UTAH CENTER FOR FINANCIAL SERVICES
THE UNIVERSITY OF UTAH
DAVID ECCLES SCHOOL OF BUSINESS

A CLOSER LOOK AT BROKERED DEPOSITS

ORIGINS

For decades banks followed a branch driven model with local customers providing core deposits. In the 1960's technological advances made electronic fund transfers (EFT) possible and with it the ability to move funds quickly, easily and at low cost. Subsequently, banks and investors have used brokered deposits to meet a variety of modern banking challenges and fuel banking innovations.

MISGUIDED REGULATIONS

In the 1980's brokered deposits were labeled by some as dangerous because of their use by troubled institutions for irresponsible asset growth. The FDIC in reaction to the situation placed misguided regulatory constraints on brokered deposits instead of dealing with the source of the problem, the inadequate management of the banks in question.

However, the FDIC itself said:

> "...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."

Brokered deposits are a proven safe reliable source of deposits for modern banking institutions. Unfortunately they are still viewed with skepticism and regulatory mistrust by the FDIC that applies one-size-fits-all rules to their use.

PERFORMANCE AND SAFETY

The Utah Center for Financial Services commissioned the most comprehensive review and analysis of brokered deposits that currently exists. Brokered deposits are the most stable and reliable deposits a bank can hold, because:

- Contracts prohibit early withdrawal without a penalty.
- Fifty-nine studies have shown **NO** direct causal relationship between failures and brokered deposits.
- They enjoy better efficiency ratios.
- They enjoy higher capital ratios.
- They can fund loans with deposits matched to the term and rate.

CORE DEPOSITS VS BROKERED DEPOSITS

CORE DEPOSITS	BROKERED DEPOSITS
• unmatched	• matched
• prone to bank runs	• bank run resistant
• expensive overhead costs	• inexpensive
• FDIC insured	• FDIC insured

HOW BROKERED DEPOSITS ARE USED

Despite their unfair regulatory treatment, brokered deposits are widely used in modern banking.

- They enable banks to operate under a variety of business models.
- They make it possible for smaller banks to compete with larger banks.
- They facilitate the transfer of funds from savings-rich areas to areas with unmet credit needs for individuals and businesses.
- They narrow the opportunity gap between institutional and individual investors.

MORE INFORMATION

This information is based on The Barth Report published by UCFS. For more information and to read the whole report please visit:

utahcenter.org

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WHAT WE WOULD LIKE TO SEE

The FDIC must re-examine its regulatory approach to brokered deposits. Brokered deposits have been incorrectly linked to troubled institutions and unfairly stigmatized. The FDIC should regulate how troubled banks use funding not misplace regulatory focus on the funding source. A redefinition of the regulatory rules for brokered deposits would allow the banking system to make full use of an important, safe, and effective funding source for individuals and businesses.