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New service helps savers get federal insurance protection on deposits above \$100,000

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There are times when consumers want to put a lot of money into a bank but hesitate because the amount exceeds the federal deposit insurance limit of \$100,000.

It happens when people sell their homes, or inherit money from a relative, or get a large insurance settlement or take a lump-sum retirement payout or win a lottery.

Now there's a new company, founded last year by former government regulators, that's making it possible for consumers to get full Federal Deposit Insurance Corp. coverage on deposits of up to \$5 million.

The Promontory Interfinancial Network, based in Arlington, Va., is doing it through a program it calls the Certificate of Deposit Account Registry Service, also known as CDARS and pronounced like the word "cedars."

Banks that sign up for the program - so far 600 have - basically swap funds using Promontory's matchmaking computer service. As a result, a consumer's deposit of \$250,000 at one bank is divvied up among three financial institutions, with each account eligible for the maximum FDIC protection.

"It's a great service," said Don Ogilvie, president of the American Bankers Association, a trade group based in Washington, D.C. "It's beneficial for consumers, because they get the coverage they want. ... And it's good for banks, because they can attract and hold new deposits."

The FDIC has affirmed that the accounts qualify for federal insurance protection, saying in a letter to a California institution that "deposits placed through the CDARS system would be insured on a passthrough basis under the FDIC's rules."

Insurance coverage is important because if a bank fails, the insured depositors get all of their money back. Those without protection can lose some - or all - of their savings. In the more than 30 bank failures over the past five years, some \$255 million in deposits were uninsured, according to FDIC statistics.

James L. Smith, a vice president at Premier Bank in Jefferson City, Mo., said CDARS have been a boon to the bank and its customers.

"We have associations whose bylaws require them to be fully FDIC insured, nonprofits like the soybean association," Smith said. "Now we have a way to help them."

The other benefit, he said, is the consumers with large deposits can deal with a single bank.

That's what appealed to Cheri Davis, 46, of nearby New Bloomfield, Mo., who found herself as the caretaker for a family inheritance.

"I thought I was going to have to put it in several banks until I learned about CDARS," Davis said. "It's so much easier than running around and taking care of accounts at different banks."

Premier Bank set the rate on the certificates of deposit that she bought, and she gets a single statement every month that details

where the CDs are and how much they've earned.

"I told my husband about it, and he liked the idea so much that we put our money into a (CDARS) account, too," Davis said.

The founders of Promontory include Eugene A. Ludwig, a former U.S. Comptroller of the Currency, which is responsible for regulating federally chartered banks; Alan S. Blinder, a former vice chairman of the Federal Reserve, and Mark P. Jacobsen, former chief of staff at the FDIC.

Ludwig, who is chairman and chief executive, said the service was launched to satisfy two needs.

"Community banks were looking for funding, and consumers wanted a safe place to put their money," he said.

Ludwig recalled watching his aunt, a survivor of the Great Depression, take her retirement savings "and go around Philadelphia, bank to bank to bank" making small deposits to ensure it was all federally insured.

With CDARS, he said, "we're going to do the running for you."

In addition to consumers, the service is also attracting deposits from small businesses and trusts as well as charities and other nonprofit organizations that want to keep their funds safe.

Participating banks cover the cost, which is 0.12 percentage point on a one-year savings certificate of \$100,000, he said.

On the Net:

www.fdic.gov

www.aba.com

www.cdars.com

www.premierbank.com