



INNOVATIVE THINKING:

PROMONTORY INTERFINANCIAL NETWORK'S COMMITMENT TO COMMUNITY BANKS

When Eugene Ludwig, the former head of the Office of Comptroller of the Currency (OCC), and Mark Jacobsen, former Chief of Staff of the Federal Deposit Insurance Corporation (FDIC) and the OCC, first discussed founding Promontory Interfinancial Network, the conversation began with Ludwig's simple yet powerful question: "What can we do to help community banks be more competitive?"

That goal has been Promontory Interfinancial Network's guiding principle since being founded in 2002, and the company has clearly won converts. From an original group of 10 banks, the network has grown steadily and has been chosen by more than 3,000 institutions over the past decade. Today, 46% of all the nation's community banks—those with fewer than \$10 billion in assets—are part of the Promontory Network. About 80% of members are small banks with less than \$1 billion in assets.

By joining the Promontory Network, banks benefit from "The Power of ManySM"—a network of financial institutions that allows each bank to offer innovative balance sheet and liquidity management tools that otherwise might be too difficult or too costly to offer on its own. The partnership that the company has forged with community banks manifests in many ways, but two themes stand out: the innovation process around new products and services, and the legislative efforts it pursues to ensure those products and services are legal and compliant.



“Promontory Interfinancial Network wants to serve us. They see us as a member; it’s all about the relationship.”

—Ken Burgess,
Chairman, FirstCapital
Bank of Texas

“We are not the same as other companies, jumping into the same big pond and offering the same set of services. We’re trying to do something cutting edge and unique,” says Jacobsen, the President and CEO of Promontory Interfinancial Network. “Unlike many service providers, we’ve had to carve a business sector out of nothing.” And, Jacobsen points out, the process is ongoing. The company is continually looking to innovate and forge even stronger partnerships with community banks.

Ken Burgess, Chairman, FirstCapital Bank of Texas, affirms Promontory Interfinancial Network’s focus on community banks. “Promontory Interfinancial Network wants to serve us. They see us as a member; it’s all about the relationship.”

INNOVATION IN ACTION

On the innovation side, the company has an innovation lab and holds 20 patents. A bedrock of this innovation is input from community banks. During focus groups organized during industry conferences, face-to-face meetings at the individual banks, and frequent “check in” phone calls, the company is always asking questions and listening to bankers to understand the challenges they face and the kinds of services that could help.

Also helping to keep the company’s initiatives on track are Promontory Interfinancial Network’s strong relationships with both of the banking industry’s major trade associations. The company’s services are endorsed by the American Bankers Association and Promontory Interfinancial Network works closely with the association to run focus groups with its members. The company also enjoys a cooperative marketing alliance with the Independent Community Bankers of America.

Most of Promontory Interfinancial Network’s innovations have addressed long-standing business problems. For example, CDARS® pioneered reciprocal deposits, which enables community banks to attract more large deposits from safety-conscious customers and to keep the full amount of those deposits local for lending initiatives that benefit the community. More recently, the company debuted Insured Cash Sweep®, essentially a more liquid version of CDARS, which allows for daily settlement of deposit placements. Among other developments, Promontory Interfinancial Network currently has a unique off-balance-sheet reverse repo solution being piloted by five community banks.

“We were one of the first banks to join the Network. We realized that CDARS was a game changer – one that would give banks like ours not just competitive equality with large financial companies, but a real competitive advantage in attracting local customers,” says Earl McVicker, Chairman, President and CEO of Central Bank and Trust Co in Kansas.

In addition to established services, such as CDARS, Promontory Interfinancial Network also has its ear to the ground to develop services to fill short-term needs, which it believes is key to being a good partner to banks. For example, at the request of the ABA, the company launched a temporary service called the Prepaid Assessment Marketplace, which helped banks to buy and sell prepaid FDIC assessment credits when they were being issued by the FDIC. And, Promontory Interfinancial Network is proud to have supported the \$1 Billion Gulf Coast Rebuilding Challenge, which encouraged participants to deposit money into community banks in the Gulf region in the wake of Hurricane Katrina. Community banks then used the deposits to address immediate lending needs, as well as longer-term projects in their local footprints.



“Head to toe, Promontory Interfinancial Network is all about community banks.”

—James Di Misa,
Executive Vice
President and Chief
Operating Officer at
Community Bank
of the Chesapeake

LEGISLATIVE INVOLVEMENT

Jacobsen is the first to admit that when helping to found Promontory Interfinancial Network, he did not realize the company would need to become an expert in state legislative processes. But back in 2002 only about 12 states had laws on the books that would have permitted community banks to use a CDARS-type service for depositing government funds in banks outside of the state. Over the years, the company has worked with local community banks and state associations to steadily win approval in those 38 other states and the District of Columbia, either through administrative interpretation of existing law or, more commonly, new state laws. Smoothing the legislative process was the fact that most of those states have as a public policy goal to keep taxpayer dollars within the state, which meshed well with the CDARS reciprocal deposit service.

“Early on, we recognized how important it would be to our members to have enabling legislation that would allow local governments in Texas to use the reciprocal deposit services that Promontory Interfinancial Network created and provides,” says Christopher Williston, CAE, President and CEO of Independent Bankers Association of Texas. “We are happy to say that Texas was one of the first states to enact such legislation, which benefits not only our members and their local government depositors, but also local communities.”

Also, given the deep industry knowledge of Promontory Interfinancial Network’s senior team, the company is in tune with the regulatory needs of member banks; this has influenced the company’s product designs and operations. Moreover, the company proactively monitors legal and regulatory developments that pertain to its products and services. When regulators request comments on a new rule that affects one or more of Promontory offerings, banks often ask Promontory Interfinancial Network to weigh in. In the past 13 months, the company submitted six extensive comment letters on Federal regulatory proposals.

A PARTNER, NEVER A COMPETITOR

Whether the goal is to fill a short-term need or solve a long-term problem, Promontory is committed to listening and developing the right solutions for today’s business, legal, and regulatory environments. But perhaps nothing demonstrates the company’s commitment to partnership more than its golden rule of not competing with banks for their customers.

In the years immediately following the company’s founding, individual and institutional bank customers frequently came directly to Promontory Interfinancial Network to use its services. But the company always turned those inquiries away, referring them to local banks in the Promontory Network. “We’re meticulous about not competing with banks and remaining a strong partner,” Jacobsen says.

That meticulous attention is recognized and appreciated by member banks. “Unlike its competitors, Promontory Interfinancial Network doesn’t compete with us for our customers. We own our customer relationships. We set our rates. Promontory Interfinancial Network crafts its services from a banker’s perspective,” says James Di Misa, Executive Vice President and Chief Operating Officer at Community Bank of the Chesapeake. “Head to toe, Promontory is all about community banks. The company’s services level the playing field, helping us to better compete with much larger players.”