



## Reciprocal Deposits

# Drive Deposit Growth and Customer Confidence with Reciprocal Deposits

With the increased attention on banks with exposure to commercial real estate, specifically banks that may have a larger balance sheet exposure to the sector, maintaining access to diversified sources of deposit funding and demonstrating the stability of those deposits are critical dual mandates for bank treasury departments. 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 deposits that a bank receives through a network of institutions in return for placing an equal amount of deposits at other participating institutions in the network. Banks send deposit balances into the network to provide their customers access to expanded FDIC insurance and by receiving an equal amount of deposit back from the network, they retain the same level of deposit balances. For many banks, offering higher levels of FDIC insurance satisfies the needs of high-balance customers who value principal preservation. Providing this increased insurance option allows banks to expand the relationships they maintain with their existing customers and can also market to attract new ones. Through the Demand Deposit Marketplace Program®(DDM®), banks that 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.

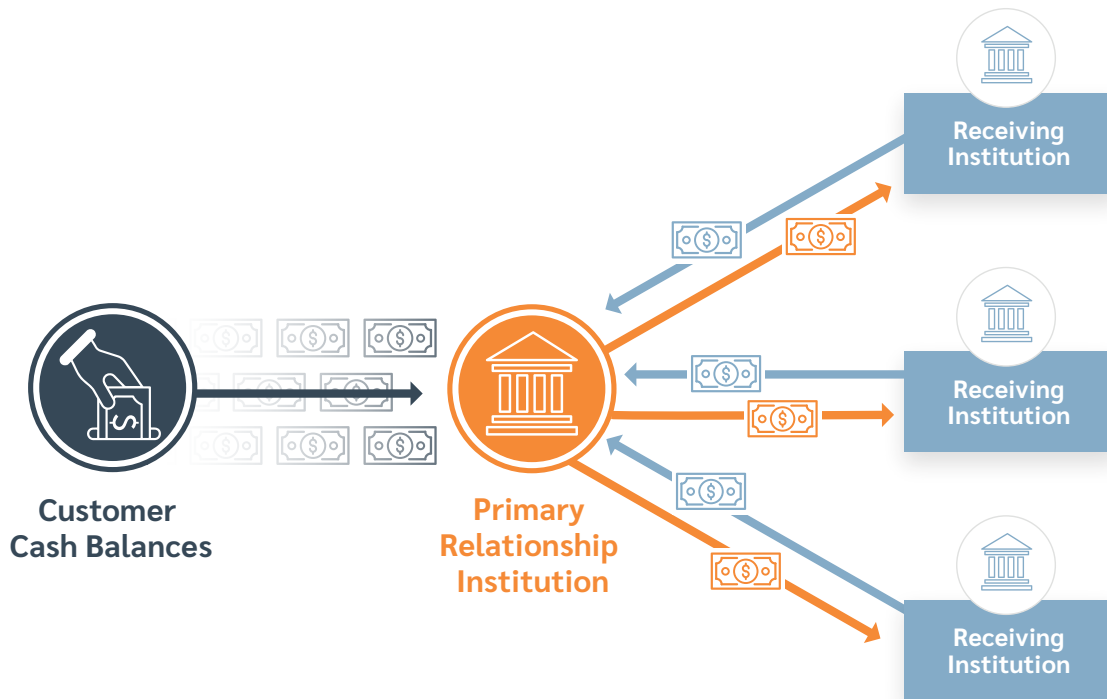
## Program Advantages – Reciprocal Deposits:

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

## How Reciprocal Deposits Work

Once a customer has been enrolled in the DDM Program, customer deposits that exceed a target balance established at their primary relationship bank are sent daily to/from their account at their bank into the DDM program. Deposits are then allocated to accounts held at other well-capitalized network banks that participate in the DDM program. Deposits are allocated to as many institutions as necessary, in increments below \$250k\*, to ensure that customers' deposits are insured up to the program limit. In a reciprocal arrangement, the sending bank receives matching deposits of equal value from the network to maintain the full amount of customer funds above the target balance on their balance sheet.

\* Per eligible depositor (e.g., based on TIN), per receiving institution, per account ownership category



*(Receiving banks represent reciprocal institutions as defined in the DDM program.)*

## The Demand Deposit Marketplace Program® (DDM®):

### Send, Receive or Reciprocate Deposits through a Single Program

The DDM program is a unique solution as it provides banks the flexibility to strategically manage their balance sheet, enabling them to send excess balances or receive deposit funding from the network as their needs change, all through a single program. As highlighted above, The DDM program can help banks maintain key customers that require higher FDIC deposit insurance coverage than a single bank can offer. This is an incredibly valuable product offering for banks because it is an affordable solution compared to options such as surety bonds and collateralized deposits. Another key benefit of the DDM Program is that it allows small to mid-sized banks to level the playing field with large banks by reinforcing the community's confidence that their money is safe with local or regional banks, enabling them to satisfy local loan demand while diversifying their funding sources.

## Building Resiliency:

### Managing Vendor Concentration Risk by Multi-Provider Approach

In the current environment, banks are reevaluating their critical service providers to mitigate vendor concentration risk, especially in the areas of liquidity and funding. As reciprocal deposits have grown, many banks now use more than one provider to support their business needs. This ensures access to expanded FDIC insurance coverage for their customers and secures another source of reliable funding to protect themselves in the event of a service disruption. Finally, a multi-provider approach enables banks to tailor a solution that best supports the needs of their customers and their business model.

Recognizing the potential risks associated with third-party vendors, The Federal Reserve, FDIC, and the Treasury, (The FBA) recently issued proposed guidance<sup>1</sup> on managing third-party relationships that states, “a banking organization can be exposed to substantial financial loss if it fails to manage appropriately the risks associated with third-party relationships. Additionally, a banking organization may be exposed to concentration risk if it is overly reliant on a particular third-party service provider.”

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 the process of managing multiple providers much easier. In addition, choosing a provider that is sensitive to your 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.

<sup>1</sup> The Federal Register - <https://www.federalregister.gov/documents/2021/07/19/2021-15308/proposed-interagency-guidance-on-third-party-relationships-risk-management>

R&T Deposit Solutions provides banks, broker-dealers, trust companies, wealth managers, and other financial institutions with a comprehensive selection of products and services, designed to meet their unique cash sweep and deposit funding needs.

### Contact us to learn more:

866-237-2752 | [info@rnt.com](mailto:info@rnt.com) | [www.rnt.com](http://www.rnt.com)

Version MKT-154-002W – 28 May 2024

Copyright © 2024 Stable Custody Group II LLC. All rights reserved. Stable Custody Group II LLC (a Delaware limited liability company and affiliate of Reich & Tang Deposit Solutions, LLC d/b/a R&T Deposit Solutions), and/or its affiliates (together, “**Stable**”, “**we**” or “**our**”) provide administrative, recordkeeping, agency and other services to banks, credit unions and other institutions with respect to the Demand Deposit Marketplace® (“**DDM**”) program. All of our services are provided subject to the terms and conditions of the written agreements entered between Stable and its client with respect to our services, and we provide no representations or warranties, express or implied, except as expressly set forth in those written agreements. [Click here](#) for our legal and other disclosures. **We are not an FDIC or NCUA-insured institution. FDIC and NCUA insurance only covers the failure of an FDIC or NCUA-insured institution, respectively. Certain conditions must be satisfied for FDIC and NCUA pass-through deposit insurance coverage to apply. Click here for a list of the FDIC and NCUA-insured institutions with which we have a business relationship for the placement of deposits under the DDM program, and into which a participating institution may place deposits** (subject to the program terms and any opt-outs by the participating institution and/or its customers). While the DDM program provides access to an expanded level of FDIC or NCUA insurance coverage on funds placed into the program (up to the program limit and subject to program terms and FDIC and NCUA laws and regulations, including pass-through insurance coverage requirements), **the DDM program, itself, as well as R&T’s other service offerings are not insured or guaranteed by the FDIC or NCUA, are not deposits and may lose value** in certain circumstances as described in the program/service terms. We are **not** a division of the FDIC or NCUA, we are **not** associated with the FDIC or NCUA and we are **not** insured by the FDIC or NCUA. For more information about us, please visit our website at <https://www.rnt.com>. The primary objective of the DDM program is to provide customers with convenient access to expanded FDIC insurance coverage on their funds (and not for investment enhancements, higher rates of returns or profits). R&T®, Reich & Tang®, Demand Deposit Marketplace®, DDM® and DepositView® are registered marks of Reich & Tang Deposit Networks, LLC. IDEA<sup>SM</sup> is an unregistered service mark of Reich & Tang Deposit Networks, LLC.

