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R&T Capital Insights

A view from Washington on the emerging issues shaping the banking and regulatory landscape.

Dear R&T clients/friends,

Greetings from Washington D.C. and welcome to the inaugural edition of R&T Capital Insights. My name is Jason Cave, and I've had the good fortune of working at the Federal Deposit Insurance Corporation ("FDIC") for 27 years and I have recently joined R&T as a strategic advisor, where I will be sharing my perspectives and providing advice and guidance on regulatory matters to the firm and its clients. I plan to draft a note at least quarterly, or more frequently as issues of note come up, letting you know what's going on in Washington and how this might impact your upcoming examinations. The main goal of this publication is to help you with whatever challenges are coming your way—business, operational and regulatory and that as your partner, R&T stands ready to help.

The benefits of planning:

My mantra is "Always Have a Plan". Why? Because even though plans don't predict the future all that well, the practice of planning builds discipline and helps you support your assumptions with your examiners. I "plan" on providing short summaries, helpful links, and will throw out a few questions to get a discussion going.

Main point is that I want this to be helpful to you — you are running firms and the last thing you need is one more newsletter telling you how bad things are. So before you hit the delete button…drop me an email and let me know — too long, too short, too much, same old same old…and what you'd rather have…maybe a regular podcast or webinar or call in session…guest regulators…happy hour…your call. I am here to serve.

Some of these topics are going to be more involved than a quick note, so I plan on doing more in-depth reviews. Also, I will be hitting the conference circuit so look for me at upcoming events so we can discuss more detail on these topics…you can tell me the events that I should be attending…or you can tell me what you really think about this newsletter. I was a community bank examiner so I can take it!

Recent Regulatory Trends:

The recent flurry of speeches diagnosing the causes and prescribing solutions generally follow a similar and largely accurate theme: large, uninsured deposits that are often a valuable piece of your franchise in good times can be your Achilles heel at the first sign of financial trouble for you and your peers. That matters greatly today because the FDIC reported in May 2023 that uninsured domestic deposits increased at an annualized rate of nearly 10 percent, from $2.3 trillion in 2009 to $7.7 trillion in 2022. That's a big number that's getting much attention in the chief regulators' remarks on the circuit.

Acting Comptroller Mike Hsu's very well-written speech entitled "Building Better Brakes for a Faster Financial World" and delivered at Columbia Law School on January 18, 2024 provides some very sobering — yet accurate — numbers describing the grand scale of the deposit runs at Silicon Valley Bank. https://www.occ.gov/news-issuances/speeches/2024/pub-speech-2024-4.pdf.

"On March 9, SVB endured over $40 billion of outflows—roughly 25% of its total uninsured deposits—on a single day. By contrast, in 2008 Wachovia lost $10 billion of deposits over eight days and Washington Mutual lost $19 billion over 16 days." Mike and I were both on the front lines during the Wamu and Wachovia weekend and if you asked us if we thought liquidity could dry up faster than that, we would have thought you were crazy. Especially in a post-DFA world.

While I agreed with much of what Comptroller Hsu said in that speech, I thought more could have been said about the role of reciprocal deposits in reducing the stock of uninsured deposits, the very source of the problem that the Comptroller and others point to.

To the point, FDIC Vice Chairman Travis Hill provided a different perspective on the spring 2023 crisis in his remarks at the Cato Institute, urging caution on the part of policymakers and examiners before re-opening the liquidity rules and encouraging regulators to think holistically about reforms that reflect how banks actually behave in times of stress. https://www.fdic.gov/news/speeches/2023/spsept2123.html

Different views on the same sets of facts? *Welcome to Washington!*

My opinion:

In my view, I agree that more analysis on how well reciprocal deposit programs and similar structures held up during the latest crisis is warranted. That opinion is coming from someone who spent the better part of 20 years negotiating rule changes in Basel and then in the U.S.

I am hopeful that such research and analysis will be brought forward at the Office of the Comptroller of Currency's ("OCC") upcoming seminar in June on funding. If you are aware of any good research being done in this area, let me know and I will forward their names to the OCC staff sponsoring this event. Rest assured, I will be watching closely what comes out of that conference since it will likely have a bearing on how the regulators tweak the Liquidity Coverage Ratio (LCR). So mark your calendars for a deep dive this summer.

What can I do now to prepare?

I am sure we would all agree that the last 12 months have been some of the most volatile periods we've all experienced in the bank deposit market. And when your funding situation changes quickly, the more providers you have at your disposal the better. The good news is that there are market-based solutions that can be implemented now to mitigate some of the funding and liquidity risks discussed above.

As a regulator, I have seen many instances where only one provider or solution was going to be viable, and I can tell you I always wished for more alternatives. And I would expect the regulators will be looking at contingency plans for all major third-party providers. Having firms like R&T continue to build a strong network in this space strengthens the infrastructure that supports this critical system.

Preparing for upcoming examinations:

Everyone in town has begun executing their 2024 plans, including the bank and credit union regulators. So be ready…be prepared…and have a good plan to support your deposit and funding assumptions to the examination teams. The Conference of State Bank Supervisor's Community Bank Sentiment Index might have increased to 92 last quarter, but 77% of banks surveyed expect regulatory burden to be on the rise in 2024. https://www.csbs.org/cbindex

Looking forward:

Next month I plan on highlighting some of the new changes in store for FDIC-supervised banks for their upcoming exams relating to large concentrations in uninsured deposits. And if your exams are coming up beforehand, here's a helpful link to from my old colleague Brian Peters who ran supervision at the NYFED. https://perspectiveonrisk.substack.com/p/perspective-on-risk-nov-6-2023

Spoiler alert if you don't want to read the full article. The FDIC recently added to their "Concentration Categories Requiring Written Analysis of Risk Management" the following: In addition to listing, examiners are to provide a written analysis on the Concentrations page summarizing the examiner's evaluation of the institution's related risk management practices for each of the following asset or funding concentrations:

Uninsured deposit concentrations represent ***50 percent or more of total deposits.***

If you've already gone through this review and want to share your experiences, please do. Stay in touch and reach out. I am at jcave@rnt.com and you can follow me on my LinkedIn at https://www.linkedin.com/in/jasoncave71/

Notable Upcoming Conferences:

In my opinion, the St. Louis Fed Community Banking Conference is arguably the best venue for tapping into the challenges facing banks across the country. Take a look at the topics covered at last year's conference and you can see why I will be putting this one on my calendar. https://www.stlouisfed.org/on-the-economy/2024/jan/community-banking-conference-risks-industry-faces

The 12th annual Community Banking Research Conference is scheduled for Oct. 2-3, 2024. Updates on the 2024 conference will be posted to the conference website and on X, formerly Twitter. (follow @CBResearchConf)

Be Safe and Be Prepared.

Jason Cave
R&T's Strategic Advisor

About the Author:

After a few years of working on every type of securities portfolio and deposit program you can see in a New England bank, I went on to manage the capital markets, interest rate risk and liquidity operations in Washington, where we launched the new sensitivity to Market Risk Component (aka the dreaded "S") and advised examiners on how they needed to look at core deposit strength and other funding alternatives to survive local and national stresses. If any of you were around in the late 90s, I was the guy at CSBS conferences and at Vining Sparks events telling you that the examiners wanted you to validate your deposit decay assumptions. It wasn't going to be enough anymore to say those deposits would never move.

When the Great Financial Crisis hit, I found myself working as Sheila Bair's deputy, told my young family I would see them in three years, and went to work on situations that still give me nightmares to this day. We had to put some programs together without the luxury of time, and while some worked better than others, most of us would much rather have had the private market develop sustainable solutions.

The good news is that market providers such as R&T Deposit Solutions have filled several critical gaps in the financial plumbing, which have held up rather well under the pressure testing of last year's crisis. This is why I feel very fortunate to be named a Strategic Advisor at this well-established firm, which has built upon its success in the broker-dealer and trust space to provide banks and credit unions greater certainty and stability in their funding positions in these challenging times.

The opinions expressed in this commentary are my own and subject to change based on evolving market conditions, regulatory developments, and other factors. Readers should exercise caution and consider the suitability of any recommendations in the *context of their own financial objectives and risk tolerance. I am committed to transparency and integrity and I encourage readers to conduct their own research and consult with a qualified financial advisor before making any financial or investment decisions.*

About R&T Deposit Solutions

Founded in 1974, R&T Deposit Solutions provides deposit funding, liquidity management and securities-based lending programs to the financial services industry. Through its tech-enabled services, R&T helps banks, credit unions, broker-dealers, trust companies and wealth managers meet their unique cash sweep, deposit funding, and securities-based lending needs. As a recognized leader in the administration of deposit networks, the Demand Deposit Marketplace® (DDM®) program administered by R&T provides banks and other depository institutions access to billions of dollars in reciprocal deposits, and for their underlying customers, access to expanded levels of FDIC insurance coverage on their deposits through other participating banks in the program. For a list of banks in the networks administered by R&T, visit https://rnt.com/about/bank-lists/. R&T is a portfolio company with the majority interests owned by private equity firms, GTCR and Estancia Capital Partners. Both firms have partnered with R&T to expand its market presence and achieve sustained growth by further strengthening R&T's leadership team, expanding its product offerings and enhancing the firm's risk management and technology infrastructure.