CSBS Asks FDIC to Provide More Brokered Deposit Relief to Help Ag and Small Businesses

Apr 24

The FDIC has the authority to provide relief for small banks in revising brokered deposit restriction rules, which ultimately would aid community banks and rural communities, CSBS said in a comment letter today.

Specifically, CSBS wants the FDIC to allow less than well-capitalized institutions to gradually reduce their reliance on brokered deposit funding over time by allowing adequately capitalized institutions to renew or rollover brokered deposits held before the institution became less than well capitalized under the prompt corrective action (PCA) rules. Doing so could minimize the so-called liquidity “cliff effect” created by brokered deposit restrictions.

The letter addresses an issue raised recently in public remarks by FDIC Chairman Jelena McWilliams, who said Congress needs to act to amend the brokered deposit restrictions to reduce unintended consequences arising from interactions with PCA rules.

However, the FDIC has enough flexibility under the existing brokered deposit statute to make improvements, said CSBS. The improvements would allow banks, particularly those in rural areas and markets that increasingly lack ample local deposits to meet the legitimate credit needs of the community, to provide critical credit to agricultural customers and small businesses.