

Case Study: Citizens Bank & Trust



Citizens Bank & Trust ("Citizens") is a rural banking company with over \$1 billion in assets and offices in 24 towns in North Central Missouri. Like a number of growing community banks throughout the country, Citizens holds a large number of public deposits – with public funds comprising up to 20 percent of the banks' total deposits. Prior to the amendment of the Missouri public funds statutes in 2004 that had the effect of enabling public funds to be placed through CDARS, Citizens was required to collateralize the funds with securities that are in compliance with Missouri State Statute Section 30.270.1, RSMo (as amended) or with private surety, and to mark collateral to market.

Financial Proposition

Replace collateralized public deposits with CDs placed using CDARS®, eliminating the collateralization requirement.¹

Public funds are an important source of core deposits for many small- to medium-sized financial institutions. Yet they come at a price: a requirement in most states that uninsured deposits be secured by pledged collateral (usually an investment like Treasuries) or backed by a surety bond.



These requirements can make public funds less appealing for banks. As you know, collateralized deposits tie up funds that generally could be used for lending or investing at higher rates of return. But did you know that, according to some of our Network Members, the opportunity cost associated with this can run a whopping 300-400 basis points in the current rate environment. And that's just the beginning. As you are well-aware, there is an administrative burden (and related tracking cost) associated with marking pledged securities to market. Based on what Network Members have told us, our sales force believes that, nationwide, the average cost of reporting changing collateral values on a recurring basis runs 15-25 basis points. (Even large financial institutions find it expensive; in fact, one super-regional bank told us it charges 20 basis points back to its branches for having to collateralize a deposit.) Add that to the 300-400 basis point opportunity cost identified above and banks "lose" 315-425 basis points in total.

Taken as a whole, these costs eat into a bank's profitability and can lead it to offer lower rates on collateralized deposits; the latter, in particular, can render a bank less competitive among public fund investors – coveted large dollar depositors who are often perceived as pillars of the local community (precisely the type of customer that community banks want to attract!).

With the CDARS service, member banks can provide customers with access to multi-million dollar FDIC insurance. In many cases, using CDARS eliminates the need for collateralization. This can result in time-saving conveniences for depositors (among other things, they won't have to wade through a myriad of reports about the value of their collateral). And it also helps the bank; Network Members can use CDARS both to enhance profitability from existing customers (or, if desired, to raise rates based on the expected cost-savings) and to attract new customers, while controlling their cost of funds with a deposit pricing structure.

CDARS®

¹ As of March 2006, the laws of more than thirty-five states may be interpreted to permit the deposit or investment of public funds through CDARS by some categories of government entities, such as state treasurer, municipalities, counties or school districts. It is the responsibility of the public funds depositor to determine and comply with applicable restrictions on its investment authority.



Of course, a bank may have the option of purchasing surety bonds to provide public fund investors with the added assurance needed. But keep in mind that, by our estimation, the cost of working with surety bonds *without accounting for the administrative tracking costs* runs approximately, 15-19.5 basis points – more than it has to when compared to an alternative like CDARS. And, as you know, surety bonds are typically purchased "in block," for "peak coverage" (the anticipated maximum need for deposits that can fluctuate widely), and carry minimum maturities that can run six months or a year. This frequently results in banks purchasing more coverage than they really need. In contrast, CDARS can provide coverage for an exact amount and for shorter, more flexible terms.

Want to know more about the benefits of CDARS? Just ask Bill Young, Chairman of Citizens Bank & Trust.

"Because of CDARS, we have been able to shift millions out of lower yielding repurchase agreements and pledgeable investments into higher return investments or loans. We have become more rate competitive, which helps us gain more market share and it provides a higher return for our public fund or repurchase agreement customers. We are a community bank, so we strive to offer products that are good for our overall communities, not just what is good for the Bank. It's a win-win for us and our customers."

Citizens' Results

- Over \$400 million in volume placed through CDARS from June 2003 to March 2006 (\$274 million in 2005 alone).
- Public funds deposits that currently make up 40% of the bank's active volume placed through CDARS.
- Administrative tracking costs that have been reduced.
- Deeper relationships, strengthened loyalty, and increased opportunities for cross-selling other bank services.

Learn More

To learn more about how to market CDARS to the convenience-minded public funds investor, please contact Promontory Interfinancial Network at 1-866-776-6426.



Citizens Bank & Trust

Since 1889

CDARS

Funds may be submitted for placement only after a depositor enters into a CDARS Deposit Placement Agreement with a Network Member bank.

This testimonial may not be representative of the experiences of other Network Members and is no guarantee of future performance or success.

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