



New York Bankers Association

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**Michael P. Smith**  
President

February 23, 2010

The Honorable Sheila C. Bair  
Chairman  
Federal Deposit Insurance Corporation  
550 Seventeenth Street, N.W.  
Washington, DC 20429-9990

Dear Chairman Bair:

The FDIC has long classified brokered deposits separately from "core deposits," subject to more stringent scrutiny and, at times, actively discouraged. However, in recent years, several companies have arisen to provide matching reciprocal deposit services which differ materially from traditional brokered deposits and which, we believe, deserve to be treated as core deposits.

Traditional brokered deposits involve a third-party deposit broker splitting a single customer deposit in excess of the deposit insurance limit into individual deposits under the limit and placing those deposits in a sufficient number of insured institutions to provide full deposit insurance coverage for the entire deposit. Matching reciprocal deposit services, by contrast, involve no brokers, are initiated by the depository institution in which the initial deposit is made, and, most important, involve providing deposits matching the maturity, interest rate and other key terms and conditions of the original deposit back into the originating depository institution. Traditional brokered deposits are typically rate-driven, while matching reciprocal deposit services are security-driven.

The New York Bankers Association believes that matching reciprocal deposit services deserve to be classified as core deposits rather than brokered deposits. Because the depositor is seeking safety for the entire amount on deposit, the deposit is likely to remain on deposit in the bank of initial deposit so long as full deposit insurance coverage can be provided. An alternative to matching reciprocal deposit service is typically not a deposit broker, but collateralizing the account in excess of the deposit insurance limit, so that the entire amount on deposit remains secure.

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A number of New York banks have been participating in such matching reciprocal deposit services for several years. They have found these deposits to be stable and unlikely to be moved by interest rate fluctuations in the national deposit markets that typically drive brokered funds. Moreover, because the rates are determined by the bank of first deposit, and must be agreed to by reciprocal depositing banks, they are not subject to the significant interest rate swings in excess of market rates. In addition, because banks often provide this service as an accommodation to their depositors, the very act of providing the service tends to increase customer loyalty.

New York banks have found these services allow them to retain deposits that might otherwise seek an alternative deemed a safer haven. As a result, they increase the bank's lendable funds base and serve all the traditional functions of core deposits. Our Association therefore urges that the Corporation reclassify matching reciprocal deposit services as core deposits. We understand that a number of members of the House Financial Services Committee, including New York's Representative Carolyn Maloney, Chair of the Joint Economic Committee, have recently written in support of this reclassification. We join in their request and urge speedy FDIC review.

In the interest of full disclosure, we would note that our Association has among its members several institutions that offer matching reciprocal deposit programs, and, in some cases, we receive a fee.

We would be pleased to provide any additional information you might request with regard to this request.

Sincerely,  
  
Michael P. Smith

cc: Edward L. Yingling, President and CEO, American Bankers Association  
State Bankers Associations Executives