FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS 75222

Circular No. 70-39
February 17, 1970

To the Chief Executive Officer, Each State
Member Bank in the Eleventh Federal Reserve District:

On the reverse side of this circular is a letter from Arthur F. Burns, Chairman of the Board of Governors of the Federal Reserve System, to the chief executive officer of each state member bank. It concerns the use of "brokered" funds by some banks.

Yours very truly,

P. E. Coldwell

President

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

OFFICE OF THE CHAIRMAN

February 13, 1970

TO THE CHIEF EXECUTIVE OFFICER OF EACH STATE MEMBER BANK:

The use of brokered funds has been responsible for abuses in banking and has contributed to some recent bank closings, with consequent losses to depositors, other creditors, and shareholders. Bankers are again urged to be on the alert to schemes that would expose depositors' and shareholders' funds to the risks involved in loans based on brokered "deposits". They should be especially wary of related out-of-territory loans which may appear attractive because of the amount of brokered money that will be placed with the bank if the loan is made.

The advertisement of excessive yields on deposits solicited for federally supervised banks (whether the premium is provided by the bank or by others), moreover, is prohibited by substantially identical regulations issued by the Board of Governors and the FDIC. To the extent that a bank takes any part in these transactions it is considered to be evading the purposes of the interest-rate regulations. Where the bank pays a fee to a broker and knows or has reason to know that the fee is being shared with a depositor, the bank is also in violation of the interest-rate regulations to the extent the yield to the depositor exceeds the maximum permissible rate.

The Board is concerned that such activities can result in "unsafe and unsound" situations and could adversely affect the overall condition of the bank. Examiners, therefore, have been instructed to continue to report all cases where banks are obtaining deposits at premium rates, whatever the source of the premium, and also to scrutinize any tie-in loans. Appropriate corrective action will be required of all banks where such deposits and loans are found.

We understand that a similar letter is being addressed by the FDIC, the Comptroller of the Currency, and the Federal Home Loan Bank Board to institutions supervised by those agencies.

Sincerely yours,

Arthur F. Burns