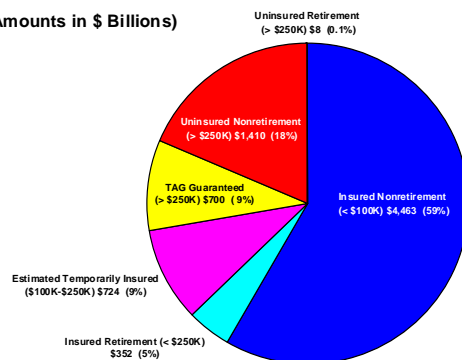
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FDIC

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## FDIC Coverage – Industry (3/31/09)

(Amounts in \$ Billions)

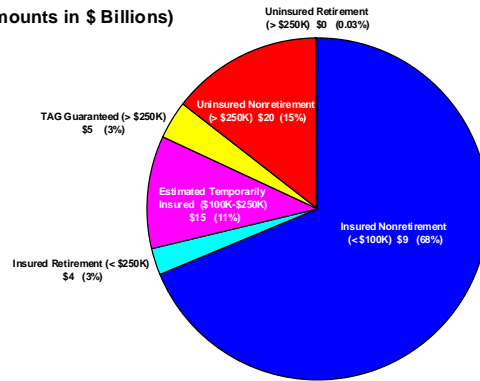


Total Assessable Deposits = \$7.7 Trillion  
Total Insured/Guaranteed = \$6.2 Trillion

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## FDIC Coverage at MDIs (3/31/09)

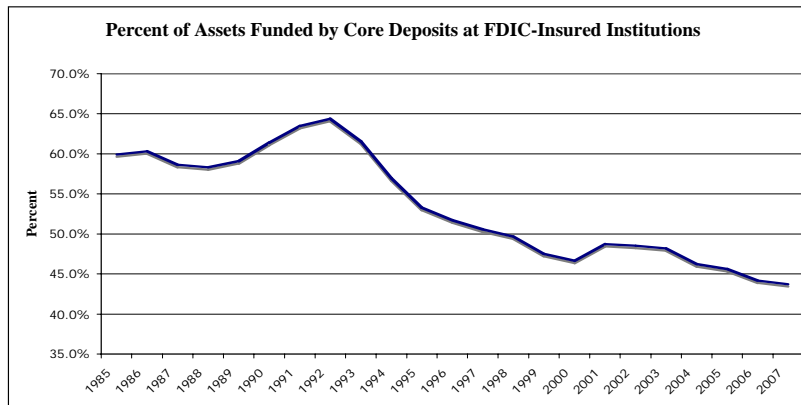
(Amounts in \$ Billions)



Total Assessable Deposits = \$138 Billion  
Total Insured/Guaranteed = \$118 Billion

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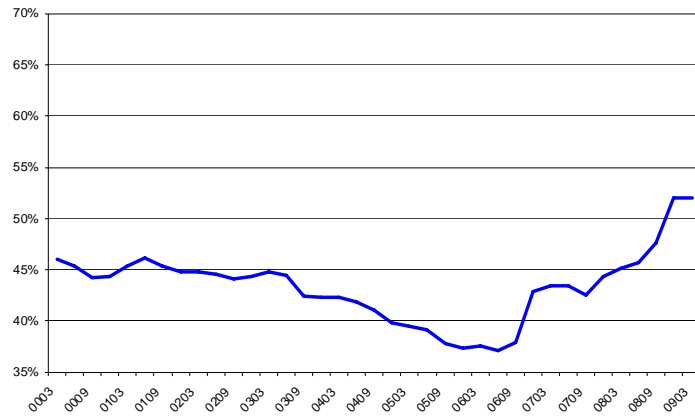
## Core Deposit Declines



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## Core Deposits at MDIs

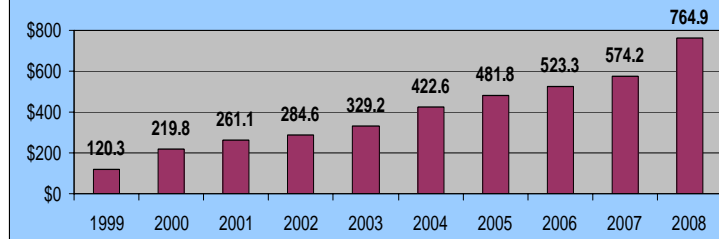
Percent of Assets Funded by Core Deposits at FDIC-Insured MDIs



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## Brokered Deposit Growth

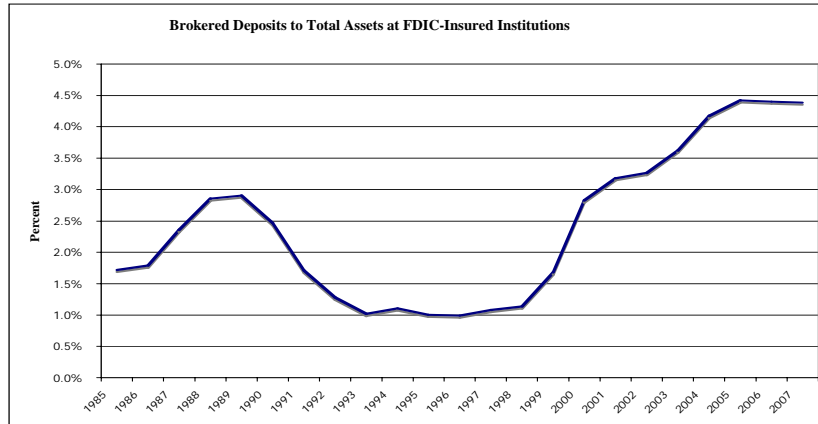
Brokered Deposits in FDIC-Insured Institutions  
1999-2008 (\$ in billions)



Source: FDIC Statistics on Banking

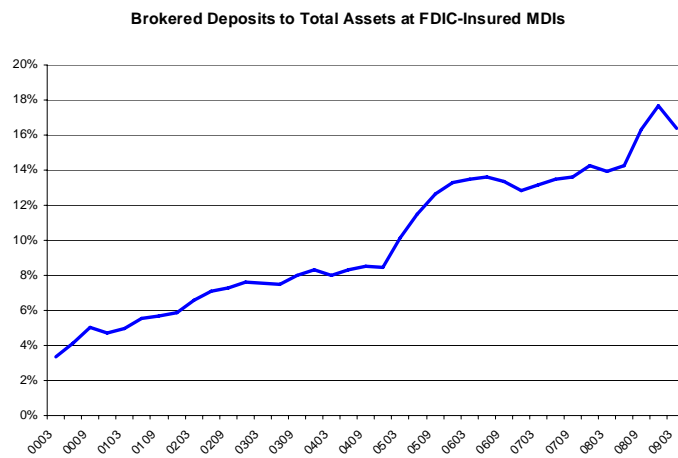
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## Brokered Deposit Growth



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## Brokered Deposit Growth



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## Brokered Deposit Definition

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- Any deposit that is obtained directly or indirectly, from or through a deposit broker.

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## Brokered Deposits: Benefits and Risks

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- **Benefit:**
  - > Allow institutions ready access to funding in national markets when deposit growth in the local market lags planned asset growth.

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## Brokered Deposits: Benefits and Risks (Continued)

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- Risks:
  - > BDs can result in asset growth faster than can be prudently managed by the institution.
  - > BDs can cost more than other funding sources leading institutions to pursue higher asset returns.

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## Background

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- An institution's ability to solicit and accept BDs is linked to the capital level as provided under regulations implementing section 38, Prompt Corrective Action.

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## Background

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- Well capitalized institutions may solicit and accept, renew, or roll over any BD without restriction, unless the institution is subject to certain supervisory directives, in which case, the institution is considered adequately capitalized.

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## Background

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- Institutions that are not well capitalized may not accept brokered deposits but the FDIC may approve waivers for adequately capitalized institutions.

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## Background

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- An adequately capitalized insured depository institution may not accept, renew, or roll over any BD unless it has applied for and been granted a waiver by the FDIC.

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## Background

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- An undercapitalized, significantly undercapitalized, or critically undercapitalized insured depository institution may not accept, renew, or roll over any BD.

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## Background

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- Less than well capitalized institutions may not pay interest rates that “significantly” exceed average rates in their “normal market area.”

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## Purpose of Interest Rate Restrictions

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- Prevent weak banks from evading the prohibition of accepting brokered deposits by offering high rates (without the assistance of a broker).

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## Adequately Capitalized with Waiver (Current Regulation)

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- May not “**significantly exceed**”: (1) rates in “**normal market area**” for deposits accepted in that area; and (2) “**national rate**” for deposits accepted outside that area.

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## Adequately Capitalized without Waiver (Current Regulation)

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- May not pay rates “**significantly higher**” than rates in “**normal market area**” for deposits accepted anywhere.

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## Undercapitalized (Current Regulation)

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- May not pay rates “**significantly higher**” than rates in: (1) “**normal market area**”; or (2) “**market area**” from which deposit is accepted.

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## Significantly Exceeds

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- Defined as being higher by more than 75 basis points.
- Definition does not change.

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## Normal Market Area

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- Not defined, but “**market area**” means a “readily defined geographical area in which the rates offered by any one insured depository institution soliciting deposits in that area may affect the rates offered by other insured depository institutions operating in the same area.”

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## National Rate (Current Definition)

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- Is defined as “(1) 120 percent of the current yield on similar maturity U.S. Treasury obligations; or (2) In the case of any deposit at least half of which is uninsured, 130 percent of such applicable yield.”

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## Less than Well Capitalized Banks Paying High Rates

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- We found some less than well capitalized banks paying close to 200 basis points more for a CD compared with its local market.

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## Overview of Changes to 337.6

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- Recognizes that competition for deposit pricing has become more national in scope and ambiguity in determining normal market area has led in some cases to higher rates paid by problem banks, driving up rates for the industry.
- Addresses problems using “national rate” as currently defined. “National rates” are compressed due to their direct linkage to US Treasury securities.

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## Final Rule

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- Changes effective January 1, 2010 but the FDIC does not object to the immediate use of the newly defined national rate by an insured depository institution.

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## Changes to Regulation

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- Redefines the “national rate” as a simple average of rates paid by all insured depository institutions and branches for which data are available.
- Decoupling the definition of national rate from the Treasury yield curve allows the rate cap to be calculated in a way that prevents the payment of rates that significantly exceed prevailing national rates, but would allow depository institutions to pay the prevailing national rates.

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## Changes to Regulation (Continued)

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- Specifies that the prevailing rate in all market areas is deemed to be the national rate as defined by the FDIC.
- If a depository institution wishes to make the case that it is operating in a higher than average cost market, it would need to present the evidence to the FDIC which would review and make the determination on a case-by-case basis.

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## FDIC's External Web site

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- For the convenience of bankers and examiners, we would monitor prevailing interest rates based on various maturities and post the resulting rate averages weekly on FDIC's external Web site.
- These averages would now be used to define the national rate.
- The FDIC would not object to the immediate use of the posted national rates and rate caps by insured depository institutions that are not well capitalized, although such use will not be mandatory.

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Weekly National Rates and Rate Caps - Windows Internet Explorer

http://www.fdic.gov/regulations/resources/rates/index.html

FDIC: Weekly National Rates and Rate Caps

Federal Deposit Insurance Corporation

FDIC 75th Anniversary

Deposit Insurance Consumer Protection Industry Analysis Regulations & Examinations Asset Sales News & Events About FDIC

Regulation & Examinations > Resources > Weekly National Rates and Rate Caps

### Weekly National Rates and Rate Caps

On May 29, 2009, the FDIC Board of Directors approved a [final rule](#) making certain revisions to the interest rate restrictions applicable to less than well capitalized institutions under Part 337.6 of the FDIC Rules and Regulations. The final rule redefined the "national rate" as a simple average of rates paid by U.S. depository institutions as calculated by the FDIC. Although the final rule is not effective until January 1, 2010, the FDIC does not object to the immediate use of the newly defined national rate by an insured depository institution. The national rates and rate caps for various deposit maturities and sizes are listed below.

For more information, see Financial Institution Letter [FIL-25-2009](#).

**Jumbo Deposits (< \$100,000)**

Last updated June 15, 2009

Deposit Products	National Rate <sup>1</sup>	Rate Cap <sup>2</sup>
Money Market	.21	.96
Interest Checking	.14	.89
Money Market	.44	1.19
12 Month CD	.25	1.00
24 Month CD	.63	1.38

## What is CDARS?

- Certificate of Deposit Account Registry Service
- Brokered deposit program offered by Promontory Interfinancial Network, LLC.
- Like any other funding source, examiners should review a bank's use of CDARS and determine if it's consistent with management's funding strategy.



## Deposit Listing Service vs. Deposit Broker

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- **Deposit Listing Service:** a company that compiles information about the interest rates offered on CDs by insured depository institutions.
- **Deposit Broker:** any person engaged in the business of placing deposits, or facilitating the placement of deposits of third parties with insured depository institutions.

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## Deposit Listing Service vs. Deposit Broker (Continued)

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- In other words, a deposit listing service is a compiler of information about deposits whereas a deposit broker is a facilitator in the placement of deposits.

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## Deposit Listing Service vs. Deposit Broker (Continued)

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- A particular company could be a deposit listing service as well as a deposit broker.

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## Deposit Listing Service vs. Deposit Broker (Continued)

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- A deposit listing service is not a deposit broker if all of the following four criteria are met:

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## Deposit Listing Service vs. Deposit Broker (Continued)

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- 1. The person or entity providing the listing service is compensated solely by means of subscription fees.
- 2. The fees paid by depository institutions are flat fees.

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## Deposit Listing Service vs. Deposit Broker (Continued)

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- 3. In exchange for these fees, the listing service performs no services except (A) the gathering and transmission of information concerning the availability of deposits; and/or the transmission of messages between depositors and depository institutions.

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## Deposit Listing Service vs. Deposit Broker (Continued)

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- 4. The listing service is not involved in the placing of deposits.

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## Brokered Deposits and Assessments

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- Rapid growth funded by brokered deposits is associated with higher bank failure rates and higher loss given failure.
- To reflect this, the FDIC made changes to its risk based assessment system beginning with second quarter 2009.

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## Brokered Deposits and Assessments (Continued)

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- For institutions in Risk Category I
  - Supervisory rating of 1 or 2 (generally)
  - Well-capitalized for purposes of PCA
- New ratio introduced in the financial ratios used to calculate assessment
  - Institutions whose brokered deposits are more than 10 percent of domestic deposits AND
  - Total assets are more than 40 percent greater than 4 years previously

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## Brokered Deposits and Assessments (Continued)

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- Institutions in Risk Category I can exclude certain deposits placed through a deposit placement service on a reciprocal basis from the brokered deposit ratio.

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## Brokered Deposits and Assessments (Continued)

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- For institutions in Risk Category II, III, IV
  - Adjustment for brokered deposits exceeding 10 percent of domestic deposits.
  - Adjustment is 25 basis points times the difference between percentage of domestic deposits that are brokered and 10 percent of domestic deposits
  - Increase not to exceed 10 basis points

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## Brokered Deposits and Assessments (Continued)

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- For institutions in Risk Category II, III, IV
  - This adjustment applies regardless of asset growth rates
  - Reciprocal brokered deposits are not excluded for institutions in these risk categories.

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## Secured Liabilities Adjustment

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- In general, substituting secured liabilities for unsecured liabilities raises the FDIC's loss in the event of failure without providing increased assessment revenue.

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## Secured Liabilities Adjustment

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- Assessment rates are increased for institutions with a significant amounts of secured liabilities.
- Secured liabilities generally include Federal Home Loan Bank advances, repurchase agreements, secured Federal Funds purchased, and other secured borrowings.

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## Secured Liabilities Adjustment

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- An institution's base assessment rate (after taking into account previous adjustments) will be multiplied by the ratio of its secured liabilities to domestic deposits minus 0.25
- The increase cannot be more than 50%.

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Questions?

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