

Date: March 12, 2013

To: Senate Standing Committee on Financial Institutions and Insurance: Chairman – Sen. Robert Olson

From: Lance Caldwell, Regional Director (Promontory Interfinancial Network, LLC)

Re: Support for H.B. 2096 – (Reciprocal Deposit Programs – Demand Deposits)

Chairman Olson and members of the Senate Standing Committee on Financial Institutions and Insurance, my name is Lance Caldwell and I serve as Regional Director for Promontory Interfinancial Network, LLC (PIN) which is headquartered 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 (Attachment 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 (Attachment 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 (Attachment 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 (Attachment 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 (Attachments 3 & 4). I have also attached a diagram which depicts how the ICS service neutralizes rate differences across participating members. (Attachment 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.

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. Ogilvie

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[®]

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.

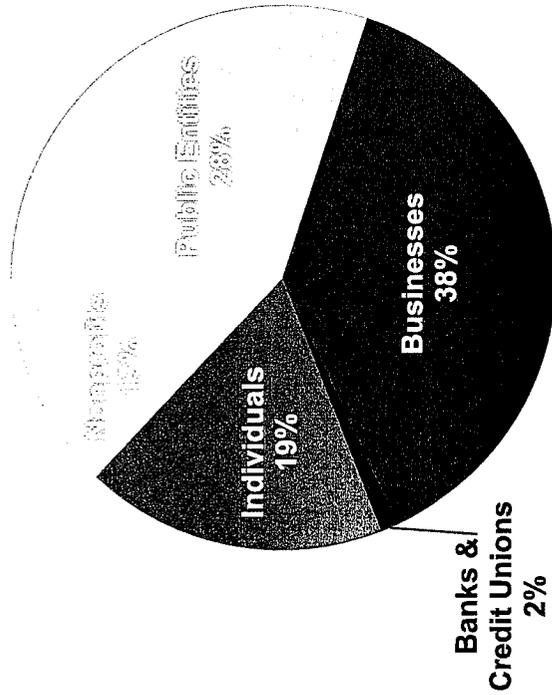
Customer Type	Approximate Relationship Count (Public Funds Only)	Approximate Average CDARS Holdings Per Customer
Public Entities	\$3,500,000	\$4,600,000
Partnerships	\$3,200,000	\$1,700,000
Banks and Credit Unions	\$2,000,000	\$4,700,000
Corporations	\$1,900,000	\$2,100,000
Individuals	\$1,900,000	\$1,000,000
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.

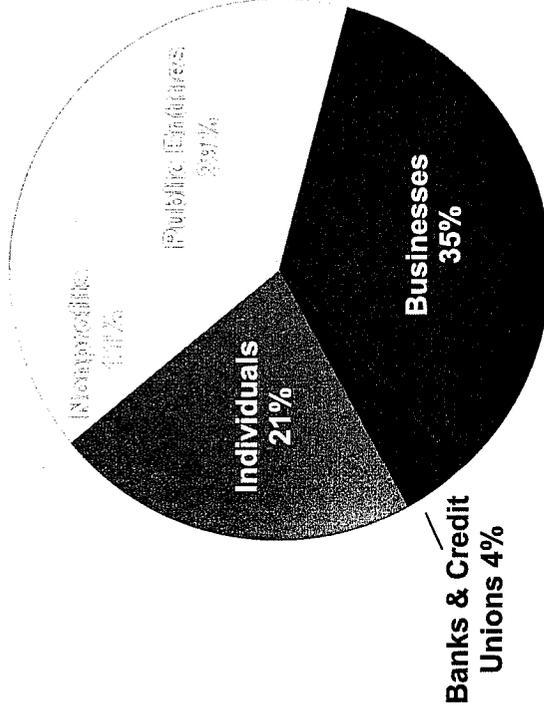
ICS and CDARS Appeal to Public Entities

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



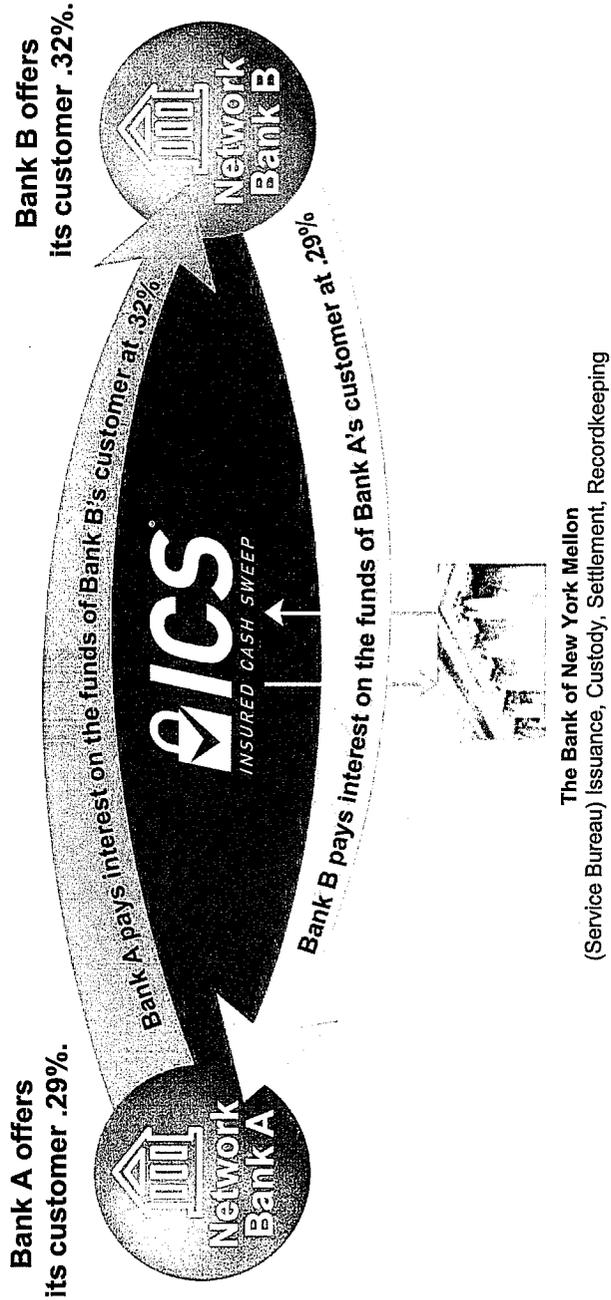
CDARS Principal Balances by Customer Type



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.

ICS Rate Bridge Payments

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.