

Community bank 'safety net' insures savings up to \$50 million

Richard Burnett | Sentinel Staff Writer
April 16, 2008

The bank promo made a staggering offer: **Put your money with us and your savings will be insured up to \$50 million** -- a seemingly incredible claim, since the federal deposit coverage cap has been \$100,000 on basic deposit accounts for decades.

But the recent promo turned out to be true, because of a nationwide community bank network that dramatically extends the Federal Deposit Insurance Corp. coverage to customers.

And amid the current economic turbulence, droves of consumers across the country are tapping into the newly discovered savings "safety net," organizers say.

"We've definitely seen a big increase in the response," said Phil Battey, spokesman for the Virginia-based Promontory Interfinancial Network, which manages the service. "Our transactions have doubled since August alone. We're now handling \$1.3 billion a week."

Nearly 2,000 community banks have joined the network, including nearly a dozen in Central Florida and more than 65 statewide, the company said. It has become a big marketing tool for the smaller players, especially since the larger banks are noticeably absent, officials said.

Fort Pierce-based Riverside Bank -- seventh-largest in the Central Florida market last year -- is one of the latest to join the pool, known as the Certificate of Deposit Account Registry Service, or CDARS.

The bank has seen an influx of affluent customers, retirees with their nest eggs, mid-sized businesses, homeowners' associations and government funds, spokeswoman Debi Malcomson said.

"We've had it in place for a couple of months, but we're just now actively promoting it and getting the word out there," she said. "The customers find it really convenient since they only have to deal with one bank, instead of spreading their savings at different banks all around town."

Other local banks in the network include Orlando-based CNLBank, First Commercial Bank of Florida, Florida Bank of Commerce and Seaside National Bank & Trust; Oviedo-based Citizens Bank of Florida; Maitland-based First Colony Bank of Florida; Winter Park-based First National Bank of Central Florida; and Centerstate Bank of Central Florida in Kissimmee, according to the company Web site.

Having a wider safety net for savings sounded appealing to Rubyann Britt, a retiree in Mount Dora, but she wanted more information about the cost.

"Certainly you always want more peace of mind, if the price is right," she said. "And I don't care to spread my money around unless it is advantageous to me, of course. But if the rate is right, I'd be willing to move my money into one of those accounts."

Citizens Bank of Florida has had the option in place for about two years, accumulating about \$25 million in deposits in the program, said Rick Lee, bank president and chairman of the Florida Bankers Association.

Although the FDIC raised its coverage to \$250,000 for certain retirement accounts two years ago,

the basic deposit account coverage remained the same. **The CDARS system draws on the pooled assets of the member banks to provide the vast increase in coverage.**

Here's how it works for the consumer: First, find out what banks in your community offer the service. (Go to cdars.com and click on "Where to find CDARS.") Contact several banks in the network to see who pays the best rates. Decide whether they are competitive enough with rates offered by banks outside the network.

If you invest through the CDARS pool, you will only have one rate and one account to manage. The bank, however, places the money with other banks in the network through "sub-certificates" -- each worth \$100,000 or less -- to qualify for the FDIC coverage. Banks are prohibited from earning higher returns than they pay on the deposits.

Consumer advocates cautioned there is a cost to the convenience and peace of mind. Savings rates are likely to be slightly lower on these "jumbo" accounts than what you could find elsewhere, said Laura Bruce, a senior writer for Bankrate.com, a consumer-finance-research firm.

Still, banks that offer the extended FDIC coverage insist that they offer competitive rates.

Miami-based banking consultant Kenneth H. Thomas said it is a win-win proposition for banks and consumers.

"This has been a tried-and-true, well-recognized practice for a few years now," he said. "It provides a source of liquidity for the banks and provides the customers the benefit of getting extra deposit coverage."

Community bankers said it also helps give them a potential marketing edge.

"It's one of the ways we can compete with the larger banks," said Isa Cusack, chief deposit officer for First National Bank of Central Florida. "By joining this consortium, it allows us to be on the same playing field."

It is not surprising to see more customers drawn to the community bank pool's expanded insurance program, especially with the global upheaval in the financial sector, said Kris Niswander, senior industry analyst for SNL Financial.

"The Bear Stearns debacle as well as the billions of dollars in write-downs by many big commercial banks have raised concerns among a lot of people," he said.