



## Better Together

Community banks pool resources to meet customer deposit demand

By Bridget McCrea

**B**arely an hour after being interviewed for this article, Kevin McGuire got a phone call from a large customer wanting to make a \$17 million deposit. With the help of Promontory Interfinancial Network's Certificate of Deposit Account Registry Service (CDARS), this CEO of Palm Desert National Bank was able to provide that customer with all the FDIC coverage needed, while at the same time bumping his bank's assets over \$300 million.

Palm Desert National, with three locations, 70 employees and an additional 105 staffers who handle the bank's electronic banking division (which manages 17,000 ATMs nationwide) got involved with CDARS in June 2003. The program provides financial institutions with a network of more than 1,000 banks.

Through the network, those member banks can offer their customers up to \$20 million in FDIC insurance as a means to obtain funding; attract, grow and retain customer relationships; increase net interest margins; and diversify funding sources.

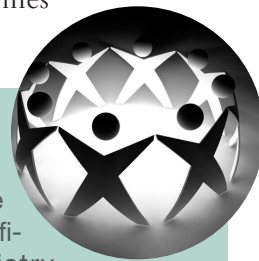
The program is well suited for the country clubs and homeowner's associations, and other high-dollar-volume customers that Palm Desert National serves. So far, 20 customers have run \$42 million in deposits through the program, which the bank promotes through newspaper ads featuring messages like "Don't put all of your eggs in one basket."

He anticipates a time in the near future when the state of California approves the use of CDARS by its municipalities. "We think that could be a phenomenal source of deposits for our bank," says McGuire, "and for other independent banks in our region."

### Spreading the Wealth

Last year, Arlington, Va.-based Promontory formed a cooperative alliance with ICBA to tell its members about the CDARS service. Under the terms of the arrangement, ICBA members are periodically eligible for favorable pricing.

To offer CDARS, a bank must belong to the network, which today comprises over 1,000 institutions in all 50 states plus the District of Columbia and Puerto Rico. A CD placement service, CDARS kicks into gear when a customer makes a deposit through a single member bank. Using a computerized matching service, those funds are sliced up into CDs of less than \$100,000, thus ensuring that both principal and interest are eligible for full FDIC insurance protection. Those individual deposits are then placed with other network banks. The FDIC has stated that deposits placed through CDARS meet the "pass through" insurance coverage guidelines established by the agency.



**P**romontory Network and ICBA have entered into a cooperative alliance to offer the Certificate of Account Registry Service (CDARS) to ICBA members. With CDARS, community banks can offer a customer up to \$20 million in FDIC insurance coverage. Call (866) 776-6426 to find out about a limited-time offer exclusively for ICBA members or visit [www.promnetwork.com](http://www.promnetwork.com) to learn more about the program.

### WANT TO KNOW MORE?

**T**o learn more about the CDARS program, visit Promontory Financial Network online at [www.promnetwork.com](http://www.promnetwork.com), or call (866) 776-6426.

Phil Battey, vice president of public affairs for Promontory, says the CDARS program has grown significantly since inception, having started with just a handful of banks whose deposits were eligible for \$260,000 of insurance coverage.

"We're signing on one new bank every business day," says Battey. He expects growth to eventually plateau to about 4,000 total banks (slightly fewer than half of the community banks operating in the United States).

To participate, banks pay a one-time implementation fee that ranges from \$2,000 (for a bank with less than \$100 million in assets) to \$35,000 (for one with \$50 billion or more). Banks also pay a transaction fee that ranges from 2.5 basis points (for a 4-week CD) to 24 basis points (for a 3-year CD).

CDARS is especially valuable for independent banks like American Bank of Texas, N.A., in Marble Falls, Texas. Mark Few, executive vice president, says the 118-employee bank has funneled about \$7 million in deposits through CDARS since signing up for it in March 2004. "We wanted a product that we could offer our high-net-worth customers," says Few, whose bank has \$300 million in assets. "We learned about CDARS through some banking circles and decided to investigate. After looking at the mechanics of it, we gave it a shot."

And while those deposits are dispersed among multiple banks nationwide, the customer accesses one centralized reporting system through the local community bank that took the original deposit.

Early on, Few says adapting to CDARS' reporting style posed a slight challenge for American Bank, which had to start classifying those deposits separately on its general ledger. "Getting through the initial start-up phase and learning the ropes of the accounting process was a bit tricky," says Few, who relied on Promontory to help walk his staff through the intricacies of the program. "Once we got our arms around it, it wasn't a big deal."

American Bank, which promotes the CDARS through its Web site and on banners hung in its six branches, offers the program to all of its customers, particularly those with bank balances or deposits that exceed \$100,000. Whereas such customers in the past may have taken their assets to a larger competitor, they can now rest easy, knowing that their independent bank can handle larger deposits.

"We've been able to place those deposits for them," says Few, "instead of losing them to another bank or financial service company outside of the banking industry."

### Reducing Paper Shuffle

At United Community Bank in Perham, Minn., CDARS fills a different need. With two locations, 45 employees and \$150 million in assets, the bank relies on the program to help it manage deposits from political jurisdictions. When such deposits exceed the FDIC deposit threshold, the bank must pledge marketable securities, which translates into added work for the institution (such as having pledge agreements signed, listing and notifying safe-keeping agents and calling bonds).

"It creates a pretty significant paper shuffle," says Charlie Cavanaugh, bank president. In July 2005, looking to stem that paper flow, the bank signed up for CDARS. Just a few months into it, the bank has already signed up several public funds, the city and school system for the program. Private customers are also interested, says Cavanaugh, who calls the program "very user friendly" for banks.

McGuire agrees, saying the program is of particular value to community banks that can't compete with larger banks solely on size. "Because we can offer CDARS," he says, "we no longer have to worry about customers taking money from us and going to Bank of America or Wells Fargo because they're too big to fail." ■

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