

Agenda

A CLOSER LOOK AT METRO BUSINESSES AND PROFESSIONALS

BIZVOICE

Community banks provide safeguards for businesses via network that protects funds

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For the Atlanta Journal-Constitution

In an economic environment of unrest and uncertainty, the safety and soundness of financial investments and savings have quickly become a primary concern for businesses of every shape and size.

In evaluating safe deposit and investment options, the Certificate of Deposit Registry Service program merits consideration. Most Georgians are still unaware of the program and the fact that most larger banking institutions are not members of the CDARS network.

Business owners and executives putting money in community banks that are participating in CDARS will enjoy greater peace of mind, as well as seeing a competitive return on their funds.

\$50 million in protection

Using CDARS, depositors have access to as much as \$50 million in Federal Deposit Insurance Corp. insurance through one institution.

At no charge to the depositor, CDARS can be used to obtain FDIC insurance on large deposits at rates that are competitive with Treasuries, sweep accounts and money markets.

When a large deposit is placed with a CDARS network member, that institution then uses CDARS to place the funds into CDs issued by other banks in the network. (Bank customers even have the ability to exclude specific banks from the transaction.)

This occurs in increments of less than the standard FDIC insurance maximum to ensure that every penny of a deposit is protected (includ-

ing interest earned).

With the help of a sophisticated matching system, network members exchange funds on a dollar-for-dollar basis so that every dollar of an individual deposit comes back to the home institution and effectively stays local. Among other things, this means that the funds can be used to support lending in the local community, which, in turn, can benefit businesses in that community.

Deposit with one bank

Again, depositors using the CDARS network have the convenience of working with one bank, receiving one statement and getting one rate on their investments.

Otherwise, they would have to work with many banks around town or across the country to place only the FDIC-insured amount with each institution; with that would come multiple statements, varying interest rates, varying maturities on their deposits and other administrative entanglements.

For small- and medium-sized businesses, this means being a key customer at a

smaller bank, rather than a little fish in the big bank's pond.

Earn interest

An additional reason businesses may want to take advantage of CDARS is that it can be used for businesses looking for a safe investment that is interest-bearing. Otherwise, businesses only receive full FDIC insurance on non-interest-bearing accounts.

Banks choose CDARS

Community and regional banks that offer CDARS do so as an added service to customers and, of course, to enhance profitability and obtain deposits they might not otherwise be able to get.

Not all banks offer CDARS or other alternatives for deposit placement services; rather, it is an independent, opt-in service banks may choose.

CDARS has been endorsed by the American Banking Association to help banks and thrifts secure large dollar deposits and retain customer relationships.

Top-notch administration

CDARS is run through the Promontory Interfinancial Network, which is led by a former comptroller of the currency, a former Federal Reserve vice chairman and other leading figures in the industry. The Bank of New York Mellon provides the administrative web that supports CDARS — such as issuance, custody, settlement and record keeping.

An option for many

In terms of possible uses,

and though it is applicable to any business or individual, let's look at an example from the nonprofit business sector: A local, nonprofit private school wanted to ensure the safety of a multimillion-dollar account housing its endowment funds.

Its bank did not offer CDARS and could not offer full guarantee of the funds without the purchase of surety bonds.

Ultimately, the school opted for the CDARS program at another bank, thus avoiding the cost of the surety bonds.

It receives the interest payments monthly, rather than reinvesting them into the CDs, so that the money may be used for operating expenses for the school. As an added convenience, the funds are wired directly to the operating account.

Through CDARS, the school receives the safety it was looking for — at no charge to the school — and a rate of interest higher than other conservative investments such as Treasuries.

CDARS has been available since 2003 and has experienced substantial growth in the current economic climate. For those entities seeking greater insurance protection at a competitive rate of interest, the program is a viable option worth consideration.



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