



# NEWS RELEASE

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## FDIC SEEKS PUBLIC COMMENT ON BROKERED DEPOSIT RECORDKEEPING RULES

The Board of Directors of the Federal Deposit Insurance Corporation today unanimously approved the release for public comment of a proposal to amend the rules regarding records banks must keep of the ownership of brokered deposits. The changes are designed to make it easier to determine the insurance status of such deposits. Comments will be accepted for 30 days following publication in The Federal Register.

Under the proposed regulation, bank records would have to reflect the relationship between the owner of a deposit and that depositor's agent. The new rules would enable the FDIC to:

- . more accurately assess its insurance exposure to insured banks using brokered deposits;
- . shorten the delay in determining the validity of insurance claims on such accounts and thus speed the entire insurance settlement process;
- . assess more accurately and quickly the viable alternatives in a failing bank situation; and
- . prevent fraud and abuse designed to increase insurance coverage.

Data collected by the FDIC have established a clear correlation between brokered deposits and problem banks. Between 1982 and mid-1985, 80 of the FDIC-insured banks that failed held over \$1 billion in fully insured brokered deposits. In two cases, brokered funds represented more than 75 percent of the closed bank's deposits. A recently completed survey of FDIC-insured banks

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and thrifts holding fully insured brokered deposits in excess of five percent of their deposits revealed \$2.3 billion of such funds in more than 70 institutions. Insured banks can readily obtain substantial amounts of brokered deposits, thereby acquiring the ability to alter radically the character of a bank's investments and the risk the bank poses to the FDIC insurance fund.

The precise amount of risk to the insurance fund is not always apparent because of the varying nature of the brokerage arrangements. In many instances, brokers obtain large denomination certificates of deposit in bearer form or as agents or nominees for their client investors. In these cases, it is impossible to determine the extent of deposit insurance coverage, and hence the risk to the insurance fund, based on the records of the bank, since the beneficial ownership of these deposits is revealed only in the records of the broker. A recent survey estimates that up to two-thirds of all fully insured brokered deposits may be held in this manner.

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Attachments

Distribution: All Insured Banks