

Your banker may be calling...

By Joe Brannen, president & CEO, Georgia Bankers Association

Governor Brian Kemp signed into law legislation passed in the 2019 session of the Georgia General Assembly that eliminates the need for banks to collateralize or secure certain public deposits. The bill, SB 157, adds operating accounts to the existing authority for banks and their public depositor clients to participate in a shared deposit network for certificates of deposits as a way to provide FDIC insurance coverage for the deposits

The best known of the CD networks is the Promontory CDARS program that's been around for years, which some public depositors and their banks already use. Depending on the vendor, you may begin hearing about Promontory's Insured Cash Sweep account (ICS), the StoneCastle Federally Insured Cash Account (FICA), or the Demand Deposit Marketplace account offered by Reich and Tang.

The State Depository Board is charged with the task of approving the networks that may operate in Georgia as well as giving ongoing oversight of the networks. The Board has until year-end to approve the networks, but they could complete their work earlier. So far, we believe Promontory, StoneCastle and Reich and Tang will likely be the only three network vendors who will apply for approval.

As a refresher, banks are required to collateralize or otherwise secure public deposits that are greater than the FDIC insured amount, ordinarily \$250,000 per account. This new legislation opens existing shared deposit networks for these deposits so that a public depositor's operating account is always technically below the FDIC insured amount. Millions of dollars in a single account can be handled this way, eliminating the need for collateralization.

For deposits that exceed the FDIC insured amount, banks either collateralize those deposits directly or participate in the Georgia State Pledging Pool or the Secure Deposit Program, which the State Treasurer oversees for the State Depository Board. This new opportunity for banks and public depositors to participate in a shared deposit network applies to all three collateralization methods.

The networks, sometimes called Deposit Placement Services, work in one of two ways: 1) the deposit is kept on the balance sheet of the bank and the network vendor splits the deposit with other network participants in increments below the FDIC insured amount, with the bank taking reciprocal deposits from participating banks, or 2) the deposit leaves the balance sheet of the bank and the network places the deposit directly in other banks in the network.

Sounds complicated, but it's really not. Regardless of how the deposit is eventually handled by the bank, as a public depositor, you only deal with your local bank. You'll get statements showing exactly where your money is at all times and some of the networks even have online portals you can login and see for yourself.

Public depositors have always been important partners with their local banks recycling deposits in the forms of loans and other investments in their communities. This new opportunity is one more way for those partnerships to be strengthened. It's too early to know how many banks will consider this option, but we wanted you to know about it should your banker call to discuss it. Whether to participate will be a mutual decision between you and your bank. Your deposits will not be placed into a network arrangement without your approval. With questions, speak with your local banker or call me here at the Georgia Bankers Association, 404.420.2026, or email jbrannen@gabankers.com.

About the Georgia Bankers Association. Founded in 1892, the Georgia Bankers Association promotes the general welfare and usefulness of banking and the preservation of a sound banking system. For 127 years, the GBA has provided Georgia's banks with top-quality professional development, revenue-enhancing products and services, government relations and public advocacy. Since 1997, the GBA has contracted with the Office of the State Treasurer to manage the Georgia State Pledging Pool and since 2016 to manage the Secure Deposit Program. Almost 3,000 public depositor accounts are secured through one of these two programs.