FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

HOLD FOR RELEASE UNTIL:
July 16, 1985 - 10:00 a.m.

PR-101-85 (7-16-85)

A STATEMENT ON

BROKERED DEPOSITS

PRESENTED TO THE

SUBCOMMITTEE ON GENERAL OVERSIGHT
AND INVESTIGATIONS

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

BY

WILLIAM M. ISAAC, CHAIRMAN
FEDERAL DEPOSIT INSURANCE CORPORATION

Room 2128, Rayburn House Office Building
July 16, 1985
10:00 a.m.

FEDERAL DEPOSIT INSURANCE CORPORATION, 550 Seventeenth St. N.W., Washington, D.C. 20429 • 202-389-4221

Mr. Chairman, members of the subcommittee, let me commend you for conducting this hearing on deposit brokerage activities, a subject of vital concern to the FDIC. The indiscriminate placement of fully insured brokered funds into troubled banks and thrifts is without question a threat to the viability of the deposit insurance system.

An Overview of the Problem

Just over 50 years ago, the financial system lay in ruin. Nearly 10,000 banks had failed during the first four years of the Great Depression, President Roosevelt had declared a bank holiday and the public clamored for reform. Over a hundred proposals for a federal deposit insurance system had been introduced in Congress during the late 1800s and early 1900s, but none had become law.

The political climate changed dramatically in the midst of the chaos, though there was still powerful opposition to federal deposit insurance, most notably from President Roosevelt and the American Bankers Association. They believed the system would be too expensive and would subsidize marginal, high-risk institutions at the expense of well-managed firms. But millions of individuals had lost or faced the prospect of losing some or all of their life savings. They wanted action, not excuses. They wanted protection, not philosophy. Their voices were heard; the FDIC was created to restore confidence and stability in the banking system by safeguarding the savings of depositors, up to $2,500 per customer.

The system worked remarkably well. The holiday was ended and the failure rate plummeted. The fears expressed by opponents of deposit insurance did not come to pass. Bankers and their regulators, freshly scarred by the financial collapse, were extremely conservative. Competition, innovation and service were eschewed out of an over-zealous concern for safety.

Driven by advances in technology, a volatile and changing economic environment, a growing sophistication on the part of investors and heightened competition, the financial world has undergone a virtual revolution during the past two decades. The signal event with respect to the problem at hand -- deposit brokerage -- was the passage of the Deregulation and Monetary Control Act of 1980, mandating the phaseout of deposit interest rate ceilings.

Prior to decontrol of interest rates, banks and thrifts were pretty much prohibited from bidding for deposits. Funds generally flowed to institutions that were perceived to be strong and could offer the best and most convenient services.

Overall, deregulation of interest rates has been an enormous success. Banks and thrifts have stopped the erosion of their market share dead in its tracks, and consumers and smaller businesses have reaped tens of billions of dollars in additional interest income. The fears expressed by some that rate wars and cutthroat competition would ensue have proved to be largely unfounded.

A major exception to this generally positive record involves the activities of money brokers and their investor clients. In a few short years money brokering has become a very big and enormously lucrative business. It requires no particular skill apart from salesmanship. Money brokers scour the country in search of hot money seeking the highest available risk-free return. The funds are packaged in fully insured blocks and then sold to the highest bidder, which all too often is a marginal, high-risk institution. A survey conducted by the FDIC last year revealed that of the $24 billion in brokered funds in FDIC-insured institutions, over $9 billion was held by troubled institutions.

Let me explain how the system works. Suppose a credit union has $10 million it wishes to invest in the money markets rather than lend to its members. If there were no deposit insurance system, the credit union would likely invest in Treasury obligations, high-grade state or municipal bonds or high-quality bank or thrift CDs. Yield would be balanced against risk.

No such deep thought is required in the era of deregulation and the money broker. The credit union simply wires the $10 million to a broker and the broker in turn wires it in fully insured $100,000 blocks to the 100 banks and thrifts offering the highest rates. The entire transaction is completed nearly instantaneously -- no muss, no fuss and, most importantly, no risk to anyone but the FDIC or the FSLIC.

The worst fears of the early opponents of deposit insurance are coming to pass. Marginal, high-risk banks and thrifts are being subsidized by well-run institutions, and the costs are staggering. Attached to our statement as Schedule A is a list of all FDIC-insured institutions that failed from January 1, 1982, to July 12, 1985, showing, where available, the amount and percentage of brokered funds, the names of the brokers and the sources of the funds placed by the brokers. The brokered funds ranged as high as 76 percent of deposits. In all, they totalled nearly $1.1 billion in 80 banks. There is no question that use of brokered funds in these banks has cost the FDIC hundreds of millions of dollars. Schedule B attached to our statement gives a brief case history of several of these banks. While they represent some of the more egregious examples of abuse, they are but a handful of the many examples we and the FSLIC could provide.

We should point out that some brokers are also involved in supplying funds to banks in amounts over the $100,000 insurance limit. If the CD is not subsequently subdivided among various investors so as to obtain full insurance coverage, we have no objection to this practice. In this situation the broker and/or the broker's customers must perform a credit analysis, measuring the risk versus the yield, instead of blindly relying on our insurance guarantee.

The FDIC recently completed a survey (data as of February 28) of all FDIC-insured banks and thrifts rated 3, 4 and 5 -- the lowest categories on our CAMEL rating system -- which had fully insured brokered deposits in excess of five percent of their deposits. We were interested in looking at a number of aspects and specifically sought to determine who supplied these funds and how each of the troubled institutions was utilizing the FDIC-insured brokered deposits.

We were able to identify more than $2.3 billion in fully insured brokered deposits placed in more than 70 troubled institutions. The brokered funds ranged from just over five percent to almost 50 percent of the sampled institutions' deposits. In one instance a major brokerage firm, in less than a week, placed $60 million in new funds in a clearly troubled FDIC-insured savings bank, which used the funds to speculate in high-yield corporate (so-called "junk") bonds.

Schedule C appended to our statement identifies the 25 largest suppliers of fully insured brokered deposits to these weak and risky banks and thrifts. You will note that some of the nation's largest financial services organizations are heavily involved in funneling fully insured investment monies to these institutions.

Keep in mind that this survey occurred after nearly two years of intense efforts by the FDIC to control this clear abuse of the deposit insurance system. It is frightening to contemplate how much more massive the problem might have become in the absence of these efforts.

It is a simple fact that troubled banks and thrifts use brokered funds more frequently and more extensively than well-rated institutions. These institutions tend to pay the highest rates, and brokered funds flow to the highest bidders. Our studies have revealed that troubled banks are twice as likely as all banks as a group to hold significant amounts of insured brokered funds.

Who are the principal investors in brokered funds? Credit unions were identified as the largest single aggregate dollar holders, followed by S&Ls and commercial banks. Frankly, we find it appalling that the biggest abusers of the deposit insurance system are the very institutions the system was designed to assist.

The Response to the Problem

The FDIC has addressed the problem of brokered deposits by regulation and, in individual cases, by use of our supervisory and enforcement powers. We issued a regulation limiting federal deposit insurance coverage for all deposits placed by or through brokers to $100,000 per broker, per insured institution. As you are aware, however, our 1984 joint effort with the Federal Home Loan Bank Board to accomplish this is being challenged in the courts.

We have also dealt with the problems resulting from brokered deposit use on a case-by-case basis. When abuses are found, we use our enforcement powers to guard against further deterioration. For nearly two years now, as a matter of routine, we have inserted a provision in all enforcement actions taken against 3, 4 and 5 rated institutions prohibiting further usage of brokered funds. While our vigorous enforcement activities have had a limiting effect on brokered deposit use, I would stress that these actions are not preventive measures. They are, of necessity, initiated after the fact when problems and clear abuse have been identified.

In January of this year, the FDIC instituted a monthly reporting requirement for all FDIC-insured banks and thrifts holding fully insured brokered and financial institution deposits in excess of either the institution's capital or five percent of deposits. This reporting requirement provides more frequent and meaningful information than had been available, and increases our effectiveness in dealing with the problems. Institutions reporting heavy usage of brokered funds are targeted for much more frequent inspections, as are those that show up on deposit listing services as paying above normal interest rates.

We recently began publicly disclosing the names of financial institutions placing funds in failed banks and thrifts. Our aim is to focus attention on the fact that brokered and financial institution deposits are all too often placed in institutions offering the highest rates, without regard for the soundness of the issuing institution. The point must be driven home that when these institutions fail, the cost to the deposit insurance fund is greatly increased.

All these measures have helped, but they cannot be expected to solve the problems. In an environment in which a bank or thrift may purchase a massive volume of funding overnight, an institution can radically and precipitously alter its character and its risk to the insurance fund.

Legislative Alternatives

We have received virtually no help from the Congress during the past two years as we have struggled to contain this serious threat to the insurance system. A subcommittee in the House issued two "studies" contending there is no problem despite overwhelming facts to the contrary. Last year the Senate passed a bill that would have literally tied both hands behind our back by establishing an exceedingly high cap on shorter term brokered funds, exempting longer term funds altogether and restricting our current enforcement powers over troubled institutions.

The FDIC's joint regulation with the Bank Board to limit deposit insurance coverage of brokered funds is, in our view, the simplest and by far the most preferable alternative for dealing with the brokered deposit problem. It does not prohibit any bank or thrift from using brokered funds or any broker from placing funds; there is absolutely no interference with the functioning of the marketplace. Funds will flow only to those institutions with a balance sheet strong enough to inspire investor confidence. The validity of this regulation should be affirmed by the Congress and coupled with a law denying deposit insurance coverage for funds placed in other insured institutions by credit unions, banks and S&Ls.

Though the brokerage houses like to portray themselves as champions of the free-enterprise system, they are opposed to this market-oriented approach. They would prefer that we regulate the flow of funds through a law placing a cap on the amount of brokered deposits any institution may receive. While we do not like it, we can accept such a bill so long as the cap is reasonable and so long as the law does not in any way impinge on our current authority to prohibit the use of any brokered funds by any troubled institution.

No bank or thrift should be able to leverage upon the federal guarantee with insured brokered deposits in a volume greater than that which its owners have at risk. The cap for insured brokered deposits should thus be limited to 100 percent of an institution's capital. When you consider that FDIC-insured institutions currently hold $24 billion in both insured and uninsured brokered funds and that a limit of 100 percent of capital would allow nearly $190 billion in fully insured brokered funds alone, this limit is more than generous and ought to satisfy the fee-generating appetite of the brokerage industry for years to come.

The limit must apply to any deposits placed by or through brokers regardless of the term or maturity. Some suggest that longer-term brokered funds -- those with maturities of one year or more -- ought to be of less concern to the FDIC because they represent a more stable funding source to a depository institution than do short-term funds. There is absolutely no justification for a distinction between long-term and short-term brokered deposits. Maturity is not the relevant problem. Fully insured brokered deposits of any maturity provide almost limitless funds to a bank or thrift which can be misused without risk to the broker or investor. I would point out that the bulk of the funds supplied to troubled banks by the major investment firms have a maturity in excess of one year. How much more do these brokers need than a ceiling of $190 billion for FDIC-insured banks and thrifts, not to mention FSLIC-insured institutions? A ceiling that will likely grow by 8-to-10 percent per year as capital increases. A ceiling that is nearly eight times greater than the amount of all brokered funds, insured and uninsured, in these institutions today. A ceiling that is over 10 times the size of the FDIC's insurance fund!

Thank you once again Chairman Hubbard and members of this subcommittee for giving us this opportunity to express our views on an issue of great importance to the nation's financial system. I will be pleased to respond to any questions you may have.

* * * * *

SCHEDULE A

Brokered Deposits in Closed Banks
January 1, 1982 to July 12, 1985

(1) Metropolitan Bank and Trust Company, Tampa, Florida (2-6-82):
$13,515M (7%) - Credit Unions

First United Fund, Ltd., Garden City, N.Y.

(2) Aquia Bank and Trust, Stafford, Virginia (4-3-82):
$3,136M - Bureau of Indian Affairs
500M - Military Funds (Air Force Central)
$3,636M (29%)

FAIC Securities, Miami, Florida

(3) National Security Bank, Tyler, Texas (4-16-82):
$100M - Military Funds (U.S. Army)
200M - Dept. of Energy
$300M (3%)

Brokers unknown

(4) Pacific Coast Bank, San Diego, California (4-29-82):
$1,800M - Military Funds (Air Force Central, Marine Corps)
800M - Political Subdivisions
400M - Credit Unions
1,400M - Others
$4,400M (47%)

Century Hill Financial, Century City, CA
First United Fund, Ltd., N.Y.

(5) Citizens Bank, Tillar, Arkansas (6-23-82):
$522M (9%) - Bureau of Indian Affairs

Brokers unknown

(6) Penn Square Bank, N.A., Oklahoma City, Oklahoma (7-5-82):
$ 6,512M - Bureau of Indian Affairs
13,042M - Banks
12,951M - Savings and Loans
81,932M - Credit Unions
10,238M - Others
$124,675M (26%)

First United Fund, Ltd., N.Y.
Norman Werbner Associates, Houston, TX
Professional Asset Management, Del Mar, CA
Sun Capital Management, La Jolla, CA

(7) Western National Bank, Santa Ana, California (8-27-82):
$4,100M - Credit Unions
1,100M - Savings and Loans
1,900M - Political Subdivisions
200M - Military Funds (Marine Corp, Air Force)
1,000M - Others
$8,300M (40%)

Brokers unknown

(8) Hohenwald Bank and Trust Company, Hohenwald, Tennessee (9-3-82):
$200M (1%) - Military Funds (Air Force Central, Marine Corps)

Brokers unknown

(9) Tri-State Bank, Markham, Illinois (9-8-82):
$400M - Military Funds (Air Force Central, Marine Corps, Army)
100M - Credit Union
100M - Federal Milk Market Administration
$600M (4%)

Brokers unknown

(10) State Bank of Barnum, Barnum, Minnesota (2-9-83):
$4,432M - Bureau of Indian Affairs
1,068M - Military Funds (Marine Corps, Air Force)
$5,500M (40%)

Commonwealth Capital Corp., Charlottesville, VA

(11) American City Bank, Los Angeles, California (2-25-83):
$37,500M - Credit Unions
9,400M - Banks
7,900M - Savings and Loans
27,350M - Others
$82,150M (32%)

Professional Asset Securities, Del Mar, CA

(12) Newport Harbour National Bank, Newport Beach, California (3-11-83):
$16,600M - Credit Unions
4,800M - Banks
5,700M - Savings and Loans
3,400M - Political Subdivisions
255M - Bureau of Indian Affairs
3,201M - Others
$33,956M (75%)

Century Hill Financial, CA
Courtesy Deposits, Inc., Southfield, MI
Golconda Financial, San Marino, CA
Duncan Williams Government Securities Corp., Memphis, TN

E.R. Weston & Associates, Rolling Hills, CA
First United Fund, Ltd., N.Y.
International Investment Referral Service, Costa Mesa, CA
Kominz Company, Marina Del Rey, CA
National Money Market Services, Santa Ana, CA

(13) Pan American National Bank, Union City, New Jersey (3-18-83):
$4,806M - Bureau of Indian Affairs
1,200M - Credit Unions
600M - Banks
300M - Savings and Loans
100M - Other
$7,006M (21%)

Brokers unknown

(14) Bear Creek Valley Bank, Phoenix, Oregon (3-25-83):
$2,454M - Bureau of Indian Affairs
1,800M - Military Funds (U.S. Navy, Marine Corp. A.F.)
1,000M - Credit Unions
300M - Savings and Loans
200M - Banks
200M - Others
$5,945M (49%)

Bristol Investment Group, Inc., Coral Gables, FL
E.R. Weston & Associates, CA
First United Fund, Ltd, N.Y.

(15) Bank of San Marino, San Marino, California (4-8-83):
$1,100M - Credit Unions
900M - Political Subdivisions
400M - Banks
500M - Others
$2,900M (23%)

Century Hill Financial, CA

(16) Sparta-Sanders State Bank, Sparta, Kentucky (4-15-83):
$ 3,100M - Credit Unions
2,750M - Military Funds
1,947M - Bureau of Indian Affairs
1,400M - Banks
900M - Savings and Loans
2,346M - Others
$12,443M (76%)

Brokers unknown

(17) Heritage Bank, Ashland, Oregon (4-29-83):
$400M - Credit Unions
100M - Bank
100M- Savings and Loan
$600M (4%)

E.R. Weston & Associates, CA
FAIC Securities, FL
Golconda Financial, CA

(18) United American Bank in Hamilton County, Chattanooga, Tennessee (5-27-83):
$ 2,500M - Banks
700M - Savings and Loans
6,900M - Credit Unions
$10,100M (8%)

Brokers unknown

(19) City and County Bank of Roane County, Kingston, Tennessee (5-27-83):
$ 180M - Bureau of Indian Affairs
300M - Banks
700M - Credit Unions
100M - Savings and Loan
$1,280M (3%)

Brokers unknown

(20) City and County Bank of Anderson County, Lake City, Tennessee (5-27-83):
$ 180M - Bureau of Indian Affairs
1,700M - Banks
3,000M - Savings and Loans
14,800M - Credit Unions
300M - Others
$19,980M (23%)

Brokers unknown

(21) United Southern Bank of Nashville, Tennessee (5-27-83):
$ 6,355M - Bureau of Indian Affairs
3,100M - Banks
18,800M - Credit Unions
4,700M - Savings and Loans
3,000M - Others
$35,955M (36%)

FAIC Securities, FL

(22) City and County Bank of Knox County, Knoxville, Tennessee (5-27-83):
$ 6,221M - Bureau of Indian Affairs
7,900M - Banks
51,000M - Credit Unions
13,600M - Savings and Loans
8,009M - Others
$86,730M (48%)

Brokers unknown

(23) The Commercial Bank of California, Los Angeles, California (5-27-83):
$6,000M - Bureau of Indian Affairs
300M - Credit Unions
$6,300M (23%)

National Money Markets Services, CA

(24) Community Bank, Hartford, South Dakota (6-17-83):
$10,400M (27%) - Institutional Investors (Credit Unions, Banks and Savings and Loans)

First United Fund, Ltd., N.Y.

(25) Western National Bank of Lovell, Lovell, Wyoming (6-24-83):
$12,600M (64%) - Institutional Investors

First United Fund, Ltd, N.Y.

(26) Mineral Bank of Nevada, Las Vegas, Nevada (6-30-83):
$1,650M - Bureau of Indian Affairs
900M - Military Funds
600M - Banks
300M - Savings and Loans
1,100M - Others
$4,550M (41%)

Commonwealth Capital Corp., VA

(27) The First Central Bank, Smithville, Tennessee (7-8-83):
$600M (3%) - Military Funds

Brokers unknown

(28) First Peoples Bank of Washington County, Johnson City, Tennessee (7-29-83):
$ 5,818M - Bureau of Indian Affairs
50,470M - Institutional Investors
$56,288M (33%)

FAIC Securities, FL

(29) First Commerce Bank of Hawkins County, Rogersville, Tennessee (8-12-83):
$ 180M - Bureau of Indian Affairs
6,400M - Credit Unions
$6,580M (14%)

Brokers unknown

(30) United Southern Bank of Clarksville, Clarksville, Tennessee (8-26-83):
$3,156M - Bureau of Indian Affairs
400M - Others
$3,556M (33%)

Brokers unknown

(31) Douglas State Bank, Kansas City, Kansas (9-2-83):
$1,800M - Credit Unions
700M - Savings and Loans
$2,500M (11%)

Brokers unknown

(32) Warren County Bank, McMinnville, Tennessee (9-16-83):
$2,283M - Bureau of Indian Affairs
200M - Military Funds
2,100M - Credit Unions
$4,583M (24%)

Brokers unknown

(33) Dominion Bank of Denver, Denver, Colorado (9-30-83):
$ 500M - Banks
5,262M - Others
$5,762M (45%)

Brokers unknown

(34) National Bank of Odessa, Odessa, Texas (9-30-83):
$2,500M (3%) - Credit Unions

Brokers unknown

(35) The Deschutes Bank, Remond, Oregon (10-7-83):
$ 200M - Banks
700M - Savings and Loans
500M - Credit Unions
$1,400M (14%)

Bristol Investment Group, Inc., FL
First Empire Funding Corp., N.Y.

(36) First National Bank of Midland, Texas (10-14-93):
$75,672M (13%)

J.M. Lummus & Co.
Merrill Lynch Money Market, Inc.
Narragansett Venture Capital

(37) First National Bank of Browning, Browning, Montana (11-10-83):
$1,300M - Banks
1,200M - Savings and Loans
1,400M - Credit Unions
100M - Other
$4,000M (30%)

First United Fund, Ltd., N.Y.
John Brittenum & Associates, Inc., Little Rock, AR

(38) Atkinson Trust and Savings Bank, Atkinson, Illinois (11-22-83):
$3,356M (18%)

First United Fund, Ltd., N.Y.

(39) City & County Bank of Jefferson County, White Pine, Tennessee (1-21-84):
$180M - Bureau of Indian Affairs
100M - Savings and Loan
300M - Banks
$580M (3%)

Brokers unknown

(40) Indian Springs State Bank, Kansas City, Kansas (1-28-84):
$9,300M (34%)

Caray Investment Company, Inc. CA
First United Fund, Ltd., N.Y.
International Investment Referral Services, CA
Kominz Co., CA
National Money Market Services, CA

(41) Emerald Empire Banking Company, Springfield, Oregon (2-3-84):
$ 2,000M - Banks
1,800M - Savings and Loans
6,800M - Credit Unions
300M - Others
$11,000M (53%)

Caray Investment Company, Inc., CA
First Empire Funding Corp., N.Y.
First United Fund, Ltd., N.Y.
Long Beach Savings and Loan Association, CA
National Money Market Services, Inc.

(42) Tucker County Bank, Parsons, West Virginia (2-3-84):
$2,100M - Military Funds (Air Force Central, Marine Corps, Coast Guard)
200M - Savings and Loans
100M - Credit Union
1,057M - Bureau of Indian Affairs
100M - Other
$3,557M (24%)

Monetary Investment Co., Sioux Falls, S.D.

(43) United Bank of Oregon, Milwaukie, Oregon (3-2-84):
$ 200M - Savings and Loans
600M - Credit Unions
200M - Banks
550M - Others
$1,550M (11%)

Independent State Bank of Minnesota, Minneapolis, MN
National Money Market Service, Inc., CA

(44) All American National Bank, Virginia Gardens (P.O. Miami), FL (3-2-84):
$1,100M - Credit Unions
200M - Banks
500M - Savings and Loans
100M - Municipality
100M - Other
$2,000M (18%)

FAIC Securities, FL

(45) Seminole State National Bank, Seminole, Texas (3-16-84):
$200M - Credit Unions
100M - Savings and Loan
$300M (1%)

FAIC Securities, FL

(46) Heritage Bank, Anaheim, California (3-16-84)
$40,650M - Credit Unions
11,500M - Savings and Loans
18,200M - Banks
8,000M - Municipalities
5,819M - Bureau of Indian Affairs
14,219M - Others
$98,388M (64%)

First United Fund, Garden City, NJ
FAIC, Securities, FL
Kominz Company, CA
E.R. Weston & Associates, CA
National Money Market Services, CA
Golconda, CA
Duncan Williams, Government Securities, Corp., TN
First Empire, Funding Corp., NY
Caray Investments, CA
Long Beach Savings and Loan, CA
Bilmar, Upland, CA
Peninsula Savings, San Francisco, CA
TCD National Encino, CA
Bristol Investments, FL
CAL Investment, Costa Mesa, CA
TCS Brokerage, San Diego, CA
International Investments, Irvine, CA
Sun Capital Management, San Diego, CA

(47) Watauga Valley Bank, Elizabethton, Tennessee (4-6-84):
$1,100M - Credit Unions
300M - Banks
100M - Savings and Loan
188M - Bureau of Indian Affairs
200M - Others
$1,888M (14%)

FAIC Securities, FL
First United Fund, Ltd., N.Y.

(48) First Security Bank, Erwin, Tennessee (4-6-84):
$1,796M - Credit Unions
600M - Banks
400M - Savings and Loans
200M - Others
$2,996M (14%)

First United Fund, Ltd., N.Y.

(49) Security National Bank, Lubbock, Texas (4-13-84):
$3,397M (8%)

Harvey Baskin & Co., D.C.

(50) West Coast Bank, Los Angeles (Encino), California (4-17-84):
$19,298M - Banks
15,396M - Savings and Loans
32,792M - Credit Unions
16,625M - Others
$84,111M (52%)

National Money Market Services, Inc., CA
FAIC Securities, Inc., FL
First United Fund, Ltd., NY
Golconda Financial, CA
Kominz Company, Ltd., CA
High Yield Management, Inc., Clifton, NJ
Caray Investment Company, Inc., CA
Connie Tait Financial Services, Ventura, CA
Federally Insured Savings Network
International Investment Referral Service, CA
Investment Transaction Corporation, Los Altos, CA

(51) United of America Bank, Chicago, Illinois (4-26-84):
$300M (1%) - Credit Unions

First United Fund, Ltd., N.Y.

(52) First National Bank of Rushford, Rushford, Minnesota (5-4-84):
$360M (2%) - Banks

Independent State Bank of Minnesota, MN

(53) The National Bank of Carmel, Carmel-BY-The-Sea, California (5-8-84):
$11,300M - Credit Unions
2,200M - Banks
1,100M - Savings and Loans
14,830M - Others
$29,430M (39%)

First United Fund, Ltd., NY
National Money Market Services, Irvine, CA
Money Investment Services, CA
Investment Transaction Corporation, CA
FAIC Securities, FL
Connie Tait Financial Services, CA

(54) First Continental Bank & Trust Company of Del City, Del City, Oklahoma (5-11-84):
$ 4,900M - Banks
12,000M - Credit Unions
2,800M - Savings and Loans
114M - Bureau of Indian Affairs
1,705M - Others
$21,519M (22%)

FAIC Securities, FL
First United Fund, Ltd., N.Y.
National Money Market Services, Inc., CA
Pacific Money Investments, Inc., Blaine, WA
Professional Asset Management, CA
TCD National, Inc., Encino, CA

(55) Bank of Irvine, Irvine, California (5-18-84):
$ 700M - Credit Unions
500M - Banks
200M - Others
$1,400M (5%)

Caray Investments, CA
Bell Savings and Loan Association, L.A., CA
First Empire Funding Corp., N.Y.
FAIC Securities, FL
Golconda Financial, CA

(56) First National Bank of Prior Lake, Prior Lake, Minnesota (5-24-84):
$ 300M - Banks
1,700M - Credit Unions
300M - Savings and Loans
200M - Others
$2,500M (19%)

First United Fund, Ltd., N.Y.

(57) Garden Grove Community Bank, Garden Grove, California (6-1-84):
$ 3,100M - Banks
8,700M - Credit Unions
2,000M - Savings and Loans
469M - Bureau of Indian Affairs
4,200M - Others
$18,469M (50%)

FAIC Securities, FL
Caray Investments, CA
Golconda Financial, CA
First United Fund, Ltd., NY
TCD National, CA
California Investment, CA
International Investments, CA
National Money Market, CA
Connie Tait Financial, CA
Evergreen Investments, Newport Beach, CA
Pacific Money Investment, Inc., WA

(58) Republic Bank of Kansas City, Kansas City, Missouri (6-18-84):
$ 9,476M - Banks
768M - Savings and Loans
2,467M - Credit Unions
1,328M - Bureau of Indian Affairs
3,854M - Others
$17,911M (46%)

FAIC Securities, FL
Harvey Baskin & Co., D.C.
Monetary Investments Co., S.D.

(59) American Bank, Saint Joseph, Tennessee (6-27-84):
$1,700M - Banks & Trust Companies
300M - Credit Unions
100M - Other
$2,100M (7%)

Bradford Trust Co., New York, NY
Standard Investors Trust Co., Houston, TX

(60) Guaranty State Bank of Saint Paul, St. Paul, Minnesota (7-19-84):
$ 657M - Bureau of Indian Affairs
700M - Credit Unions
100M - Savings and Loan
810M - Others
$2,267M (8%)

Commonwealth Capital Corp., VA
First United Fund, Ltd., NY
Independent State Bank of Minnesota, MN

(61) Jackson County National Bank, Tuckerman, Arkansas (8-9-84):
$ 200M - Banks
200M - Savings and Loans
800M - Credit Unions
100M - Other
$1,300M (10%)

First United Fund, Ltd., N.Y.

(62) Girod Trust Company, Puerto Rico (8-16-84):
$37,000M (13%)

Dean Witter, New York, NY
E.F. Hutton, New York, NY
Harvey Baskin & Co., D.C.
Merrill Lynch, New York, NY

(63) The First State Bank, Thayer, Kansas (8-22-84):
$100M - Bank
100M - Savings & Loan
$200M (2%)

First National Bank of Hutchinson, Hutchinson, KS

(64) Bank of Northwest, Eugene, Oregon (8-31-84):
$810M (5%)

Independent State Bank of Minnesota, MN

(65) The Rexford State Bank, Rexford, Kansas (10-10-84):
$1,798M - Credit Unions
200M - Banks
300M - Savings and Loans
100M - Other
$2,398M (45%)

First United Fund, Ltd., N.Y.

(66) State Bank of Boyd, Boyd, Minnesota (10-24-84):
$350M (6%)

Independent State Bank of Minnesota, MN

(67) The Strong City State Bank, Strong City, Kansas (11-29-84):
$98M (2%) - Bank

First Empire Funding Corp., NY

(68) Golden Spike State Bank, Tremonton, Utah (12-4-84):
$ 92M - Bureau of Indian Affairs
300M - Credit Unions
100M - Savings and Loan
300M - Banks
$792M (12%)

Commonwealth Capital Corp., VA
FAIC Securities, FL
First Empire Funding Corp., NY
Golconda Financial, CA

(69) The Farmers State Bank, Seldon, Kansas (12-20-84):
$1,700M - Credit Unions
400M - Banks
800M - Others
$2,900M (21%)

American Money Market Investment Corp., Irvine, CA
First American Investment Group, Topeka, KS
Financial Northeast Corp., West Caldwell, NJ
Investment Transaction Corp., CA

(70) Citizens Fidelity Bank Bristol, Tennessee (2-1-85):
$ 98M - Credit Union
98M - Bank
98M - Municipality
$298M (2%)

First United Fund, Ltd., NY

(71) Peoples Bank and Trust Co., Wartburg, Tennessee (2-8-85):
$1,500M - Credit Unions
4,400M - Savings and Loans
1,800M - Banks
1,700M - Others
$6,400M (32%)

Brittenum and Associates, AR
Caray Investment Company, Inc., CA
First Empire Funding Corp., NY
Golconda Financial, CA

(72) West Valley Bank, Woodland Hills, California (2-8-85):
$ 4,800M - Credit Uninos
5,400M - Savings and Loans
4,300M - Banks
3,100M - Others
$17,600M (53%)

Caray Investment Company, Inc., CA
First Empire Funding Corp., NY
High Yield Management, NJ
Kominz Co., CA
Long Beach Savings and Loan, CA
National Asset Management, NY
National Rate Exchange, San Diego, CA
New Financial Northeast Corp., NJ
Peak Financial
Professional Asset Management, CA
TCD National, Inc., CA

(73) Golden Valley Bank, Turlock, California (3-22-85):
$ 400M - Credit Unions
600M - Savings and Loans
1,100M - Banks
$2,100M (3%)

First Empire Funding, Corp., NY

(74) Fidelity Bank of Denver, Denver, Colorado (3-29-85):
$1,400M - Credit Unions
400M - Savings and Loans
400M - Banks
100M - Municipality
100M - Other
$2,400M (9%)

First Empire Funding Corp., NY
First United Fund, Ltd., NY

(75) Capistrano National Bank, San Juan Capistrano, California (4-5-85):
$ 700M - Credit Unions
900M - Savings and Loans
700M - Banks
200M - Others
$2,500M (6%)

American Money Market Services, Inc., CA
Diversified Financial, Alhambra, CA
First Empire Funding Corp., NY
Pioneer Financial Services, Melville, NY

(76) South Coast Bank, Costa Mesa, California (4-12-85):
$ 900M - Credit Unions
600M - Savings and Loans
200M - Banks
200M - Municipalities
600M - Others
$2,500M (9%)

FAIC Securities, FL
First United Fund, Ltd., N.Y.

(77) The Energy Bank, N.A., Dallas, Texas (5-16-85):
$ 700M - Credit Unions
900M - Savings and Loans
700M - Banks
500M - Others
$2,800M (12%)

First United Fund, Ltd., NY
Meyers Pollack Robbins, Inc., New York, NY
The Kominz Company, CA

(78) Strong's Bank, Dodgeville, Wisconsin (6-14-85):

$ 900M	- Credit Unions
100M	- Savings and Loan
100M	- Bank
$1,100M	(4%)

All are believed to have originated through High Yield Management, Inc., Clifton, NJ. Substantial amounts of other brokered funds were apparently diverted and not entered on books.

(79) First City Bank, N.A., Oklahoma City, Oklahoma (6-21-85):
$5,700M (7%)

First Empire Funding Corp., NY
FAIC Securities, FL
Caray Investment Co., Inc., CA
James Baker and Company, Oklahoma City, OK

(80) Crossroad State Bank, Oklahoma City, Oklahoma (7-11-85):
$3,500M (21%)

Brokers and financial institutions supplying funds unavailable at this time

SCHEDULE B

Case Studies of Selected Failed Banks Using Brokered Funds

1. Peoples Bank & Trust Company, Wartburg, Tennessee

Bank was closed on February 8, 1985. At that time brokered deposits totaled $6,400,000 and represented 32% of total deposits of $20,058,000. In July of 1984 ownership and control of the bank changed and immediately thereafter brokered deposits were introduced into the bank, reaching a high of $7,100,000 by the end of August, 1984. Brokered deposits provided the major share of the funding for the bank's acquisition of over $11 million in out-of-territory timeshare and solar-energy contracts from a corporate interest of the new control owners in an elaborate link-financing scheme, which resulted in losses approaching $10 million.

2. Strong's Bank, Dodgeville, Wisconsin

Bank was closed on June 14, 1985. At that time brokered deposits totaled $1,100,000 and represented 4% of total deposits of $30,200,000. Bank was in weakened condition in early 1985 due to loan losses and under pressure from the FDIC to increase capital and improve asset condition. In May of 1985 brokered deposits were introduced into the bank in a fraudulent link-financing scheme designed to give the appearance of recapitalizing the bank and replacing poor-quality loans on the bank's books with new loans of supposedly satisfactory quality. Substantial additional brokered funds were apparently diverted and never recorded on the bank's books.

3. Indian Springs State Bank, Kansas City, Kansas

Bank was closed January 27, 1984. At that time brokered deposits totaled $9,300,000 and represented 34% of total deposits of $27,074,000 on the date of closing. These deposits provided the funding for a link-financing scheme involving out-of-territory real estate development loans which resulted in enormous losses, rendering the bank insolvent.

4. West Valley Bank, Woodland Hills, California

Bank closed February 8, 1985. At that time brokered deposits totaled $17,600,000 and represented 53% of total deposits of $33,100,000. Brokered deposits were first introduced into the bank in the second quarter of 1984 and reached a high of $17,600,000 as of the date of closing. These funds provided funding for the acquisition of over $6,200,000 in fraudulent insurance premium financing contracts, which resulted in the bank's failure.

5. Community Bank, Hartford, South Dakota

Bank was closed June 17, 1983. At the time of closing, brokered funds totaled $10,400,000 and represented 27% of total deposits of $39,073,000. Brokered deposits were introduced into the bank in April 1983 and reached a high of $10,400,000 as of the date of closing. These funds provided funding for the purchase of a $10,400,000 annuity from an obscure North Dakota insurance company. The annuity was subsequently determined to be worthless, thus eliminating the bank's capital accounts. The bank was persuaded to enter into this transaction by an individual who had promised to purchase the bank at a price well in excess of its market value.

6. Farmers State Bank, Selden, Kansas

Bank was closed December 20, 1984. At the time of closing brokered deposits totaled $2,900,000 and represented 21% of the bank's total deposits of $13,758,000. Brokered deposits were first introduced in the bank in December, 1983 and reached a high of $3,200,000 in November, 1984. These monies were used to fund bogus loans, causing the bank's failure.

<u>SCHEDULE C</u>

THE 25 LARGEST SUPPLIERS OF FULLY INSURED
BROKERED DEPOSITS TO TROUBLED, FDIC-INSURED
BANKS AND THRIFTS
*(Based upon available survey data as of February 28, 1985)

1.	Merrill Lynch	$771,268,000
2.	Dean Witter Reynolds Inc.	447,000,000
3.	Prudential Bache Securities, Inc.	131,406,000
4.	The First Boston Company	115,500,000
5.	Goldman Sachs & Company	80,000,000
6.	Professional Asset Securities, Del Mar, California	63,979,000
7.	FAIC Securities, Inc., Miami, Florida	44,395,000
8.	First Empire Funding Corp., Huntington, N.Y.	43,564,000
9.	The Calvert Group	41,665,000
10.	A.G. Becker	38,000,000
11.	Golconda Financial, South El Monte, California	31,650,000
12.	Shearson Lehman/American Express	28,700.000
13.	First United Fund LTD, Garden City, N.Y.	28,100,000
14.	Paine Webber	27,003,000
15.	Salomon Brothers	26,000,000
16.	Jessup Group, Westport, Connecticut	26,000,000
17.	MKI Money Markets, Inc., N.Y., N.Y.	20,000,000
18.	Harvey Baskin (CDX), Washington, D.C.	19,593,000
19.	Long Beach Savings & Loan Association, Long Beach, California	14,555,000
20.	TCD National, Inc., Encino, California	14,500,000
21.	Churchill, Burbank, California	14,300,000
22.	Continental Money Markets, Inc., San Mateo, California	12,248,000
23.	Morgan Stanley International	10,000,000
24.	Garvin Guy Butler Corporation, San Francisco, California	10,000,000
25.	TCS Funds Brokerage	9,298,000

* The survey was limited to troubled institutions holding 5% or more of their deposits in fully insured brokered funds and excluded direct placements by other insured banks, thrifts and credit unions.