

AMERICAN BANKER[®]

THE FINANCIAL SERVICES DAILY

Tuesday, June 24, 2003

WASHINGTON

Promontory Ready to Offer Increased Coverage on IRAs

■ BY ROB BLACKWELL

WASHINGTON — While the Senate continues to debate the wisdom of raising the deposit insurance limit for individual retirement accounts, a private group of several ex-regulators has beaten them to the punch.

The Promontory Interfinancial Network is expected to announce today that it has expanded its deposit-sharing service to allow bankers to get federal insurance for IRAs with as much as \$1.5 million of deposits — 15 times the current limit.

Eugene A. Ludwig, Promontory's chairman and chief executive officer, said it adapted its service, which it started five months ago, to include IRAs after requests from several bankers and from Diane Casey-Landry, the president of America's Community Bankers.

"We expect response to be pretty good, because they came to us. We didn't go to

them," Mr. Ludwig said. "That's usually a good sign."

Ms. Casey-Landry said the new offering is a "real opportunity" that could help banks regain some of the retirement money

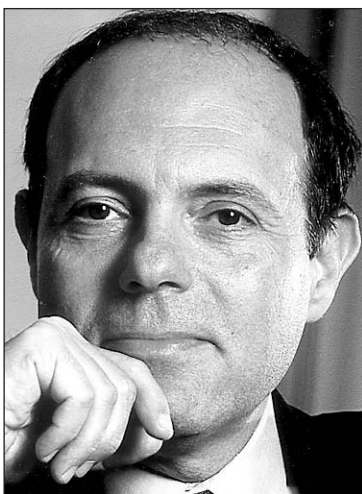
The service could add even more momentum to Promontory's significant growth since its debut in January. Mr. Ludwig said that nearly 500 banks are now using its service, a number the company hopes to double by yearend.

The former Comptroller of the Currency would not say how many deposits are insured under the system, citing competitive concerns. But, according to Promontory executives, deposit volume has doubled each month since April, and the average deposit's size is \$600,000.

"Transactions have grown predictably, commensurate with the number of banks in the network," said Mark Jacobsen, Promontory's president and chief operating officer and a former chief of staff at the OCC and

the Federal Deposit Insurance Corp.

Begun by three veterans of regulatory agencies — Mr. Ludwig, Mr. Jacobsen, and former Federal Reserve Board Vice Chairman Alan Blinder — the service



Demand: Ludwig, left, says banks approached his firm about the service. Jacobsen says Promontory will soon offer CDs with longer maturities.

that has left the banking system. "We would like to put banks back in the competitive playing field. I think this product will help do that. It is a marketplace solution."

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enables banks to offer FDIC insurance for certificates of deposit of up to \$1.5 million.

If a customer's deposits exceed the government's per-account limit of \$100,000, a participating bank can put the excess funds with other banks in the network. The bank that originated the account pays Promontory a fee, based on the size of the deposit. In return, the originating bank receives an equal amount of funds from other member banks when they get deposits exceeding \$100,000.

The system allows the originating bank to set the interest rate for the entire CD, so the customer deals with one institution but gets substantially higher coverage than would otherwise be available for a single account.

Promontory currently offers the service for CDs with four different maturities — one month, three months, six months, and one year. Mr. Jacobsen said that, starting in mid-July, it will allow banks to offer CDs with maturities of two and three years.

Mr. Ludwig said he has been surprised by some of the other ways banks have used the service —for example, to lower their overall cost of funds and to widen net interest margins.

Since the debut of the CD service some observers have predicted that it would affect the deposit insurance reform debate in Congress, where a bill to raise the coverage limit by 30%, to \$130,000, has already passed the House. The legislation also would raise coverage for municipal and individual retirement accounts. Proposed coverage increases are less popular in the Senate, where regulators have endorsed a bill without any.

Some have argued that the Promontory service would remove support for raising the levels, while others claim that it shown that there is a demand for an increased federal guarantee.

So far, however, the effect appears to be muted. Rep. Spencer Bachus, R-Ala., the House bill's author, said in February that community banks still want higher limits, and Ms. Casey-Landry said her group's members continue to support increased limits for IRAs in the Senate bill.

FDIC Chairman Don Powell said that he backs a higher limit for IRAs and noted that not every bank has hired Promontory.

Reviews for the service from regulators, bankers, and observers has been positive so far.

"It's the market at work," Mr. Powell said in an interview Monday. "It is the market attempting to address a need."

Curtis Hage, the chairman and CEO of Home Federal Bank in Sioux Falls, S.D., said that Promontory's training process went smoothly and that he looks forward to offering the IRA service. "That would be a great tool to have."

North Carolina Commissioner of Banks Joseph A. Smith Jr. said that, from what he has seen so far, the service is a good way for banks to cement relationships with older customers who worry about deposit coverage.

"We have looked at it, and we are modestly amenable to it," though his office is still conducting research, Mr. Smith said. "There is a lot of activity in the senior crowd moving CDs around to make sure they maintain insurance. That can be an issue for community banks."

Even Bert Ely, an industry analyst based in Alexandria, Va., and an outspoken critic on many deposit insurance issues, said that the service seems to be working well. "I continue to think, 'Why the hell didn't I think of that?'" he said. ■

For more information about Promontory,
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