

## Understanding the Unique Characteristics of National Market CD Funding

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Why consider national market CD funding? In order for community bank's to offset the widening gap between robust loan demand and the erosion of their core deposit base, it is essential that they incorporate multiple funding alternatives into the mix.

It may surprise you to know that you have the ability to leverage a secondary source of liquidity that is:

- Defined by UBPR as a core deposit
- Available in denominations that are larger than the standard retail deposit
- A stable deposit with a much higher retention rate than an internet deposit.

While it may seem too good to be true, national market CD funding actually meets each of these criterion. Too big to be retail, but smaller than what is generally considered to be a wholesale deposit, national market CDs can serve as the optimal deposit median.

### Reduce the Administrative Burden

In trying to understand the unique characteristics of the national CD market, we should first recognize that these depositors are "non consumer" investors consisting of financial institutions, political subdivisions, non profit organizations and medium size corporations. Investors in this market are looking to place some or all of their liquid assets in certificates of deposit with federally insured financial institutions. One of the intrinsic benefits of national CD market funding to your bank is the fact that these depositors do not qualify as "consumers"; thus, many of the consumer regulations such as Truth in Savings, privacy disclosure requirements and restrictions on deposit gathering are not applicable. Customer Identification Procedure (CIP) requirements in this market are also simplified because a large portion of these investors don't meet the CIP definition of a "customer" and are actually exempt from the regulation's guidelines. This lack of regulatory application alleviates a good measure of the administrative burden currently associated with consumer deposits.

### Minimize the Effect on Liquidity Ratios

Eliminating investment risk is a primary concern for national market depositors. By purchasing large denomination CDs, yet staying just under the insurance limit of 100K (usually 99 or 98K), investors take full advantage of the safety and security of FDIC deposit insurance. Investors will distribute their total investment dollars among numerous institutions to insure that each deposit is fully insured. This highlights another benefit of funding through this institutional investor market. When these depositors purchase their CDs directly from the financial institution in increments of

### About the Author:

Debbie Walker has been with QwickRate since 1988 and leads its ongoing regulatory and compliance efforts. She meets regularly with the FDIC and conducts conferences with various state and national field examiners. Debbie's product and market knowledge, combined with her ongoing regulatory research, provides bankers with a valuable resource to help them successfully implement a national market CD funding plan. Debbie Walker is a graduate of Kennesaw State University with a BS degree in Finance.



## Understanding the Unique Characteristics of National Market CD Funding

less than 100K, the deposits themselves are actually classified by UBPR definition as a “core deposit.” This means that a bank’s direct national market CD funding will not negatively impact the UBPR liquidity ratios used to evaluate the bank’s “dependency on non-core funding”, while other wholesale funding options will.

### Minimize Repricing of Deposits

Banks who want to generate direct deposits in the national CD market can advertise their rates on a deposit listing service. A deposit listing service is a subscription-based program that brings together institutional investors with banks who are interested in expanding their deposit generating capabilities outside of their local market area. This market is wholly separate from your bank’s local market and allows your bank the opportunity to offer CD rates that will not be seen by your existing depositors. This adds yet another advantage; you don’t have to be concerned with the potential repricing of your existing low-cost deposits when offering CD rates in the national market.

### Capitalize On Direct, Non-brokered Status

Current FDIC opinions make clear the fact that listing services should not be classified as brokers because they do not facilitate the placement of the CDs and serve only as information providers. Direct investors who utilize the listing service will conduct their CD purchase directly with the bank, without the participation of the listing service, a third party or deposit broker. It is important to point out that while deposit listing services are not considered “brokers”, deposit brokers do often utilize these information providers to place CDs for their customers. It is the responsibility of the financial institution to properly identify any deposits generated through a deposit broker and classify those deposits accordingly on the call report. Banks should select a rate listing service that controls its audience and makes direct investors easily identifiable.

### Maintain Proper Policies

Bankers should be aware that, though these are non-brokered and non-consumer deposits, they may be considered by regulatory examiners as a volatile source of funding. Your examiner will expect you to maintain policies and incorporate tools that will allow you to identify, monitor and control any risks associated with that volatility. This risk management process can be simplified by subscribing to a listing service that provides not only the marketplace for advertising your CD rates, but also deposit monitoring and analysis tools to assist with tracking deposit activity and quantifying volatility. By incorporating risk management procedures and the tools to monitor and manage this activity, you can utilize national market CD funding and avoid the potential for examiner scrutiny.

Direct, national market CD deposits can provide community banks an easily accessible source of funding. Take advantage of this funding option and put your bank in control to better manage liquidity, while streamlining paperwork and processes.



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### About **QwickRate:**

QwickRate is the premier, online marketplace for non-brokered funds. We provide banks with a cost-effective approach to gain access to the national CD market and speed the process for wholesale funding. Our automated tools put banks in control to get the best rates for their institution and more efficiently manage their portfolio. With no transaction fees and unlimited support and regulatory guidance, our clients rely on QwickRate as a fast and efficient source of liquidity. For more information or to speak with Debbie, contact: 800-285-8626 or visit [www.qwickrate.com](http://www.qwickrate.com).



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