

Joint Release

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**Agencies Remind Bankers of Risks
Associated with Reliance on Brokered and Rate-Sensitive Deposits**

The federal bank and thrift regulatory agencies today issued an advisory on the risks of brokered and other rate-sensitive deposits. The agencies warn that excessive reliance on these types of funding products without proper risk management safeguards has the potential to weaken an institution's financial condition.

Deposit brokers have traditionally provided intermediary services for financial institutions and investors. Today, however, the Internet and other automated service providers enable investors who focus on yield to easily identify high-yielding deposit sources. Customers who focus exclusively on yield can be a less stable source of funding than typical relationship deposit customers. If market conditions change, these customers may rapidly transfer funds elsewhere in a manner similar to that of wholesale investors.

Financial institutions that make use of significant amounts of brokered and rate-sensitive deposits should ensure that proper risk management practices are in place. Among the practices cited in the advisory are control structures to limit concentrations in this type of funding, due diligence in assessing deposit brokers and the risk to earnings and capital, and management information systems that identify non-relationship or higher cost funding sources that can be monitored and managed.

The advisory lists potential red flags that may indicate the need for closer supervisory review, including newly chartered institutions with an aggressive growth strategy and few relationship deposits, high on- or off-balance sheet growth rates, and inadequate systems or controls.

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