

FOR IMMEDIATE RELEASE

JANUARY 16, 1984

FHLBB AND FDIC JOINTLY PROPOSE  
LIMITING INSURANCE OF BROKERED DEPOSITS

The Federal Home Loan Bank Board (FHLBB) and the Federal Deposit Insurance Corporation (FDIC) today requested comment on a proposed regulation that would impose a maximum of \$100,000 insurance coverage per insured bank or savings association for the total deposits placed by or through a single deposit broker.

Comments on the joint proposed regulation must be submitted to either agency within 45 days of its publication in the Federal Register.

The proposed rule, if adopted, would not be effective until October 1, 1984. It would apply to basic brokering programs, certificate-of-deposit participation programs, deposit listing services and other brokerage-type transactions.

On November 1, 1983, the agencies jointly issued an advance notice of proposed rulemaking soliciting comments on the brokering of deposits in institutions insured by the FDIC and the Federal Savings and Loan Insurance Corporation, an operating arm of the FHLBB. The agencies' advance notice expressed the following concerns about deposit brokerage practices:

- they enable institutions to attract large volumes of funds from outside their natural market areas irrespective of their financial and managerial characteristics;
- the ability to obtain de facto 100 percent insurance through the parcelling of funds eliminates the need for the depositor to analyze an institution's likelihood of continued financial viability;
- the availability of brokered funds, irrespective of financial and managerial soundness, reduces market discipline; and
- brokered funds can artificially extend the life of a poorly managed institution, resulting in increased costs to the FDIC or the FSLIC when market forces finally cause its failure.

The agencies received 241 sets of comments in response to their advance notice of proposed rulemaking, most from financial institutions, brokers and trade groups. Suggestions ranged from outright prohibition on the acceptance of brokered funds by institutions to opposition to any restrictions on brokerage activity.

In analyzing data on brokered deposits, the agencies determined that a significantly greater proportion of troubled institutions use brokered deposits than non-problem institutions. Moreover, the 72 commercial banks that failed between February 1982 and mid-October 1983 had substantial levels of brokered deposits, in some cases more than 60 percent of total deposits.

The agencies concluded that "deposit brokerage has a sufficiently adverse effect upon the depository institutions industry to warrant remedial regulatory action." They decided to address the problem in this specific rulemaking procedure by recommending the limiting of insurance for brokered deposits, rather than taking alternative regulatory action through increased monitoring and regulation of brokerage activity at FSLIC- and FDIC-insured institutions.

The agencies also determined that a blanket prohibition on the use of brokered deposits would be unduly restrictive and would totally eliminate the benefits to insured institutions of brokered deposits. "Limiting the insurance coverage of brokered deposits would not defeat the liquidity benefits of brokered deposits for well-run institutions," the agencies said. "Such brokered deposits would still be obtainable, but without a 'federal guaranty.' Investment decisions would be made on the strength or weakness of the involved depository institutions, and not on the federal insurance guaranty of the deposit."

A copy of the agencies' proposed rule is attached.

# # # #

Distribution: All Insured Banks