R&T® DEPOSIT SOLUTIONS

Reciprocal Deposits

Drive Deposit Growth and Customer Confidence with Reciprocal Deposits.

As banks face heightened scrutiny over their exposure to commercial real estate—specifically those with larger balance sheet exposure in the sector—it is crucial for bank treasury departments to maintain access to diverse deposit funding sources and demonstrate the stability of those deposits.

Of equal importance is management's ability to effectively manage and communicate the bank's current liquidity position and access to contingency funding plans. Successful implementation of these key initiatives is critical to preserving the confidence of their customers, investors, and bank examiners alike. For many banks, reciprocal deposits have become a larger part of their overall deposit funding strategy, offering a timely and cost-effective solution that can help banks achieve these important goals.

What are Reciprocal Deposits and What Benefits do They Offer Banks?

Reciprocal deposits are a dynamic tool designed for depository institutions to offer their customers expanded FDIC insurance coverage on large deposits, without the limitations of standard deposit insurance caps. By participating in a network of banks that reciprocate deposits among each other, each institution can spread large deposits across multiple banks. This ensures that the entire deposit amount up to the program limit retains access to FDIC deposit insurance coverage, providing peace of mind to depositors and enhanced stability to the banking network. Providing this increased insurance option allows banks to expand the relationships they maintain with their existing customers, and also attract new ones. Through the Demand Deposit Marketplace Program® (DDM®), banks that take advantage of the reciprocal feature can satisfy the needs of their customers, retain access to valuable deposits, and reduce the level of uninsured deposits reported on their balance sheet.

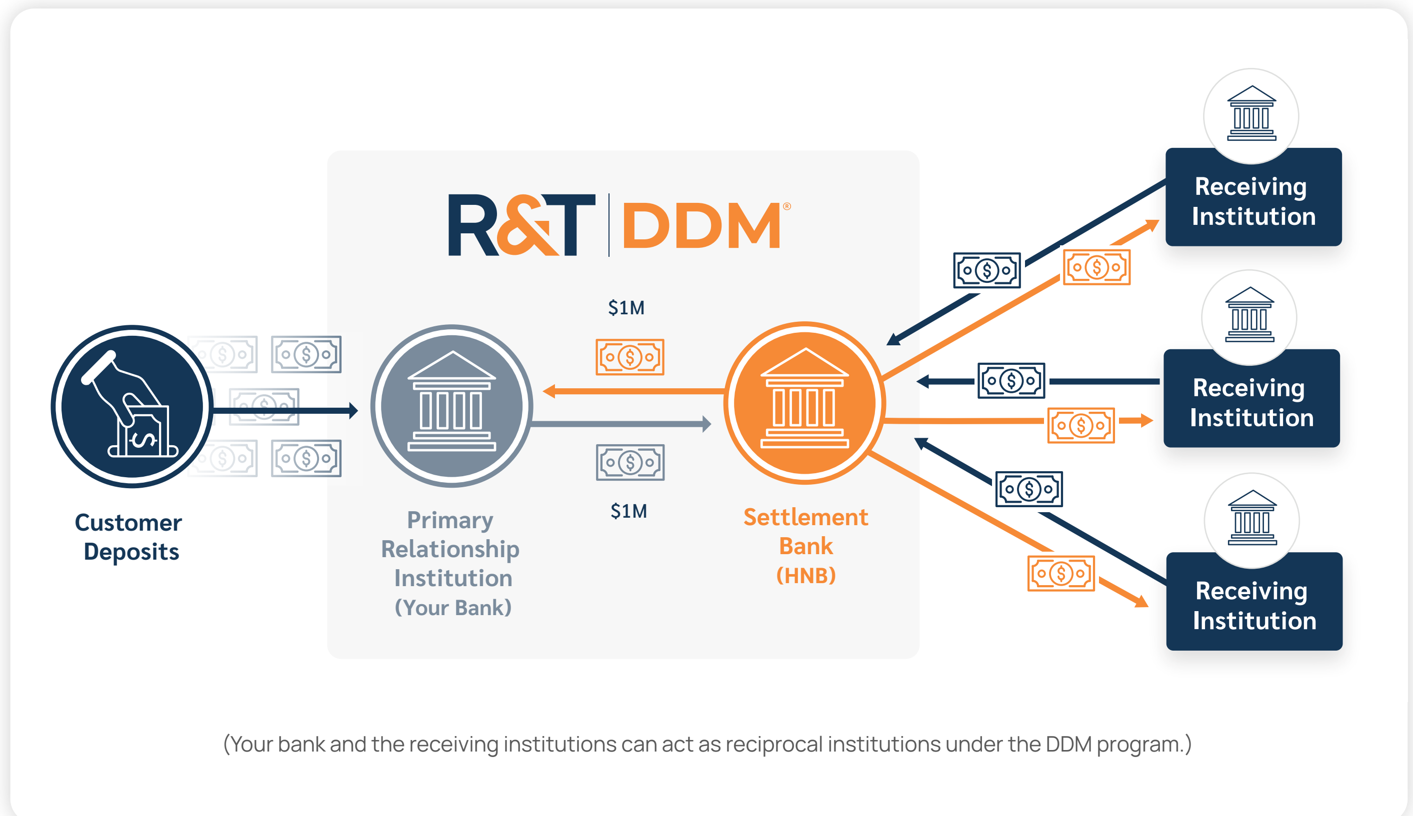
Program Advantages – Reciprocal Deposits:

- Exchange deposits dollar for dollar
- Build customer confidence by offering access to expanded deposit insurance coverage
- Cost effective when compared to surety bonds or collateralization
- Daily liquidity[1]
- Diversify sources of funding
- Maintain deposits to satisfy loan demand
- Support your local community

1 Under the DDM program, funds are deposited into demand deposit accounts (DDAs) or money market deposit accounts (MMDAs) at receiving banks or share draft accounts or share accounts at receiving credit unions. While your customers' funds are held in MMDAs or share accounts, the return of your customers' funds from the DDM program may be delayed as, under federal regulations, the receiving institution is permitted to impose a delay of up to seven days on any withdrawal request from an MMDA or share account.

How Reciprocal Deposits Work

Once your customer is enrolled in the DDM program, deposits in the customer's account at your bank that exceed an agreed target balance are sent daily from that account into the DDM program. Deposits are then allocated into deposit accounts at participating receiving institutions in increments of up to $250K per customer identifier (e.g., TIN)[2], per receiving institution. This allows your customers to access expanded deposit insurance on their funds, up to the relevant program limit[3]. In a reciprocal arrangement, your bank receives matching deposits of equal value from other banks in the network to maintain the full amount of customer funds above a target balance on your bank's balance sheet.



(Your bank and the receiving institutions can act as reciprocal institutions under the DDM program.)

The Demand Deposit Marketplace Program® (DDM®):

Send, Receive, or Reciprocate Deposits through a Single Program

The DDM program offers a unique and flexible solution for banks, allowing banks to strategically manage their balance sheets. It enables banks to move excess balances or secure deposit funding from the network as their needs evolve, all within a single program. The DDM program is especially beneficial for banks looking to retain key customers who require access to higher FDIC deposit insurance coverage than a single institution can provide. This makes the DDM program a highly cost-effective alternative to options like surety bonds or collateralized deposits. Additionally, it levels the playing field for small to mid-sized banks, allowing them to compete with larger institutions. Enhancing community trust in local and regional banks helps these banks meet local loan demand while diversifying their funding sources.

2 Under the DDM Program, your institution may be permitted to allocate your customers' funds to participating receiving institutions in increments of up to $250K per customer identifier (e.g., TIN), per account ownership category, per receiving institution, subject to approval and relevant agreements with R&T.

3 Subject to the DDM Program Customer Terms & Conditions. Any funds placed into the DDM Program above the program limit (being excess funds) are placed into deposit accounts at excess receiving institutions and are not eligible for access to deposit insurance coverage (subject to FDIC/NCUA laws and regulations, which may permit access).

Building Resiliency:

Managing Vendor Concentration Risk by Multi-Provider Approach

In today's dynamic financial marketplace, the importance of building a resilient and adaptable strategy cannot be overstated. Companies face a multitude of challenges that can disrupt operations and affect stability. To mitigate these risks, engaging multiple financial service providers is a strategic imperative. This approach ensures a diversified risk portfolio and provides a crucial buffer against unexpected market shifts and operational disruptions. As reciprocal deposits have grown, many banks now use more than one provider to support their business needs. Service providers play a pivotal role in fostering operational resilience by offering redundancy and continuity of operations. By partnering with more than one provider, businesses can avoid single points of failure, enhancing their ability to maintain seamless operations even when faced with challenges. This redundancy is essential not just for maintaining service continuity but also for ensuring compliance and adherence to evolving regulatory requirements.

While adding a second provider may seem like a challenge, there are steps banks can take to reduce the effort. For one, banks are taking advantage of vendor risk management systems that can help streamline the exchange of information between banks and their vendors and provide ongoing monitoring, making managing multiple providers much easier. In addition, choosing a provider that is sensitive to your bank's requirements and may already have connectivity with your core banking platform or back-office systems provider, can help reduce some of the complexities of adding a second provider, and allow your bank to implement a solution in far less time and with much less commitment of resources.

R&T Deposit Solutions provides banks, broker-dealers, trust companies, and other financial institutions with flexible cash sweep and deposit funding solutions designed to protect their customers' funds and grow their business.

Contact us to learn more:

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