



# Raising Deposits

Western Independent Bankers

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# Role of Wholesale Funding

(12/31/01 – 12/31/06)

<u>(\$s in millions)</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Deposits	\$5,189	\$5,569	\$5,960	\$6,585	\$7,141	\$7825
Mutual Funds	\$6,970	\$6,391	\$7,414	\$8,107	\$8,906	\$10,414
Total Wholesale Funding	\$1,536	\$1,590	\$1,749	\$1,907	\$2,077	\$2,160
Total Assets	\$7,869	\$8,436	\$9,075	\$10,106	\$10,877	\$11,860
Wholesale Funding/ Total Assets	19.5%	18.8%	19.3%	18.9%	19.1%	18.2%



# Deposits Outside The Core

## Raising Deposits:

- Rate Boards
- Brokered Deposits
- IDC Deposits – Money Market
- CDARS – CDs



# Rate Boards

- ◆ A RATE Board can be considered a “non-brokered” option for raising funds outside your normal market place.
- ◆ Rate Boards provide a private website opened to institutional buyers and sellers of money.
- ◆ Rate Boards allow banks and thrifts to raise funds using the FDIC shield as opposed to having the sellers (investors) decide based on the credit quality of the buyer (issuer).



# Direct Non-Brokered CD's

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View Open:

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Time: 01/02/2007 03:48 PM EST

# Posting: 275

Page 1 of 14

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#	Institution	State	270 Dys	+ 1 Yr	1.5 Yrs	2 Yrs	2.5 Yrs	3 Yrs	7 Dys - 180 Dys
1	<input checked="" type="checkbox"/> <a href="#">First Choice Bank</a>	CA		<a href="#">5.510</a>					270 Dys - 3 Yrs
2	<input checked="" type="checkbox"/> <a href="#">Golden Security Bank</a>	CA	<a href="#">5.450</a>	<a href="#">5.450</a>					3.5 Yrs - SP Term
3	<input checked="" type="checkbox"/> <a href="#">Meridian Bank, NA/dba Margbank</a>	AZ	5.430	5.430					
4	<input checked="" type="checkbox"/> <a href="#">Cooperative Bank</a>	NC		5.410		5.200			
5	<input checked="" type="checkbox"/> <a href="#">The National Bank of Gainesville</a>	GA		<a href="#">5.400</a>					
6	<input checked="" type="checkbox"/> <a href="#">The Bank of Perry</a>	GA	<a href="#">5.310</a>	<a href="#">5.360</a>					
7	<input checked="" type="checkbox"/> <a href="#">Independent Bank</a>	TX		5.355					
8	<input checked="" type="checkbox"/> <a href="#">Independent Bank</a>	TX		<a href="#">5.354</a>					
9	<input checked="" type="checkbox"/> <a href="#">Alerus Financial, NA</a>	ND	<a href="#">5.353</a>	<a href="#">5.353</a>		<a href="#">5.153</a>		<a href="#">5.103</a>	
10	<input checked="" type="checkbox"/> <a href="#">Heritage Bank</a>	KY		5.351	1.600	1.600		1.750	
11	<input checked="" type="checkbox"/> <a href="#">Virginia Business Bank</a>	VA		<a href="#">5.350</a>	<a href="#">5.200</a>			<a href="#">5.100</a>	
12	<input checked="" type="checkbox"/> <a href="#">Metropolitan National Bank</a>	NY	<a href="#">5.350</a>	<a href="#">5.350</a>	<a href="#">5.150</a>	<a href="#">5.100</a>	<a href="#">5.050</a>	<a href="#">5.050</a>	
13	<input checked="" type="checkbox"/> <a href="#">Integrity Bank</a>	GA		<a href="#">5.350</a>					
14	<input checked="" type="checkbox"/> <a href="#">Citizens Bank of Washington County</a>	GA	4.450	5.350	5.180	5.120	4.920	4.000	
15	<input checked="" type="checkbox"/> <a href="#">DESERT HILLS BANK</a>	AZ		<a href="#">5.350</a>					
16	<input checked="" type="checkbox"/> <a href="#">CedarStone Bank</a>	TN	5.350	5.350	5.250	5.250	5.050	5.100	

Pages



# Issuer Benefits

- Raising funds is easy and efficient
- Non-brokered core deposits (time deposits <100k)
- CD's can be very stable
- No collateral requirements
- Use for on-time liquidity or pre-funding
- Reduce interest rate risk
- Open a virtual branch at a fraction of the cost of brick and mortar
- Prevent balance sheet re-pricing (cannibalization)



# Deposit Classification

The FDIC classifies a rate board as a “non-brokered deposit listing services” if the rate board meets the following criteria:

*Charge subscription fees only.*

*Fees not charged on number or dollar value of CDs placed.*

*Performs no services except gathering and transmission of information.*

*The listing service is not involved in placing deposit.*

Deposits obtained directly as a result of a bank listing rates on a rate board will be classified as non-brokered.

*“Time deposits less than \$100,000” on schedule RC-E of the call report.*

*Included in the UBPR calculation of cored deposits.*

*Does not effect your banks dependency on non-core funding liquidity ratios.*



# Brokered Deposits

The use of brokered deposits has been expanding during the past six years:

Year	Total Banks	Total Deposits
Dec 1999	1447	\$100 Bn
Dec 2000	1611	\$196 Bn
Dec 2001	1709	\$233 Bn
Dec 2002	1877	\$253 Bn
Dec 2003	2121	\$331 Bn
Dec 2004	2473	\$428 Bn
Dec 2005	2850	\$482 Bn
Dec 2006	3341	\$540 Bn



# Brokered Deposits

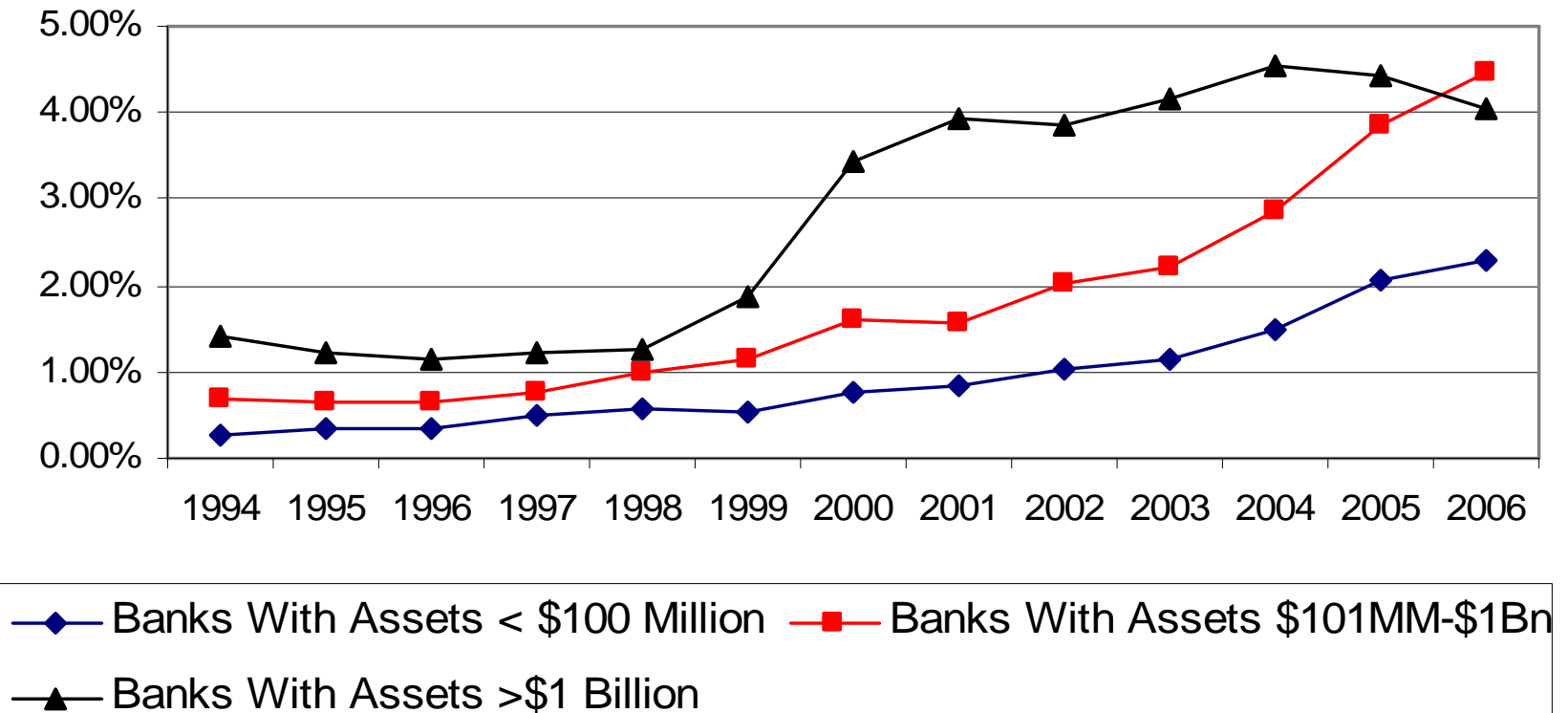
- ◆ Issuer looking for funding posts a rate and maturity with a deposit broker who then finds investors willing to provide this funding at that rate/maturity.
- ◆ Since the issuer provides the rate/maturity, the broker works on a “best efforts” basis and funding can take 7-10 days.
- ◆ Broker must have a source of investors who are looking for CDs and the CDs are typically brokered down into \$100,000 denominations.
- ◆ Concept created in the mid 1980’s by Merrill Lynch after receiving approval from FDIC for “pass through” of coverage.



# Regulatory Comments

- ◆ CFR Title 12 Section 337.6 permits the acquisition of brokered deposits by qualified FDIC insured institutions.
- ◆ FDIC Manual of Examination: “The acceptance of brokered deposits by well-capitalized institutions is subject to the same considerations and concerns applicable to other types of special funding. These concerns relate to volume, availability, and maturities, and how the use of such special funding fits into the overall liability and liquidity management plans. There should be no particular stigma attached to the acceptance *per se* and the proper use of such deposits should not be discouraged.

## Brokered Deposits as % of Total Assets





# Brokered Deposit Benefits

- ◆ No Disruption to the local market.
- ◆ No alienation of core depositors by calling attention to more attractive rates.
- ◆ No cannibalization.
- ◆ No pledging requirements.
- ◆ No Prepayment Issues.
- ◆ Longer Term/Callable CDs Potential.
- ◆ Use of one master CD offers operational efficiencies.
- ◆ Use of Intermediary provides one interest payment per period.



# Brokered Deposit Considerations

- ◆ The Issuer must be “well capitalized” – risk-based capital of at least 10%, a Tier 1 ratio of at least 6%, and a leverage ratio of 5%.
- ◆ If an issuer slips below the “well capitalized position into “adequately capitalized”, a waiver must be obtained from the FDIC. “Adequately capitalized” requires a risk-based capital ratio of at least 8%, a Tier 1 ratio of at least 4%, and leverage ratio of 4%.
- ◆ “Undercapitalized” institutions may not issue brokered deposits.



# Brokered Deposits

- ◆ Until 2003, banks and thrifts were dependent on third party brokers to access the benefits of the brokered deposit marketplace.
- ◆ In 2003, IDC Deposits and Promontory Interfinancial Network introduced concepts that placed banks in the role of “broker” providing their own depositors access to expanded FDIC insurance coverage.
- ◆ These services create new marketing opportunities for large depositors desiring complete FDIC insurance coverage on their total deposit.

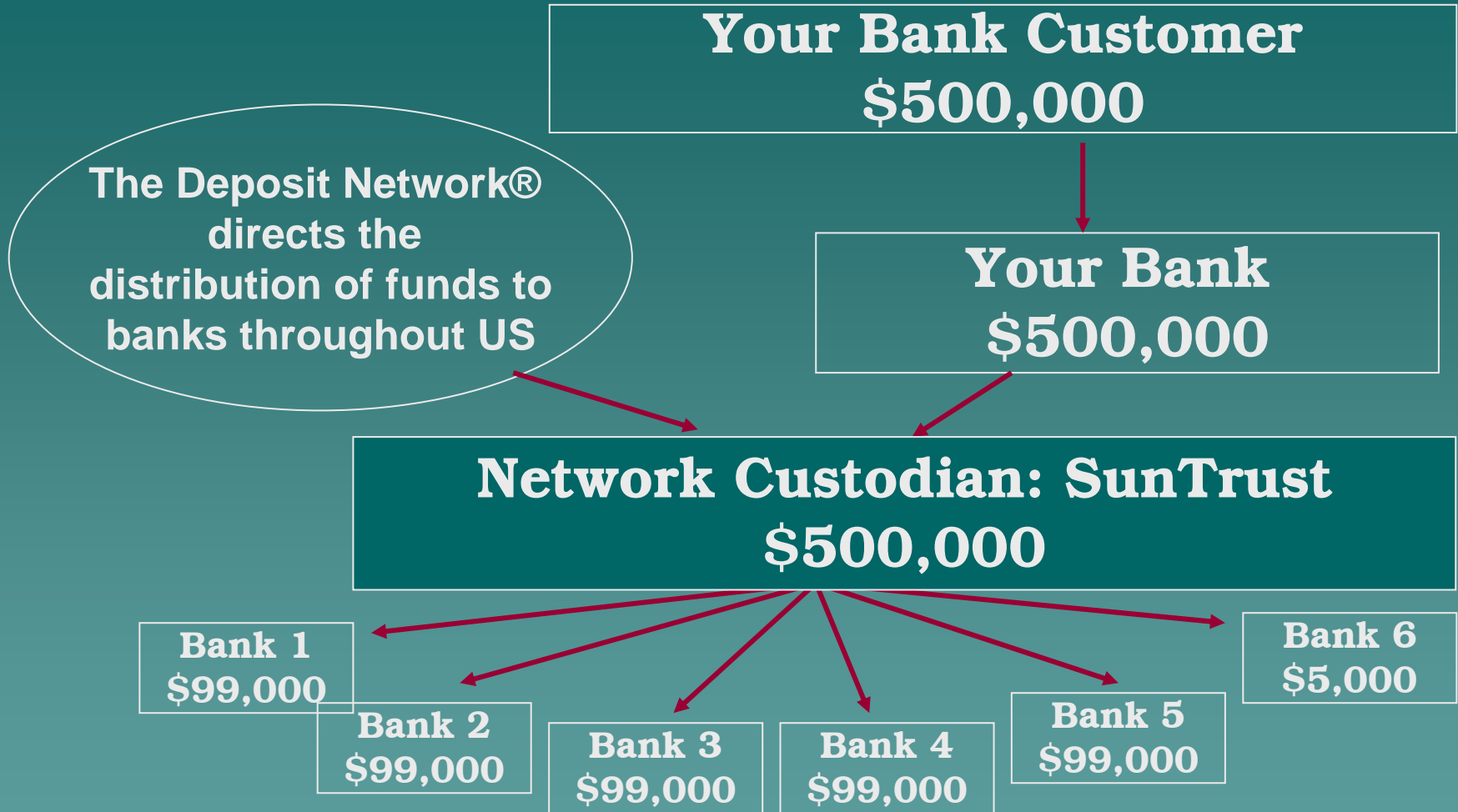


# IDC Deposits – A Money Market Solution

- ◆ IDC Deposits provides three products for banks and thrifts:
- ◆ Investment Products include and alternative to the Fed Funds, Sold option and a “Private Label” service designed to satisfy large depositors of the bank seeking complete FDIC insurance coverage.
- ◆ The Funding product provides funding through a unique money market account concept and offers three choices for funding of the bank.



# Tracking the Flow of Funds



Bottom line for your customer:  
Their money is 100% insured



## Money Market Solutions

- ◆ Investment Products:
- ◆ Fed Funds, Sold Alternative: a bank has excess funds and desires to invest in a highly secure and liquid instrument.
- ◆ The most popular option is to sell into the Fed Funds market where the rate is likely to be Fed Funds Target – 5 to 15 bps.
- ◆ The IDC Deposits option provides an FDIC insured money market deposit and pays the Fed Funds Target Rate.



## Money Market Solutions

- ◆ Investment Products:
- ◆ “Private Label” provides a bank the opportunity to offer its own high end depositors an FDIC insured money market deposit knowing that it can sell this deposit to the IDC Network at the Fed Funds Target Rate – 25 bps. This rate floats with the Target rate.
- ◆ The depositor obtains full coverage and the rate is negotiated between bank and client.



## Money Market Solutions

- ◆ Funding Product:
- ◆ The bank desiring funding allows the Network Custodian, SunTrust Bank, to open a money market account at the bank.
- ◆ This account becomes the “conduit” for all funding and is simply another money market account on the bank’s books.
- ◆ The only issue is for the bank to identify the contents of the funding account as brokered.



## Money Market Solutions

- ◆ Funding can be arranged on an overnight basis subject to volatility and on either a one or two year basis (STAY products).
- ◆ Pricing for banks that provide funds to the Network through “Private Labeling” can then access funding at:
  - ◆ Overnight – Target + 15 bps
  - ◆ One Year STAY – Target + 25 bps
  - ◆ Two Year STAY – Target + 35 bps



# CDARS

Promontory  
Interfinancial  
Network

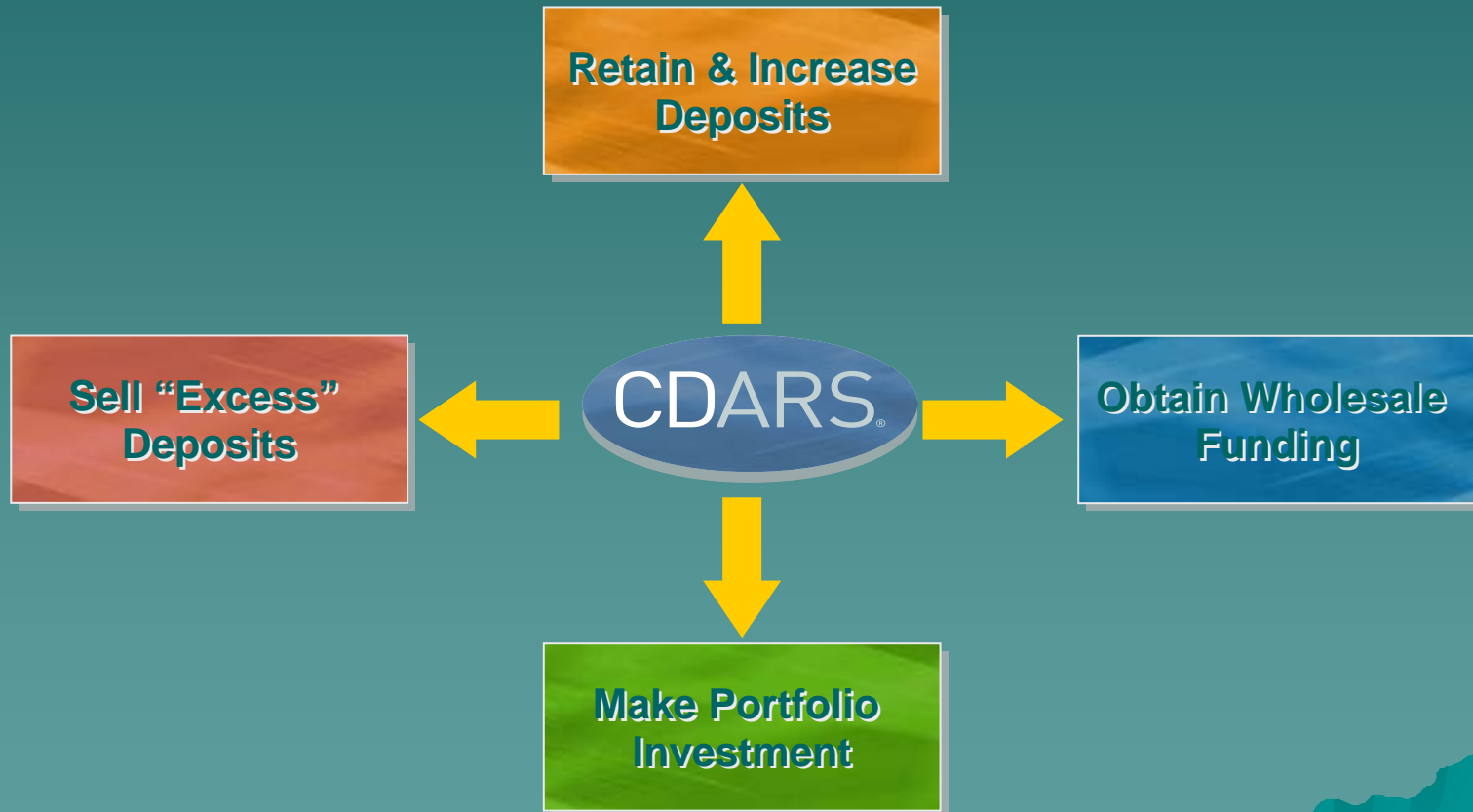


# CDARS

- ◆ CDARS is the Certificate of Deposit Account Registry Service – this product provides each bank in the Network the ability to offer its own depositor CD products from One month to Five years with full FDIC insurance coverage up to a limit of \$30 million.
- ◆ This product is provided by Promontory Interfinancial Network.



# CDARS – Bank's Funding Solutions





## IDC Deposits/CDARS

- ◆ Banks that use these new product ideas have the capability of offering the best high end deposit service line in the banking business.
- ◆ Each provider pays at the high end of the deposit rate structure which allows your bank to offer much better rates across the service line.
- ◆ Why not be the best?