



FEBRUARY 2010  
ISSUE #4



## General Market Funding

"General Market Funding (Brokered CD's) have become an increasingly integral part of Balance Sheet Management for the vast majority of our client banks. They currently represent an extremely low cost alternative to Local Market Funding, as our clients currently favor funding at the short end of the Curve.

We find that they not only represent low cost, reliable funds, available when and in what maturities we desire, but that with proper planning, appropriate Policy Statements, and robust analysis, they have also passed regulatory scrutiny. However, appropriate Policy Limits are absolutely essential to both proper management and passing muster with regulators.

Additionally, we have found that Finance 500's rates, general level of service, and attention to detail are the best that we have seen over the past 18-24 months."

— **J. Ronald Hybarger**  
*President, Hybarger & Associates, Inc.*  
*Dallas / Fort Worth, Texas*

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## Liquidity is The Name of The Game!

In today's financial marketplace, Liquidity is a huge topic. Many community banks are sitting on liquidity and need to find solid investments or loans for their money. Other banks are in need of liquidity due to local conditions or for the normal funding of their balance sheets. In either case liquidity is essential for all banks to compensate for expected and unexpected balance sheet fluctuations and to provide funds for growth where possible.

Because of this need, all banks should have a contingency Funding Plan (CFP). These plans are designed to prepare you in advance for unplanned events and to help clarify how a bank would obtain liquidity if a crisis should happen. These plans should include policies and procedures regarding how to access the wholesale brokered deposit market, if and when the need should arise. (It should be noted that as part of a CFP, a bank should evaluate certain "Stress Events" such as if the bank fell into an "adequately capitalized" status, which could restrict the use or access to the brokered deposit market).

This means that banks should have an established policy regarding brokered deposits even if they do not currently use such deposits. Demonstrating that an institution can actually go into the brokered CD market and issue a responsible amount of brokered deposits on an annual or quarterly basis may be essential in the future to prove that the bank can easily obtain liquidity from this market place. [In establishing a policy regarding the issuance and use of brokered deposits, a ratio of 10-20% of brokered deposits to outstanding domestic deposits is a fairly common de minimus formula to utilize.] Whether the institution uses this amount or not depends on the individual needs and requirements of that institution. Each institution must determine their own strategy.



# Brokered Deposits Are a Viable Source of Funding For Community Banks

In their Financial Institution Letter of August 2008, the FDIC commented as follows:

*"Although core deposits continue to be a key funding source, many institutions have experienced difficulty attracting core deposits and are increasingly looking to wholesale funding sources to satisfy funding and liabilities management needs. Wholesale funding sources include .....Brokered Deposits..... The use of wholesale funding, in and of itself, is not viewed negatively".*

During the recent real estate boom of 2005, there was expressed concern that brokered deposits may have been over-used by some weaker banks to support and sustain a more rapid expansion of their business. This issue became a legitimate concern for the FDIC. But the prudent use of brokered deposits within the context of a solid business plan, and not for the purpose of funding volatile rapid growth, is a viable model for corporate development.

And just to reiterate basic facts: The DTC Brokered-CD market is nearly 27 years old, with approximately \$300 billion booked on the call reports of banking institutions, thus making it a

"deep" market. Because these CD's are considered "Retail" CDs by virtue of being sold to the retail public through registered brokerage firms, liquidity is quite strong. And as always, deposits cannot leave the bank early because there is no early withdrawal or the possibility of a "run on the bank".

The FDIC's Financial Institutions Letter goes on to say this:

*"Well-capitalized banks are allowed to solicit and accept, renew, or rollover any brokered deposit without restriction....The acceptance of brokered deposits by well-capitalized institutions is subject to the same considerations and concerns applicable to any other type of special funding. These concerns relate to volume, availability, cost, volatility, and maturities and how the use of such special funding fits into the institution's overall liability and liquidity management plans. There should be no particular stigma attached to the acceptance of brokered deposits per se and the proper use of such deposits should not be discouraged."*

This statement makes it clear that brokered deposits continue to be a viable source of funding for community banks. We encourage our current and prospective clients to establish a written policy regarding brokered deposits, in order to demonstrate to the FDIC that they can easily gain access to liquidity should this become necessary, by issuing a responsible amount of brokered CD's on a regular basis (annually, quarterly, other). All banks need to be able to show the FDIC where they can go to access liquidity, and they should therefore consider setting aside a portion of their funding for DTC brokered deposits as part of their overall liquidity game plan. Naturally, Finance 500 will be happy to assist in this regard. For information about our "Broker Deposit Policy", please contact one of our Community Bank representatives; 800-477-6266.



## FDIC Telephone Seminar on "Brokered Deposit and Interest-Rate Restrictions"

On December 10th, 2009 the FDIC conducted a telephone seminar to answer some common questions regarding brokered deposits and interest rate restrictions for adequately-capitalized banks. If you were not able to listen in, here are some highlights.

Well-Capitalized banks do not need to receive permission to solicit and accept, renew, or rollover brokered deposits. However, adequately-capitalized banks, as well as well-capitalized banks that are under a formal enforcement action, do need to obtain a FDIC waiver, and they will also be subject to the interest-rate restrictions of section 337.6. (Note that FDIC waivers are not automatically granted. The FDIC evaluates applications on a case-by-case basis. Waiver applications are evaluated based on various safety measures including the institution's capital position, asset quality, liquidity levels and earnings performance. Institutions that do not have a viable plan for returning to well-capitalized status, or which are trending towards undercapitalization, are not likely to be granted a waiver.)

Institutions that fall into the two categories that do require a waiver, and who would like more information on applying for one, should go to the FDIC website at [www.FDIC.gov](http://www.FDIC.gov). This website also has information on the weekly posted "National Rates", as well as details on how a bank can apply for a "High-Rate Area" exemption. Note that FDIC waivers and interest-rate restrictions DO NOT apply to well-capitalized institutions.

Some other interesting points brought out in the seminar include the kinds of deposits that should be booked as "brokered deposits". All DTC eligible brokered CDs, as well as deposits obtained by CDARS, should be booked as brokered deposits, either on a reciprocal basis or through a one-way buy program. Sweep accounts are another deposit grouping included as brokered deposits (unless the bank requests and receives a primary purpose exemption from the FDIC). Interestingly, internet deposits may or may not be considered brokered

deposits. Banks need to ensure that they are aware of the source of funds and report the balances appropriately. In general a deposit listing service is not a broker if all of the following FDIC criteria are met: The service compensation consists only of subscription fees for gathering of rates. The listing service does not require an institution to pay for other services as a condition to being listed. Fees must be flat fees and not calculated on the basis of the number of accounts or volume of deposits.

The listing service performs no services except the gathering and transmission of information. Any funds to be invested are remitted directly by the depositor and not directly or indirectly by or through the listing service.

Lastly, the FDIC made these comments regarding brokered deposits; *"Examiners follow our Manual of Examination policies which says that the use of wholesale funding is not viewed negatively. However we will review a bank's use of brokered and other wholesale funding relative to its business plan, its overall risk profile, its capital category and its contingency planning activities."*

For a complete transcript of the phone seminar including the Q&A portion, please go to the FDIC website, or contact Finance 500 for a copy.

