

Date: January 31, 2013
To: House Financial Institutions Committee: Chairman – Rep. Pete DeGraaf
From: Lance Caldwell, Regional Director (Promontory Interfinancial Network, LLC)
Re: Support for H.B. 2096 – (Reciprocal Deposit Programs – Demand Deposits)

Chairman DeGraaf and members of the House Financial Institutions Committee, my name is Lance Caldwell and I serve as Regional Director for Promontory Interfinancial Network, LLC (PIN) which is based in Arlington, Virginia. In my role, which is based in Overland Park, Kansas, I support approximately 85 financial institutions across Kansas that participate in our customer relationship and balance sheet management services including: the Certificate of Deposit Account Registry Service (CDARS) – (85 banks) and the Insured Cash Sweep (ICS) – (31 banks). PIN was founded in 2002 by former banking regulators Gene Ludwig (Office of the Comptroller of the Currency), Alan Binder (Federal Reserve System) and Mark Jacobsen (Federal Deposit Insurance Corporation). A copy of our founders and board members is attached (Slide 1)

Thank you for the opportunity to appear in support of H.B. 2096 which expands the role Reciprocal Deposit Programs, specifically ICS "Demand", in their ability of protecting local and state government deposits invested through qualified Kansas financial institutions without the need for collateral.

By way of background, the CDARS service was launched 10 years ago as term deposit placement service that provides multi-millions in Federal Deposit Insurance Corporation (FDIC) coverage per depositor through a single financial institution. With almost 3,000 network members nationwide, billions of dollars are placed through the CDARS service each week.

Since its launch, CDARS has received approval for Public Unit Deposits (PUDs) across the United States. Currently, CDARS is enabled in 48 states. I have attached a map of the country which depicts the availability of this program to PUDs (Slide 2). The Kansas Legislature passed legislation in 2009 enabling Kansas PUDs to take advantage of CDARS. I have attached a summary of the amendment for your reference.

In 2010, PIN launched ICS "Savings" which built on the success of CDARS by offering eligible banks with a more flexible deposit placement alternative (with up to six withdrawals per month without penalty) and the ability to provide multi-millions in FDIC insurance coverage to their most valuable customers. In the same year, the Kansas Legislature passed legislation enabling Kansas PUDs to benefit from this service as well. I have attached a summary of the amendment for your reference. At national level, 36 states have approved both CDARS and ICS "Savings" for PUDs. The previously referenced map also highlights this availability (Slide 2).

Last October (2012), PIN introduced ICS "Demand" as an enhancement to the existing ICS "Savings" platform. Similar to CDARS and ICS "Savings", ICS "Demand" offers multi-millions of FDIC insurance coverage; however, now *without* a withdrawal limitation. This development came at time when banks were facing the possible expiration of the Transaction Account Guaranty (TAG) program which had provided "unlimited" FDIC coverage on demand deposits accounts over the last several years in light of the financial crises. TAG did expire at year-end 2012 and at a national level billions of dollars, much of it in public money, has been placed into both ICS "Savings" and ICS "Demand" over the last couple of months. Currently, 36 states allow PUDs to place funds through CDARS, ICS "Savings" and ICS "Demand". The previously referenced map highlights this availability (Slide 2)

Like CDARS and ICS "Savings", ICS "Demand" allows participating financial institutions to offer a competitive rate to PUDs regardless of what other banks are paying within the network. In some cases, the rates offered to the PUDs can be higher since the financial institution does not have to pledge collateral and the deposits are available for local lending purposes. PUDs have the highest average balances within PINs offerings and represent a significant portion of outstanding balances nationwide (Slides 3 & 4). I have also attached a diagram which depicts how the ICS service neutralizes rate differences across participating members. (Slide 5)

Once again, thank you for the opportunity to provide information in support of H.B. 2096 and I would be happy to stand for questions now or at the appropriate time.

Attachment 3
FI 1-31-13

About Promontory

Founders



Eugene A. Ludwig
Chairman



Mark P. Jacobsen
President & CEO



Alan S. Blinder
Vice Chairman



Alfred H. Moses
Vice Chairman – Law

Operating Committee

Alan S. Blinder
Vice Chairman, Promontory Interfinancial Network;
Former Vice Chairman, Federal Reserve Board

Art Certosimo
Vice Chairman, Promontory Interfinancial Network;
CEO of Global Markets, The Bank of New York Mellon

Izzy Dawood
Director of Global Corporate Development,
The Bank of New York Mellon

Mark P. Jacobsen
President & CEO, Promontory Interfinancial Network;
Former Chief of Staff, Comptroller of the Currency and FDIC

Eugene A. Ludwig
Chairman, Promontory Interfinancial Network;
Former Comptroller of the Currency

Advisory Board

Kenneth M. Duberstein
Chairman & CEO, The Duberstein Group;
Former White House Chief of Staff

Edward W. Kelley, Jr.
Former Governor, Federal Reserve Board

Alfred H. Moses
Senior Partner & CSO, Promontory Financial Group;
Senior Counsel, Covington & Burling

Donald G. Orlivie
Former President & CEO, ABA;
Former Chairman, American Bankers
Association International

Warren B. Rudman
Chair, Albright Stonebridge Group;
Former U.S. Senator

Jeffrey B. Schreier
Financial Company Strategic and Operating
Executive

J. Michael Shepherd
President & CEO, Bank of the West

O. Jay Tomson
Chairman, First Citizens National Bank,
Mason City, IA; Former President,
Independent Community Bankers of America

Frank G. Zarb
Senior Advisor, Hellman & Friedman LLC;
Non-Executive Chairman, Promontory
Financial Group;

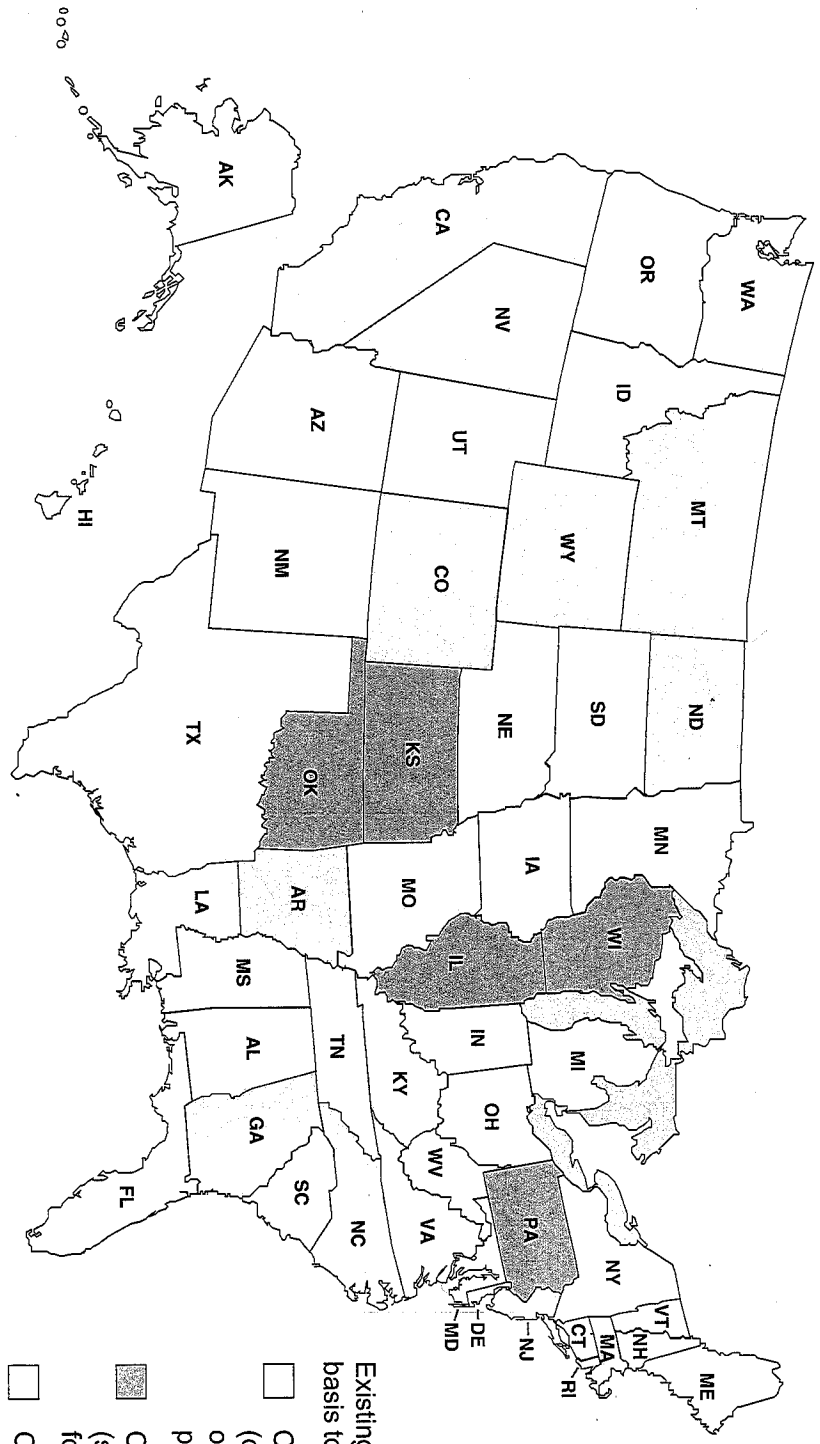
Executive-in-Residence, Columbia University



Promontory
Interfinancial Network LLC

CDARS®

Where to Start



Existing laws provide a basis to use:

- CDARS and ICS (demand & savings options) for public funds
- CDARS and ICS (savings option only) for public funds
- CDARS for public funds

3-4

ICS and CDARS Attract Large-Dollar Relationships

ICS and CDARS attract large-dollar relationships from highly desirable customer segments, including public funds.

And, ICS and CDARS can help your bank get the foothold it needs to cross-sell additional products and services.

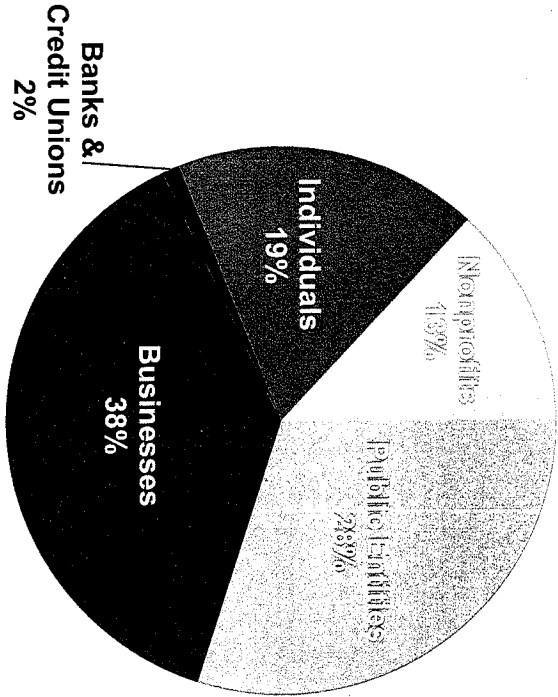
Customer Type	Approximate Average LOS Holdings Per Customer	Approximate Average CDARS Holdings Per Customer
Public Entities	\$3,500,000	\$4,600,000
Partnerships	\$3,200,000	\$1,700,000
Banks and Credit Unions	\$2,000,000	\$4,700,000
Corporations	\$1,900,000	\$2,100,000
Individuals	\$1,900,000	\$1,000,000
Estates and Trusts	\$1,000,000	\$1,200,000
Nonprofits	\$875,000	\$1,300,000
Associations and Clubs	\$500,000	\$750,000
Average Holdings Across All Customer Types	\$1,900,000	\$1,900,000

As of 9/30/12.

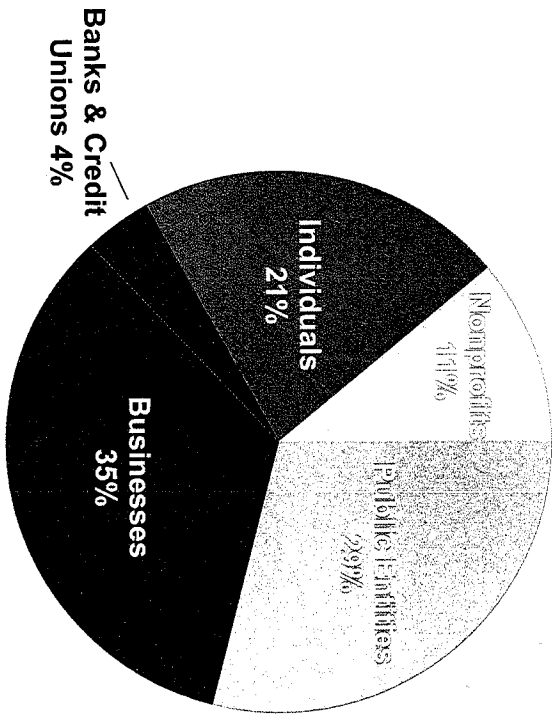
ICS and CDARS Appeal to Public Entities

A significant portion of all ICS principal balances and CDARS holdings are placed by public entities. Public entities have been quick to appreciate the safety, returns, and time-saving conveniences these services offer.

ICS Principal Balances by Customer Type



CDARS Principal Balances by Customer Type



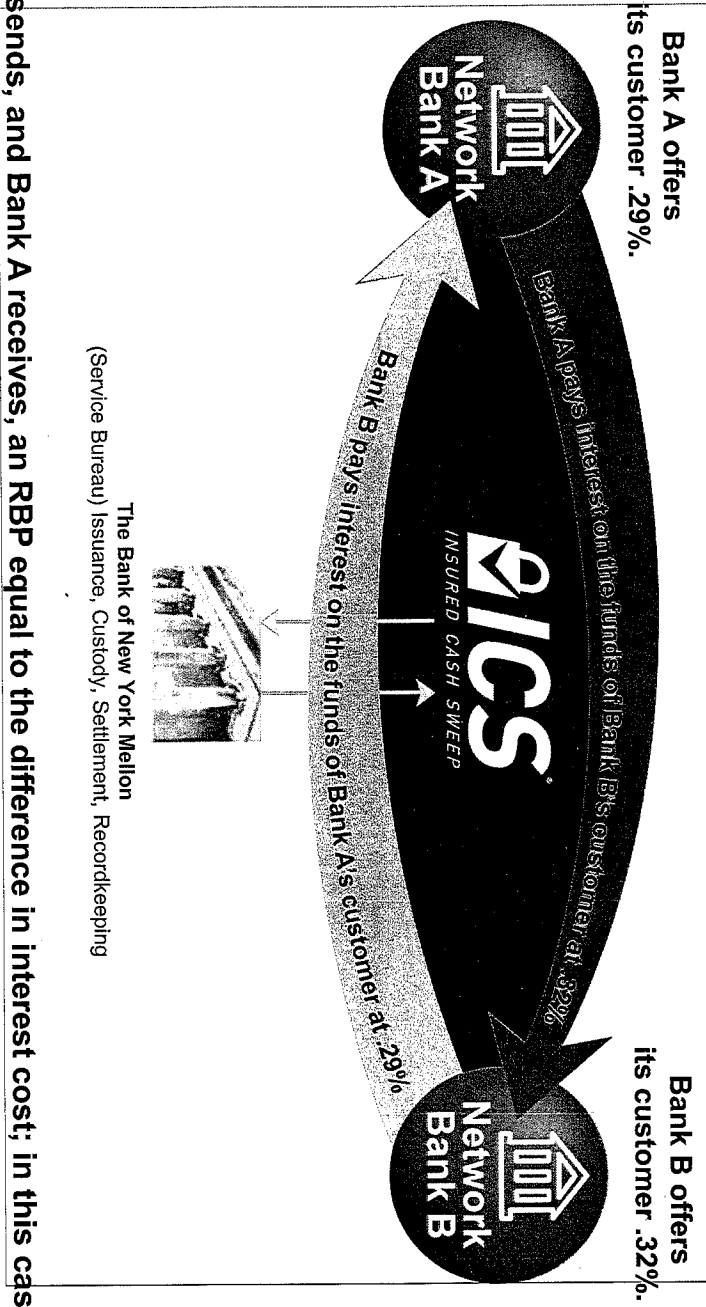
As of 9/30/12. Source: Promontory Interfinancial Network, LLC. The authority of institutional customers to place funds through ICS or CDARS may be subject to restrictions under applicable law and/or investment policies.

25

ICS Rate Bridge Payments

3-6

ICS utilizes a Rate Bridge Payment (RBP) process so that each bank can set the interest rate its customers earn. The RBP aligns the cost of the matching deposits with the rate offered by the Relationship Institution to its own customers. Here is a one-to-one example:



Bank B sends, and Bank A receives, an RBP equal to the difference in interest cost; in this case, .03%.

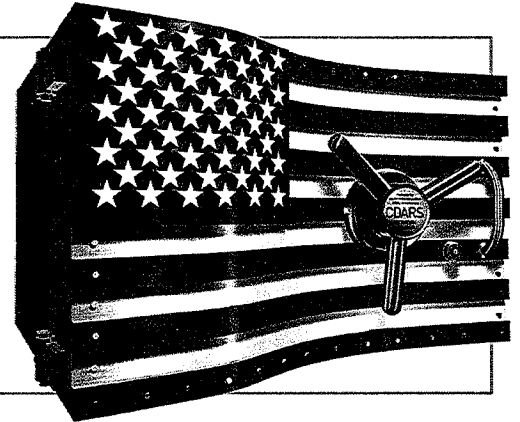
Each bank records the DDAs and the MMDAs in the name of "The Bank of New York Mellon, as agent for itself and others, each acting for itself and others." The Bank of New York Mellon holds the DDAs and the MMDAs as subcustodian for the Relationship Institution as custodian for its depositors.

Increase Profitability

Place Public Funds through CDARS®

Through CDARS®, your bank can provide public fund managers in Kansas a product that offers access to multi-million-dollar FDIC insurance and a return on their CD investments. This can help your bank to:

- Retain existing public fund customers more profitably, and attract new ones if desired
- Generate additional revenue by repurposing collateral into higher-earning assets, and minimize collateral tracking burdens and associated costs



How does CDARS work?

Banks that offer CDARS are members of a special network – the Promontory Network. When an investor makes a large deposit with a Network member, that bank uses the CDARS service to place those funds into CDs issued by other members of the Network. This occurs in increments below the standard FDIC insurance maximum to ensure that both principal and interest are eligible for FDIC protection. Other Network members do the same thing with their customers' funds. With help from a sophisticated matching system, banks exchange funds with other members of the Network. These exchanges, which occur on a dollar-for-dollar basis, bring the full amount of customer deposits back to each originating bank. As a result, you can make the full amount of the public unit's deposit available for lending in the local community (money stays local!), and your public unit customers can access FDIC insurance coverage from many banks while working directly with just you.*

Want to learn more?

Please contact one of our representatives:

Regional Director

Lance Caldwell, (866) 776-6426, ext. 3487 or lcaldwell@promnetwork.com

Business Development Advisors

Brad Cole, (866) 776-6426, ext. 3392 or bcole@promnetwork.com

Brendan Carry, (866) 776-6426, ext. 3468 or bcarry@promnetwork.com

One Bank

Customers sign one Deposit Placement Agreement and can access multi-million-dollar FDIC insurance by working directly with just you – the bank they know and trust. They do not have to manage multiple bank relationships, or track changing collateral values on an ongoing basis to enjoy peace of mind.

One Rate

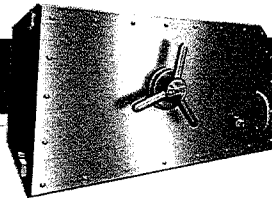
Customers negotiate one interest rate with your bank for each maturity. They do not have to enter into multiple rate negotiations, manually consolidate interest disbursements, or calculate blended rates.

One Statement

Customers receive one easy-to-read statement from your bank summarizing all of their CD holdings. This saves them from having to manually consolidate account statements on a recurring basis.

* When deposited funds are exchanged on a dollar-for-dollar basis with other banks in the Network, the relationship institution can use the full amount of a deposit placed through CDARS for local lending, satisfying some depositors' local investment goals or mandates.

CDARS satisfies the FDIC's requirements for agency pass-through deposit insurance coverage. Limits apply. Funds may be submitted for placement only after a depositor enters into a CDARS Deposit Placement Agreement with a CDARS participating institution. The agreement contains important information and conditions regarding the placement of funds. CDARS is a registered service mark of Promontory Interfinancial Network, LLC.



Using CDARS® for Public Funds In the State of Kansas

KANSAS LAWS AMENDED TO CONFIRM AUTHORITY OF THE STATE AND LOCAL GOVERNMENT UNITS TO DEPOSIT FUNDS THROUGH CDARS

Section 1. **K.S.A. 9-1407** is hereby amended to read as follows: 9-1407. (a) That portion of any deposit of public moneys or funds which is insured by the federal deposit insurance corporation, or its successor, need not be secured as provided in this act.

(b) *Public moneys or funds deposited by a municipal corporation or quasi-municipal corporation through a selected bank, savings and loan association or savings bank which are part of a reciprocal deposit program in which the bank, savings and loan association or savings bank:*

- (1) *Receives reciprocal deposits from other participating institutions located in the United States in an amount equal to the amount of funds deposited by the municipal corporation or quasi-municipal corporation; and*
- (2) *for which the total cumulative amount of each deposit does not exceed the maximum deposit insurance amount for one depositor at one financial institution as determined by the federal deposit insurance corporation. Such deposits shall not be treated as securities and need not be secured as provided in this act.*

Section 2. **K.S.A. 2008 Supp. 12-1675** is hereby amended to read as follows: 12-1675. (a) The governing body of any county, city, township, school district, area vocational-technical school, community college, firemen's relief association, community mental health center, community facility for the mentally retarded or any other governmental entity, unit or subdivision in the state of Kansas having authority to receive, hold and expend public moneys or funds may invest any moneys which are not immediately required for the purposes for which the moneys were collected or received, and the investment of which is not subject to or regulated by any other statute.

(f) *Public moneys deposited pursuant to subsection (b)(2) of K.S.A. 12-1675, and amendments thereto, by the governing body of any governmental unit listed in subsection (a) of K.S.A. 12-1675, and amendments thereto, through a selected bank, savings and loan association or savings bank which is part of a reciprocal deposit program in which the bank, savings and loan association or savings bank:*

- (1) *Receives reciprocal deposits from other participating institutions located in the United States in an amount equal to the amount of funds deposited by the municipal corporation or quasi-municipal corporation; and*
- (2) *for which the total cumulative amount of each deposit does not exceed the maximum deposit insurance amount for one depositor at one financial institution as determined by the federal deposit insurance corporation. Such deposits shall not be treated as securities and need not be secured as provided in this or any other act.*

Section 3. **K.S.A. 2008 Supp. 75-4237** is hereby amended to read as (d) *The director of investments [of the State] may place deposits through a selected bank, savings and loan association or savings bank which is part of a reciprocal deposit program in which the bank, savings and loan association or savings bank:*

- (1) *Receives reciprocal deposits from other participating institutions located in the United States in an amount equal to the amount of funds deposited by the municipal corporation or quasi-municipal corporation; and*
- (2) *for which the total cumulative amount of each deposit does not exceed the maximum deposit insurance amount for one depositor at one financial institution as determined by the federal deposit insurance corporation. Such deposits shall not be treated as securities and need not be secured as provided in this or any other act, except that such deposits shall be secured as provided in K.S.A. 75-4218, and amendments thereto, when they are held by the selected financial institution prior to placement with reciprocal institutions or upon maturity.*

(e) *The pooled money investment board shall establish procedures for administering reciprocal deposit programs in its investment policies, as authorized by K.S.A. 75-4232, and amendments thereto.*

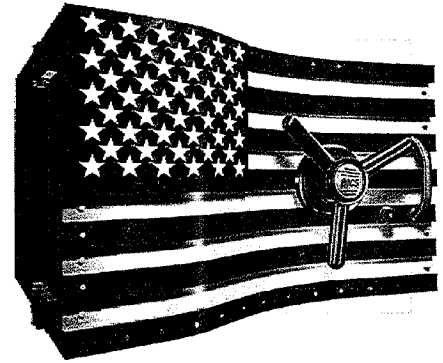
[These Amendments, which become effective July 1, 2009, confirm existing authority under prior Attorney General Opinions authorizing public deposits through CDARS.]

3-8



Increase Profitability – Place Public Fund Deposits through ICSSM

Through ICSSM, the Insured Cash Sweep[®] service, your bank can offer public fund managers in Kansas access to multi-million-dollar FDIC insurance on funds placed into money market deposit accounts. This can help your bank to retain existing public fund customers more profitably, and attract new ones if desired. It also enables your bank to generate additional revenue by repurposing collateral into higher-earning assets, increase asset liquidity, and minimize collateral tracking burdens and associated costs.



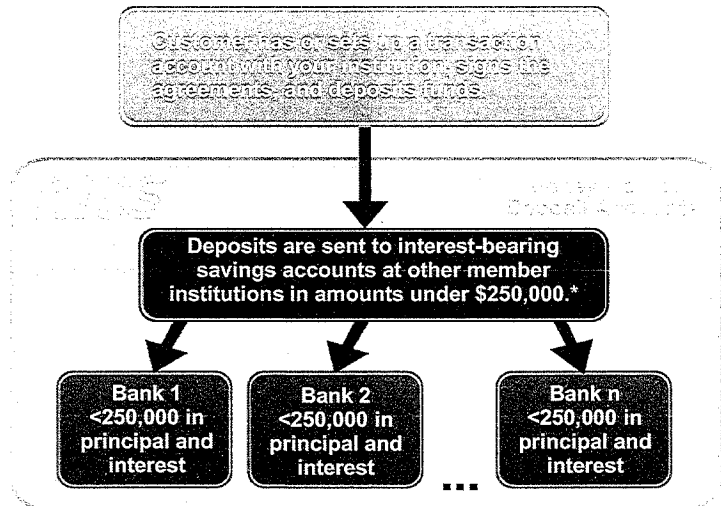
Why do public fund managers like ICS?

With access to FDIC insurance and the elimination of ongoing collateral tracking, public fund managers can devote more time to accomplishing other goals that support their mission.

Also, public fund managers can check their money market deposit account balances, review other information, and manage proposed placements through the ICS Depositor Control Panel, an online tool that automatically tracks and reports program withdrawals.

How does ICS work?

Banks that offer ICS are members of the Promontory Network. When a member bank places public funds through ICS, the deposit is sent from a transaction account at that institution into interest-bearing money market deposit accounts at other FDIC-insured member banks, thereby providing government entities with peace of mind and the ability to earn interest on excess cash balances. By working directly with just one bank – your bank – a public entity can access FDIC coverage from many. And your bank sets the rate it offers and retains control of the relationship.



* Based on triggering events as set forth in the ICS Deposit Placement Agreement the depositor enters into with your bank. The standard FDIC insurance maximum is \$250,000 per insured capacity, per bank.

Contact us today!

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Business Development Advisors:
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Brendan Carry, (866) 776-6426, ext. 3468
or bcarry@promnetwork.com

Placement of your funds through the ICS service is subject to terms, conditions, and disclosures set forth in the agreements, including the ICS Deposit Placement Agreement, that you enter into with us. Limits and customer eligibility criteria apply. Program withdrawals are limited to six per month when using the ICS savings option. If you are subject to restrictions with respect to the placement of funds in depository institutions, it is your responsibility to determine whether the placement of your funds through ICS or a particular ICS option or transaction satisfies those restrictions. Insured Cash Sweep is a registered service mark, and ICS is a service mark, of Promontory Interfinancial Network, LLC.

Public Fund 10/12



Using ICSSM for Public Funds in the State of Kansas

Kansas laws confirm the authority of the state and local government units to deposit funds through ICS.

K.S.A. 12-1675(f) provides that public moneys may be deposited in, among other things, savings deposits "pursuant to subsection (b)(2) of K.S.A 12-1675 . . . by the governing body of any governmental unit listed in subsection (a) of K.S.A. 12-1675. . . through a selected bank, savings and loan association or savings bank which is part of a reciprocal deposit program in which the bank, savings and loan association or savings bank:

- (1) Receives reciprocal deposits from other participating institutions located in the United States in an amount equal to the amount of funds deposited by the municipal corporation or quasi-municipal corporation; and
- (2) for which the total cumulative amount of each deposit does not exceed the maximum deposit insurance amount for one depositor at one financial institution as determined by the federal deposit insurance corporation. Such deposits shall not be treated as securities and need not be secured as provided in this or any other act."

K.S.A 75-4237(d) establishes similar investment authority for the director of investments of state moneys in savings deposits through such a reciprocal deposit program

K.S.A. 9-1407 provides that public moneys deposited through such a reciprocal deposit program that are "insured by the federal deposit insurance corporation, or its successor, need not be secured as provided in this act."

3-10