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WASHINGTON

ABA to Approve System for Sharing Deposit Coverage

■ BY ROB BLACKWELL

WASHINGTON — The American Bankers Association will endorse a new service from Promontory Interfinancial Network that allows community banks to offer potentially unlimited federal insurance on certificates of deposit.

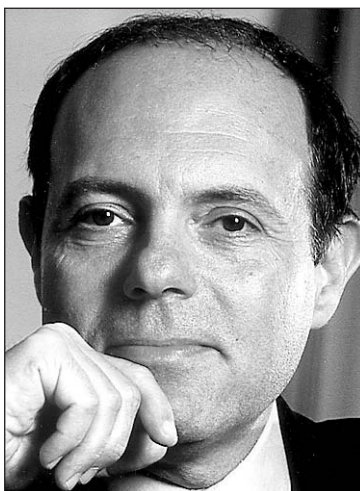
The endorsement could provide more momentum to the service, which uses a network of banks to share insured deposits. Promontory officials said the number of banks that have signed up for the service has more than doubled since it officially went online last month, to 170.

“The response has been more than I expected,” said Eugene A. Ludwig, Promontory’s chairman and chief executive officer, and a former Comptroller of the Currency. “It is way above our projections. It is just off the charts.”

Promontory plans to have 1,000 banks signed up for the service by yearend.

Mr. Ludwig is scheduled to address the ABA’s community banking conference in Hollywood, Fla., today, where the group will formally announce its endorsement.

“Our members have consistently told us that they need a long-term solution to attract the new deposits necessary to fund lending and investment activities in their communities,” and the Promontory service



Ludwig: Bankers’ response to the system has been “just off the charts.”

“is such a solution,” Donald G. Ogilvie, the ABA’s president and chief executive officer, said in a statement.

The Corporation for American Banking, a for-profit subsidiary of the ABA, researched the service, including the software, finances, and legal contracts behind it, before deciding to endorse it. “A lot of banks just don’t have the time, expertise, or financial resources to find the best consultants to work with them,” said John Wolff, the subsidiary’s managing director.

The Promontory service was founded by three former regulators: Mr. Ludwig, Alan Blinder, a former vice chairman of the Federal Reserve Board, and Mark Jacobsen, a former chief of staff at the Federal Deposit Insurance Corp. and the Office of the Comptroller of the Currency.

The service allows member banks to offer insured CDs of any size to customers. If a customer’s deposits exceed the per-account limit of \$100,000, the bank can put the excess funds with another bank in the network and, in return, would receive an equal amount of funds from other member banks. The system allows each member bank to set the interest rate for the entire CD, so the customer gets one rate and deals with one institution but can get unlimited coverage.

It remains to be seen if the service will affect the deposit insurance reform debate in Congress. Some observers argue that, since there is now a private-sector way to obtain more than \$100,000 of coverage, there is no need to raise the per-account limit. But House Financial Services Committee Chairman Michael G. Oxley, who with Rep. Spencer Bachus reintroduced a reform bill last week that included coverage increases, said he has seen no evidence that the service will alleviate pressure on Congress to act. ■

For more information about Promontory, call 1-866-776-6426 or visit www.promnetwork.com