Brokered Deposits

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Issue Update

On July 30, 2024, the FDIC issued a proposal on brokered deposits that would rollback many of the changes made to the brokered deposit framework in 2020. If finalized, the proposal would significantly broaden the scope of deposits considered "brokered."

Background

Enacted in 1989, Section 29 of the Federal Deposit Insurance Act (FDIA) sets restrictions on the acceptance of brokered deposits by institutions with weakened capital positions. Brokered deposits themselves are not defined in statute or implementing regulations. Instead, it is up to the FDIC to interpret the definition of "deposit broker." On December 15, 2020, after a multi-year initiative, the FDIC finalized its brokered deposit rules, which modernized the FDIC's approach to reflect technological changes and innovations across the banking industry since the 1980s, and make the framework and its interpretations more transparent.

Why It Matters

Prior to implementation of the 2020 rule, the FDIC had continually applied an ever broader interpretation of what deposits are "brokered," unnecessarily subjecting a broad swath of deposits to supervisory stigma, limits, and additional regulatory costs, even when held by well-capitalized banks. This, in turn, limited bank access to stable sources of deposits both in the normal course and under stressed conditions. This proposal would roll back many of those changes.

Unwarranted negative supervisory treatment of brokered deposits inhibits innovation in the banking industry and limits consumer access to safe financial products via contemporary platforms. Modern technology, including the internet and smart phones, allows banks to gather stable deposits from both affiliates and customers outside of their local markets. Many of these deposits were viewed as "brokered" by the FDIC, as some technology platforms and other third parties are considered "deposit brokers."

A broad, outdated interpretation of who is a deposit broker leads to increased regulatory costs and supervisory bias from bank examiners against what, as a practical matter, is stable funding. The result is that even well-capitalized banks are strongly discouraged from holding brokered deposits, which limits innovation in how customers can access financial

Recommended Action Items

- **Tell Congress to Convene an Oversight Hearing**. Section 29, enacted in 1989, has not been updated in over 30 years and no longer aligns with modern banking.

- **Tell the FDIC to provide relevant data to support the changes they are proposing.** The proposal offered limited data to support the changes. The FDIC is in the process of revising how banks report deposit data.

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