



PRESS RELEASE

Federal Deposit Insurance Corporation

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FDIC WARNS BANKERS ABOUT DEPOSIT BROKER

FOR IMMEDIATE RELEASE

The Federal Deposit Insurance Corporation (FDIC) today sent bankers an alert about potential problems identified in brokered deposit arrangements with San Clemente Securities, Inc. (SCS), San Clemente, California.

In the arrangement, SCS sells a financial package marketed as a "reverse arbitrage." These instruments are long-term, zero-coupon certificates of deposit. The purchase of these investments may be tied to an offer to the bank to receive short-term, below-market-rate deposits from SCS. There may be substantial undisclosed broker's fees that are taken from the zero-coupon certificates. In certain instances, the banks holding the zero-coupon certificates may believe that the deposits are institutional deposits of a custodial company and not brokered deposits of another bank.

The so-called "reverse arbitrage" products offered by SCS may raise safety and soundness concerns at individual banks.

For attachments

- Attachment: Deposit Broker Alert



Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

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