

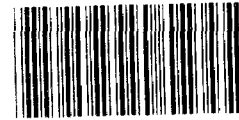
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BY THE U.S. GENERAL ACCOUNTING OFFICE
Fact Sheet For The Chairman
Subcommittee On Commerce,
Consumer, And Monetary Affairs,
Committee On Government Operations
House Of Representatives

Information On The Extent
Of Fully Insured Brokered Deposits
In FDIC-Insured Institutions



128541



GAO/GGD-86-15FS
OCTOBER 29, 1985

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GENERAL GOVERNMENT
DIVISION

B-219069

The Honorable Doug Barnard, Jr.
Chairman
Subcommittee on Commerce, Consumer,
and Monetary Affairs
Committee on Government Operations
House of Representatives

Dear Chairman Barnard:

In response to your June 18, 1985, request, we have tabulated and summarized certain brokered deposit data for institutions insured by the Federal Deposit Insurance Corporation (FDIC).

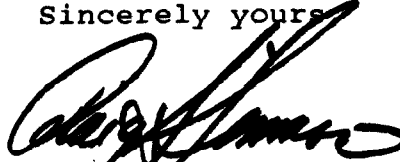
A major objective of the subcommittee's request was to identify the extent of insured brokered deposits in FDIC-insured institutions rated 3, 4, or 5 on the CAMEL scale, i.e., those institutions categorized as troubled and problem institutions by the regulators. As you know, FDIC has denied our request for bank ratings, preventing us from fully addressing this issue. Pursuant to our authority under the General Accounting Office Act of 1980, we issued a letter to FDIC formally requesting this information. FDIC officials said that they feel they have been sufficiently responsive to direct subcommittee requests for brokered deposit data and, in any case, fear the release of proprietary data. We are currently pursuing follow-up remedies.

As a result of the denial, discussions were held with Mr. Don Tucker of your staff and the request was modified in order to provide some information in a timely fashion. As a supplement to your original request, we obtained monthly brokered deposit reports for all FDIC-insured institutions, regardless of rating. In addition, we obtained from the Office of the Comptroller of Currency its list of problem national banks. From these documents, we determined the amount of brokered deposits in all FDIC-insured institutions and the percentage accounted for by national banks rated 3, 4, or 5 on the CAMEL scale. While the national bank figures cannot be taken as representative of the entire industry, national banks account for the majority of fully insured brokered deposits and the data provide a picture of the extent of brokered funds in problem institutions.

The views of directly responsible officials were sought during the course of our work. FDIC staff offered technical comments which GAO has incorporated where appropriate.

As arranged with your office, copies of this document are being provided to the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Financial Institutions Examination Council. Unless you publicly announce its contents earlier, we will make no further distribution until 30 days from the date of this document. If you have any questions or need additional information, I can be reached on 275-8678.

Sincerely yours

A handwritten signature in black ink, appearing to read 'Craig A. Simmons', written in a cursive style.

Craig A. Simmons
Associate Director

INFORMATION ON THE EXTENT OF FULLY INSURED
BROKERED DEPOSITS IN FDIC-INSURED INSTITUTIONS

Attached are the responses to the questions posed by the House Commerce, Consumer, and Monetary Affairs Subcommittee of the Committee on Government Operations in its June 18 and July 19, 1985, requests to the U.S. General Accounting Office. The brokered deposit data presented (except for response 1.c.) are based on the monthly brokered deposit reports for March 31 and June 30, 1985, filed with the Federal Deposit Insurance Corporation (FDIC) pursuant to the reporting requirements established in 12 CFR 304.4, Reporting Requirements on Deposits Placed by Deposit Brokers and Depository Institutions. The data provided in response 1.c. are based on March 31, 1985, Consolidated Reports of Condition and Income (Call reports) submitted by the same institutions which reported brokered deposits as of March 31. All dollar amounts are rounded and reported to the nearest thousand dollars.

Per the subcommittee's requests, all responses pertain only to those institutions reporting fully insured brokered deposits (not including fully insured deposits placed directly by depository institutions) equal to or greater than 5 percent of total deposits as of either the March 31 and/or June 30, 1985, brokered deposit reports. GAO reviewed brokered deposit reports from 226 institutions for March 31 and 210 for June 30. Of these, 147 institutions met the subcommittee's criteria as of March 31 and 125 as of June 30.

Response 3, the comparison between the dollar amounts of total brokered retail deposits as reported on the March 31 Call reports and the amounts of fully insured brokered deposits as reported on the March 31 brokered deposit reports, is based on figures from 144 institutions. Three institutions which met the subcommittee's brokered deposit selection criteria were not included because the Call report data were not available. These institutions did not file Call reports either because they are domestic branches of foreign banks or they are savings banks chartered by the Federal Home Loan Bank Board (FHLBB).¹

Response 5 is based on an extensive literature search and from interviews with staff of the financial regulatory agencies as well as a number of independent researchers.

¹U.S. branches of foreign banks and FHLBB-chartered banks file reports similar to the Call reports with the Federal Reserve and the FHLBB, respectively, but neither include brokered deposit information.

RESPONSES TO THE SUBCOMMITTEE'S QUESTIONS
(Dollars in thousands)

1.a. NUMBER OF INSTITUTIONS REPORTING FULLY INSURED BROKERED DEPOSITS AS OF MARCH 31, 1985:²

All FDIC-insured institutions	<u>147</u>
National banks	<u>59</u>

NUMBER OF INSTITUTIONS IN THESE GROUPS HAVING DEPOSITS IN EXCESS OF \$1 BILLION:

All FDIC-insured institutions	<u>14</u>
National banks	<u>9</u>

1.b. AGGREGATE DOLLAR AMOUNT OF FULLY INSURED BROKERED DEPOSITS REPORTED FOR MARCH 31, 1985:

All FDIC-insured institutions	<u>\$5,492,864</u>
National banks	<u>\$4,274,512</u>
--rated 1 or 2	<u>\$2,461,663</u>
--rated 3, 4, or 5	<u>\$1,812,849</u>

APPROXIMATE PROPORTIONS OF THESE AMOUNTS ACCOUNTED FOR BY INSTITUTIONS HAVING TOTAL DEPOSITS IN EXCESS OF \$1 BILLION:

All FDIC-insured institutions	<u>80%</u>
National banks	<u>90%</u>
--rated 1 or 2	<u>90%</u>
--rated 3, 4, or 5	<u>90%</u>

²Institutions reporting fully insured brokered deposits (not including fully insured deposits placed directly by depository institutions) equal to or greater than 5 percent of total deposits.

1.c. AGGREGATE DOLLAR TOTALS OF BROKERED DEPOSITS REPORTED ON THE CALL REPORTS FOR MARCH 31, 1985:

All FDIC-insured institutions	<u>\$5,488,694</u>
National banks	<u>\$4,315,259</u>

APPROXIMATE PROPORTIONS OF THESE FIGURES ACCOUNTED FOR BY INSTITUTIONS HAVING TOTAL DEPOSITS IN EXCESS OF \$1 BILLION:

All FDIC-insured institutions	<u>82%</u>
National banks	<u>90%</u>

AGGREGATE DOLLAR TOTALS OF BROKERED RETAIL DEPOSITS REPORTED ON THE CALL REPORTS FOR MARCH 31, 1985:

All FDIC-insured institutions	<u>\$3,176,991</u>
National banks	<u>\$2,719,880</u>

APPROXIMATE PROPORTIONS OF THESE FIGURES ACCOUNTED FOR BY INSTITUTIONS HAVING TOTAL DEPOSITS IN EXCESS OF \$1 BILLION:

All FDIC-insured institutions	<u>77%</u>
National banks	<u>87%</u>

2.a. NUMBER OF INSTITUTIONS REPORTING FULLY INSURED BROKERED DEPOSITS AS OF JUNE 30, 1985:

All FDIC-insured institutions	<u>125</u>
National banks	<u>46</u>

NUMBER OF INSTITUTIONS IN THESE GROUPS HAVING DEPOSITS IN EXCESS OF \$1 BILLION:

All FDIC-insured institutions	<u>16</u>
National banks	<u>10</u>

2.b. AGGREGATE DOLLAR AMOUNT OF FULLY INSURED BROKERED DEPOSITS REPORTED FOR JUNE 30, 1985:

All FDIC-insured institutions	<u>\$7,295,131</u>
National banks	<u>\$4,761,569</u>
--rated 1 or 2	<u>\$3,118,854</u>
--rated 3, 4, or 5	<u>\$1,642,715</u>

APPROXIMATE PROPORTIONS OF THESE AMOUNTS ACCOUNTED FOR BY INSTITUTIONS HAVING TOTAL DEPOSITS IN EXCESS OF \$1 BILLION:

All FDIC-insured institutions	<u>87%</u>
National banks	<u>92%</u>
--rated 1 or 2	<u>94%</u>
--rated 3, 4, or 5	<u>88%</u>

3. COMPARISON BETWEEN THE AMOUNTS REPORTED FOR FULLY INSURED BROKERED DEPOSITS AND AMOUNTS REPORTED ON THE CALL REPORT FOR TOTAL BROKERED RETAIL DEPOSITS AS OF MARCH 31, 1985:

	<u>All FDIC-insured institutions</u>	<u>National banks</u>
Same amount reported	65	28
Different amounts reported:		
--Reported fully insured brokered deposits but no brokered retail deposits	39	14
--Reported amounts on both reports, but the figures differed	40	17
	—	—
	144	59

For the last category above, those institutions which reported amounts on both reports but the figures differed, the amount by which the Call report figures differed from the monthly brokered deposit report figures varied significantly.

	<u>All FDIC-insured institutions</u>		<u>National banks</u>	
	<u>Percentage</u>	<u>Dollar</u>	<u>Percentage</u>	<u>Dollar</u>
Range	.02 - 97%	\$1 - \$643,837	.02 - 97%	\$1 - \$643,837
Mean	23%	\$23,751	23%	\$54,639
Median	12%	\$494	8%	\$702

Due to the broad variances found, we reviewed the definitions for "fully-insured brokered deposits," as stated in the reporting requirements established in 12 CFR 304.4, and for "brokered retail deposits" in the instructions for preparing the Call report. In addition, we discussed the point with officials from FDIC and the Federal Financial Institutions Examination Council (FFIEC).

The broad variances in the amounts of fully insured brokered deposits reported monthly versus the total brokered retail deposits reported on the Call reports may be due to differences in the reporting requirements. The definitions of the two terms are similar in that both are defined as brokered deposits that are issued in denominations of \$100,000 or less or that are issued in denominations greater than \$100,000 and are participated out by the broker in shares of \$100,000 or less. For purposes of the reporting requirement, FDIC stipulates that a brokered deposit of more than \$100,000 is deemed to be a "fully insured brokered deposit" unless the insured bank has been informed that such a deposit will not be participated out by the broker. A similar statement is not included in the FFIEC's instructions for preparation of the Call report, leaving it to the discretion of the financial institution as to whether it will make a similar assumption in determining brokered retail deposits to be reported. Officials from both the FDIC and the FFIEC provided this explanation for the variances. The FFIEC also said the agencies are currently working to resolve this issue.

4. APPROXIMATE PROPORTIONS OF THE DOLLAR TOTALS REPORTED FOR FULLY INSURED BROKERED DEPOSITS ACCOUNTED FOR BY 3-RATED NATIONAL BANKS:

March 31, 1985	<u>7%</u>
June 30, 1985	<u>6%</u>

5. RECENT ANALYSIS BY GAO, INDEPENDENT RESEARCHERS, OR RESEARCH STAFF OF THE BANK REGULATORS WHICH ADDRESS THE QUESTION OF WHETHER A CAMEL RATING OF 3 IS A SIGNIFICANT PREDICTOR OF FUTURE FAILURE OR FUTURE SEVERE SUPERVISORY PROBLEMS FOR AN INSTITUTION:

GAO has not conducted, nor have the research staffs of any of the bank regulators or independent firms contacted been able to identify, any studies addressing the question of whether a CAMEL rating of 3 is a significant predictor of future failure or future severe supervisory problems for an institution. Regulatory agency officials informed us that any such work by an outside researcher would presumably have to be based only on failed institutions since the type of information needed to perform such a study on open banks is proprietary.

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