



Office of Thrift Supervision
Department of the Treasury
1700 K Street, N.W., Washington, D.C. 20541 • (202) 906-8500

Richard M. Riccobono
Deputy Director

RESCINDED

This rescission does not change the applicability of the conveyed document. To determine the applicability of the conveyed document, refer to the original issuer of the document.

July 5, 2000

MEMORANDUM FOR: CHIEF EXECUTIVE OFFICERS

FROM: Richard M. Riccobono *Richard M. Riccobono*

SUBJECT: DEPOSIT BROKER ALERT

You should be alert for potential problems associated with brokered deposit arrangements provided by San Clemente Securities, Inc. (SCS), San Clemente, California.

On June 29 the FDIC sent an alert memorandum to the chief executive officers of the banks it supervises directly. A copy of this memorandum is attached and explains the safety and soundness concerns associated with the transactions described. You should carefully read the FDIC's warning and make a review of your savings association's operations as appropriate to determine if the subject matter has application to you. If you should detect any discrepancies concerning deposit or securities transactions with SCS you should notify your OTS Regional office.

ATTACHMENT

June 29, 2000 FDIC CEO Memorandum – DEPOSIT BROKER ALERT



Financial Institution Letters

DEPOSIT BROKER ALERT

FIL-41-2000
June 29, 2000

TO: CHIEF EXECUTIVE OFFICER
SUBJECT: *"Zero-Coupon" Investments, San Clemente Securities, Inc., San Clemente, California*

The Federal Deposit Insurance Corporation (FDIC) is alerting you to potential problems it has identified in brokered deposit arrangements that financial institutions have entered into with San Clemente Securities, Inc. (SCS), San Clemente, California, which may raise safety and soundness concerns.

SCS, formerly known as San Clemente Financial Group, Inc. (SCFGI) and/or San Clemente Financial Group (SCFG), is a registered broker dealer that has listed its deposit broker activity with the FDIC. SCS is engaged in the business of brokering certificates of deposit, selling other investment products, and providing custodial services through an entity known as United Custodial Corporation (UCC), San Clemente, California. UCC conducts business in the same location as SCS. The certificates of deposit are currently held in custody by UCC.

Recent FDIC examinations have uncovered potential safety and soundness concerns in connection with a bank's participation in a financial package marketed as a "reverse arbitrage" in which SCS sells long-term, zero-coupon certificates of deposit to the institution. The purchase of these investments may be tied to an agreement by the bank to accept short-term, below-market-rate deposits from SCS. In some cases, it appears a substantial broker's fee has been extracted from the amount invested in the zero-coupon certificates, reducing the certificates' value to below the contract amounts. This fee may not have been disclosed by SCS to the banks engaging in these transactions. Additionally, the names of the institutions issuing the purchased certificates were not disclosed to the investor, precluding the investor from verifying its deposit directly with the issuer. Nor were the issuing institutions always informed that the deposits they received were from other parties, as customers of SCS. Some issuing banks believed the deposits they received were institutional deposits of a custodial company, not brokered deposits.

SCS has a history of problems with federal and state regulatory agencies. The National Credit Union Administration issued a Cease & Desist Order, dated July 10, 1997, against SCFGI and SCFG and three of its principals. The order issued by the NCUA addresses oral and written misrepresentations made to federally insured credit unions. NCUA has informed the FDIC that the order remains in effect. Additionally, the banking and/or securities authorities of nine states have taken administrative action against SCS.

If your institution has any deposit or securities transactions with SCS, give them your close attention and notify your primary regulator if any discrepancies are discovered.

Banks should be cautious when participating in unusual financial arrangements and should be particularly thorough when assessing investments that offer an off-market rate of return or funding with below-market costs. Additionally, it is important to perform due diligence to verify the legitimacy and experience of the entity offering such arrangement.

Inquiries may be directed to FDIC's Special Activities Section, 550 17th Street, NW, Room 6012, Washington, DC 20429. For your reference, all FDIC Financial Institution Letters published since January 1995 may be found on the FDIC's Web

site at www.fdic.gov/news/news/financial/1999/index.html.

James L. Sexton
Director

Distribution: FDIC-Supervised Banks (Commercial and Savings)

NOTE: Paper copies of FDIC financial institution letters may be obtained through the FDIC's Public Information Center, 801 17th Street, NW, Room 100, Washington, DC 20434 (800-276-6003 or 202-416-6940).

Last Updated 06/29/2000

communications@fdic.gov

[Sitemap](#) | [Search](#) | [Help](#) | [Home](#)