Banks want your deposits. They want you to deposit your paychecks, they want your employer to deposit their assets with them. They want you to choose to keep your money with them rather than put that money into other places.

And there’s all sorts of reasons for that. It means they can issue more loans and grow more quickly. And, importantly for regulators, it helps the bank stay on a stronger financial footing.

But deposits aren’t always easy to come by. In a strong economy, banks are competing for a limited pool of assets that could end up going to other institutions, into investments, or to other regions. This can be especially challenging for rural communities. And, in an economic downturn, as some loans become losses, banks fight even harder for these deposits that will keep them financially sound.

Today, I wanted to talk to the experts about two things regulators are talking about constantly right now but probably haven’t come up at your kitchen table over dinner. The first is how regulators should handle a sometimes-risky type of deposit known as brokered deposits. Why are they risky? If a bank isn’t well-capitalized, should they be cut off from seeking brokered deposits? What’s the logic behind blocking a source of liquidity for a bank that desperately needs it?
And second, I want to talk about the issue of a bank being undercapitalized more broadly, and what happens when regulators put a bank in what is known as Prompt Corrective Action. We covered this a lot in an earlier podcast on leverage ratios, so it might be worth listening to that first if you need some warming up.

My question today is: How do regulators make sure they are catching the warning signs of a struggling bank and intervene in a way that's beneficial for the bank, consumers, and the federal deposit insurance fund? It's a question that regulators still grapple with today. In fact, just last week the federal agencies proposed a new rule adjusting their approach to this very question.

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