FDIC FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

FOR IMMEDIATE RELEASE PR-80-92 (5-20-92)

FDIC ISSUES NEW RULES LIMITING BROKERED DEPOSITS, CERTAIN INTEREST RATES

The FDIC Board of Directors today approved a final rule implementing new statutory restrictions on the taking of brokered deposits by FDIC-insured banks and thrifts as well as on the interest rates that certain institutions can pay on brokered deposits and other funds.

Under previous law, undercapitalized institutions were prohibited from accepting brokered deposits unless they received a waiver from the FDIC. All other institutions could accept brokered deposits without restrictions. However, the FDIC Improvement Act of 1991 enacted last December further restricts the acceptance of brokered funds and mandates certain interest rate limits, effective June 16, 1992.

The FDIC Board today issued key definitions used in the statute to determine whether the new limitations apply. To meet the deadline imposed by the law, the final rule will go into effect June 16 but the Board agreed to continue soliciting public comments and to consider revisions to the definitions if appropriate. Under the final rule:

o A "well-capitalized" institution must meet three tests: (1) a ratio of total capital to risk-weighted assets of at least 10 percent, of which 60 percent must be comprised of "Tier 1" capital (i.e., "core capital"); (2) a leverage ratio of "Tier 1" capital to total book assets of at least five percent; and (3) the institution cannot be in a "troubled" condition as defined by its primary federal regulator. Institutions meeting this composite definition of "well-capitalized" could accept brokered deposits without limit and would not be subject to interest rate restrictions.

-more-

FEDERAL DEPOSIT INSURANCE CORPORATION, 550 Seventeenth St., N.W., Washington, D.C. 20429 • 202-898-6996

The FDIC estimates that about 8,900 banks and nearly 1,200 thrifts will be considered well-capitalized when the rule goes into effect.

o An "adequately capitalized" institution meets neither the definition of "well-capitalized" nor the definition of "undercapitalized." In general, these institutions are at or above the minimum levels of required capital but are not classified as well-capitalized. An adequately capitalized institution can accept brokered deposits if it first obtains a waiver from the FDIC. The final regulation also provides a 60-day transition period for adequately capitalized institutions that apply to the FDIC.

As required by statute, an adequately capitalized institution also will be subject to interest rate restrictions on all deposits, not just those obtained through third-party money brokers.

The FDIC estimates that approximately 3,000 commercial banks and nearly 600 thrifts will be considered adequately capitalized when the rules go into effect.

o An "undercapitalized" institution is one that fails to meet its minimum regulatory capital requirements. Such institutions will be prohibited from accepting brokered deposits. Undercapitalized institutions that previously received a waiver from the FDIC to accept brokered deposits are prohibited from accepting, renewing or rolling over brokered funds as of June 16. Additionally, as required by the law, undercapitalized institutions also will be subject to interest rate limits on the deposits they solicit directly from the public.

The FDIC estimates that approximately 400 banks and 325 thrifts will be considered undercapitalized when the rule takes effect.

The federal bank and thrift regulators are continuing to discuss capital definitions in connection with rules that still must be adopted to carry out the prompt regulatory action provisions of the FDIC Improvement Act of 1991. Based on the outcome of that rulemaking, the FDIC Board will revise the definitions used in the brokered deposit regulation to make them consistent.

Also as specified in the law, deposit brokers who wish to place funds with insured institutions must register with the FDIC by sending a letter to the agency in Washington describing the history, nature and volume of its deposit brokerage operations, including the sources and placement of funds. In addition, brokers will be required to maintain records showing the volume of brokered deposits placed with insured institutions, including the maturities, rates and costs of those deposits. The FDIC can require any deposit broker to send quarterly reports to the agency.

# # #