August 2023

IntraFi

Bank Smart. Bank Safe.

Now more than ever, CFOs, treasurers, fiduciaries, investors, public fund managers, and others are working with their banks to secure cash balances.

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Seeking Peace of Mind During Uncertain Times?

For those executives — CFOs, treasurers, attorneys, corporate officers, public fund managers, and others — who have fiduciary responsibility for their organizations' large-dollar deposits, few things can be as jarring as the failure of their organization's primary bank. And although bank failures are rare, imagine how those executives reacted in the spring 2023 to the news that *three* of the country's leading financial institutions collapsed, rocking financial markets around the globe.

- On March 10, 2023, Silicon Valley Bank (SVB), a top-20 U.S. financial institution, failed after depositors withdrew $42 billion in a single day, triggering the largest bank run in U.S. history.
- Two days later, regulators closed another major institution, Signature Bank, following another historic bank run.
- Weeks later, on May 1, 2023, regulators closed a third institution, First Republic Bank (FRB), in what eventually was deemed to be the second-largest bank failure in U.S. history.

In each case, most of the outstanding deposits were uninsured by the Federal Deposit Insurance Corporation (FDIC). (In the case of SVB, nearly 94% of the deposits were uninsured.) However, due to a statutory exception requiring the determination of "systemic risk," the FDIC made *all* the depositors — at *all* three banks — whole.

"Systemic risk" is an important classification. When the systemic risk exception does not apply, uninsured depositors can endure devastating financial losses. Case in point: when IndyMac Bank failed in 2008, the exception was not applicable, so FDIC conservatorship paid a dividend to uninsured depositors equaling about 50 cents on the dollar. As a result, approximately 8,800 uninsured IndyMac depositors lost more than a quarter of a billion dollars.

"[the] IntraFi Network ... work[s] with multiple banks to separate large deposits into amounts below the federal insurance limit."

The Wall Street Journal

For SVB, Signature, and FRB to qualify for the systemic risk exception two-thirds of the members of the FDIC Board of Directors and two-thirds of the members of the Board of Governors of the Federal Reserve System had to agree to invoke it. Additionally, the Treasury Secretary (in consultation with the President), had to sign off as well.[1]

When a bank fails, the bank is closed by its chartering authority. The FDIC then steps in as both insurer of deposits and as receiver of failed assets. By law, the FDIC is required to resolve bank failures in the manner least costly to the FDIC Deposit Insurance Fund. In some cases, the agency may sell the bank – or close it entirely.

If a failed bank cannot be sold, or if it's sold to another institution that only agrees to assume insured deposits, the FDIC will automatically issue receivership certificates to the failed bank's uninsured depositors. These certificates entitle uninsured depositors to share, pro rata, in the recovery of the failed banks assets, meaning they may recover only a portion of their money — or in some cases, nothing at all.

The takeaway: depositors should not assume the FDIC's recent lifeline to SVB, Signature, and FRB customers is the norm. The FDIC does not automatically rescue uninsured depositors following a bank collapse. If no systemic risk determination is found, uninsured depositors could find themselves in a situation, like those 2008 IndyMac customers, where they must wait in hopes of recovering some or all their funds.

This is why depositors — brokerages, family offices, fintechs, nonprofits, wealth managers, and businesses of all sizes — who cannot afford to lose access to *even a portion* of their funds should work with their banks to ensure the full balance of those deposits are covered by FDIC insurance.

[1] *12 U.S.C. 1823(c)(4)(G).*

A Brief History of the FDIC

The Banking Act of 1933 established the FDIC in the thick of the Great Depression. During the 1920s, U.S. bank failures had become increasingly common, but by the early 1930s, banks were folding at a near-epidemic pace. Between 1929 and 1933, more than 9,000 banks failed.

In creating the FDIC, Congress sought not only to compensate depositors should a bank fail, but also to prevent additional bank runs and failures. By covering deposits up to a specified amount[2], FDIC insurance was intended to discourage panicky depositors from hastily withdrawing funds and restore trust in the U.S. banking system.

It worked. In 1934, after FDIC insurance became available, only nine banks failed.

From the start, FDIC insurance coverage applied to a depositor's funds at each bank they did business with. The alternative — limiting coverage to a depositor's funds at a single bank — could leave deposits at other banks vulnerable. By design, depositors were able to access FDIC insurance by depositing funds at multiple banks.

Equally important: the FDIC was and remains an independent agency funded not by congressional appropriations, but by entire U.S. banking system. When a bank fails, the costs of making deposits whole are shouldered by other banks through FDIC insurance premiums.

Since the FDIC's founding, many hundreds of banks have failed, but all deposits insured by the agency have been repaid in full. No depositor has ever lost a penny of FDIC-insured deposits.

[2] *Since its founding, Congress has adjusted the standard deposit insurance amount for a depositor's funds numerous times. Initially, the amount was $2,500 per bank; today, it is $250,000 per bank.*

Calming Deposit Anxiety

Following the trio of bank failures in early 2023, numerous media outlets featured stories reminding uneasy depositors that the safest thing they could do with their funds was to make sure they were in FDIC-insured deposit accounts.

Much of that press included additional advice: consider working with financial institutions that are part of IntraFi's network.

The Wall Street Journal, for instance, explained "[the] IntraFi Network ... work[s] with multiple banks to separate large deposits into amounts below the federal insurance limit."

The New York Times shared similar insights: "customer[s] can... deposit $10 million in a local bank, which can then use IntraFi's network to parcel the deposit out to other institutions in amounts below $250,000."

The article quoted Jill Castilla, CEO of Citizens Bank of Edmond, who said she regularly recommends placement using the IntraFi network to qualifying depositors.

"We talk about this option with every large depositor," she said. "It's a very easy network to access, it doesn't cost them anything, and it gives them more assurance."

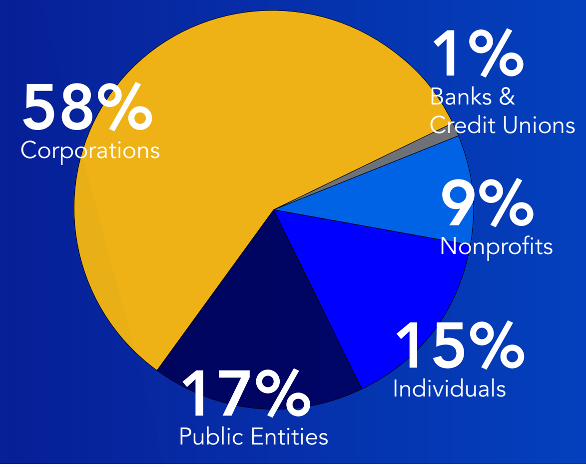
Weeks later, *The New York Times* ran a follow-up piece, *How Small Businesses Can Find Safety Before the Next Bank Crisis*, suggesting business owners may also want to consider working with banks affiliated with IntraFi and its network services.

CFO offered like-minded encouragement: "For now, deposits *may* be relatively safe in U.S. banks. But as fiduciaries, CFOs shouldn't gamble. Many businesses ignored the $250,000 [FDIC] limit prior to the latest bank failures." CFO's suggestion? "[S]pread out deposits at multiple banks to keep all the accounts under the FDIC-insured cap. The best-known service is called CDARS... offered by IntraFi."

NerdWallet provided similar direction: "If your business's deposits far exceed the $250,000 cap, consider a bank that's part of the IntraFi network. Banks in this network offer two key services: ICS and CDARS," *NerdWallet* wrote.

"A customer can … deposit $10 million in a local bank, which can then use IntraFi's network to parcel the deposit out to other institutions in amounts below $250,000. That ensures that the money is fully covered by the FDIC's guarantee."

The New York Times



IntraFi's deposit solutions attract all types of safety-conscious depositors.

Balances as of 6/30/23

These articles represented only a portion of the media attention. In the weeks following the trio of bank closures, Bloomberg, The Philadelphia Inquirer, Forbes, CNBC, NASDAQ, Chief of Staff, Banking Dive, The National Law Review, and many other outlets all reminded depositors to seek out FDIC coverage and all identified IntraFi and its services as potential solutions for depositor anxiety.

The bottom line: IntraFi collaborates with thousands of banks across the U.S. to place excess funds in ICS or CDARS (the two services most frequently mentioned in the press) helping ensure those funds are eligible for FDIC deposit insurance.[3]

[3] *Certain conditions must be satisfied for "pass-through" FDIC deposit insurance coverage to apply. In ICS and CDARS, to meet these conditions, deposit accounts must be titled, and deposit account records maintained, in accordance with FDIC regulations for pass-through coverage.*

The IntraFI Network, ICS, and CDARS

Since the inception of FDIC insurance nine decades ago, depositors have been able to deposit funds at multiple banks to obtain insurance coverage for amounts exceeding the insurance limit at any one bank. Through services provided by IntraFi, participating institutions can make the multibank solution more efficient, scalable, and manageable for depositors.

The IntraFi Network — which includes nearly 3,000 institutions that participate in one or more IntraFi services — is the largest in the U.S.

Because of the size of IntraFi's network, increments of larger deposits can be placed at hundreds or even thousands of FDIC-insured banks in amounts below the FDIC's current coverage limit of $250,000. This enables depositors to access FDIC insurance into the millions of dollars at a variety of participating banks.

As the recent media coverage made clear, two of IntraFi's most popular services are ICS®, the IntraFi Cash Service℠, and CDARS®, the Certificate of Deposit Account Registry Service®. With ICS, deposits are placed in demand deposit accounts or money market deposit accounts; with CDARS, deposits are placed in certificates of deposit.[4]

In the 20+ years IntraFi has been in business, the FDIC has fully honored every deposit insurance claim for deposits placed at a bank using an IntraFi service.

That track record has not gone unnoticed. Placement through IntraFi's network is often viewed as the best way to meet business or legal mandates for securing large deposits. One state's Supreme Court determined as much when it found "CDARS was the only practical manner" in which a legal guardian could comply with a state statute requiring protection of guardianship funds.[5]

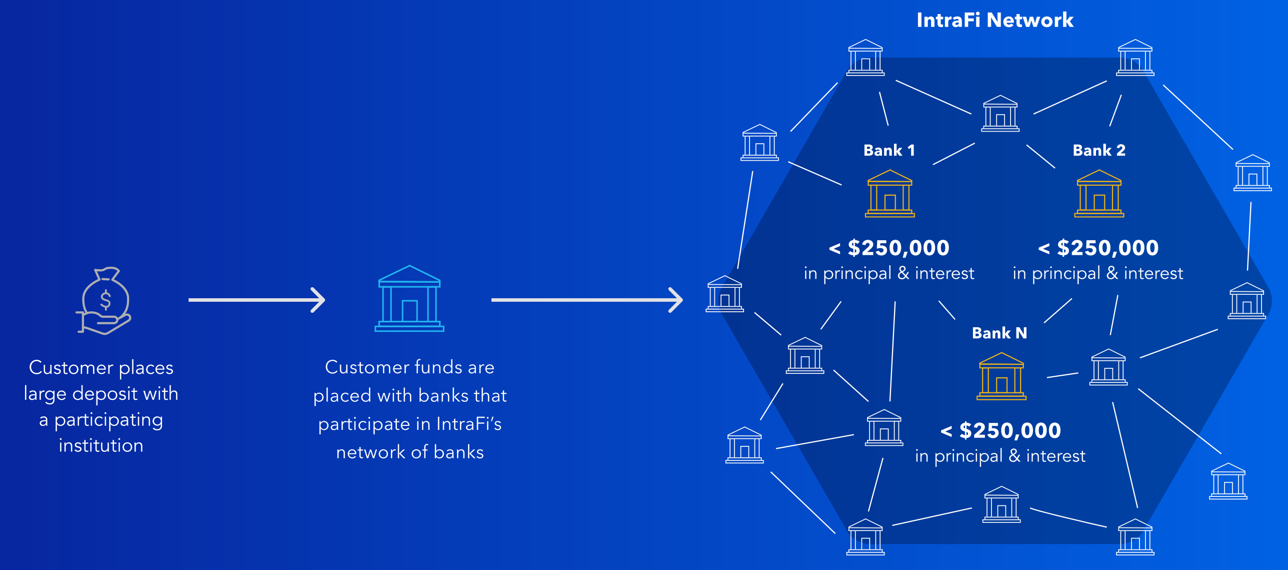
State public funds depositors throughout the U.S. have also recognized the value of deposit placement through IntraFi's network. Public funds represent a leading depositor class for both ICS and CDARS.[6]

Those same protections that depositors with special safety mandates value are also available to any depositor seeking to avoid exposure to potentially large losses that accompany uninsured deposits.

[4] *A depositor's relationship institution specifies the interest rate at which all the network banks pay interest on the funds.*
[5] *Re Roshto, 134 So. 3d 739, 742 (Miss. 2014).*
[6] *More than half the states in the U.S. have adopted legislation enabling placement of public funds deposits through IntraFi's network, and the rest have permitted it under existing laws.*

How ICS and CDARS Work

When your bank or brokerage firm uses ICS or CDARS to place a large deposit, IntraFi's algorithms divide the funds into amounts below the FDIC insurance cap of $250,000. The algorithms then allocate these smaller sums sufficiently below the FDIC maximum to ensure both principal and interest are eligible for FDIC insurance.



"We talk about [IntraFi] with every large depositor. It's a very easy network to access, it doesn't cost them anything, and it gives them more assurance."

Jill Castilla
CEO of Citizens Bank of Edmond

"[C]ompanies can … spread out deposits at multiple banks to keep all the accounts under the FDIC-insured cap. The best-known service is called CDARS … offered by IntraFi."

CFO.com

All depositor account activity is reflected in a single monthly statement from your bank or brokerage firm, showing both the overall balance and the balances at each network bank that receives your funds. And, with ICS, you can also access the Depositor Control Panel, a secure online dashboard that displays balances, transactions, interest, and other key information.

A bank acts as custodian for the funds. The Bank of New York Mellon acts as settlement agent and sub-custodian (and performs other functions) for your bank.[7]

The ICS and CDARS services enable banks to place deposits (on behalf of their customers) at other banks on a reciprocal basis. When this happens,your bank receives an equal amount of deposits (with the same maturity date, if any) through the network in return. These reciprocal deposits provide valuable funding to the placing bank, strengthening the bank and its ability to lend. Many community banks use reciprocal deposits to fund local community lending that otherwise may not occur.[8]

[7] The Bank of New York Mellon is the oldest continuously operating bank in the United States and the largest funds custodian in the world. Depositor funds move exclusively between The Bank of New York Mellon and the regulated financial institutions that act as participating institutions. IntraFi itself does not handle depositor funds.

[8] When an IntraFi Network member bank exchanges deposits on a dollar-for-dollar basis with other member banks that use ICS or CDARS, the placing bank can use the full amount of a deposit for local lending, satisfying some depositors' local investment goals or mandates. Alternatively, with a depositor's consent, a placing bank may choose to receive fee income instead of deposits from other participating institutions. Under these circumstances, the deposit amount would not be available for local lending.

By placing funds through ICS or CDARS, you can gain:

- **Peace of mind.** Balances in the multiple millions of dollars (including both principal and interest) can be protected.
- **Convenience.** Work with just your bank or brokerage firm to place deposits, rather than maintaining numerous direct banking relationships.
- **Reduced paperwork.** Working directly with one institution eliminates the need for manual consolidation of multiple statements. It also enables you to avoid having to calculate blended rates when rates vary across banks.
- **Favorable returns.** Available rates may compare favorably with those of Treasuries and government money market mutual funds.
- **Access to funds.** In ICS, program deposits and program withdrawals can occur on any business day.[9] In CDARS, CD maturities ranging from four weeks to three years are available.[10]
- **Advantages over alternatives.** Unlike money market mutual fund investments, deposits placed through IntraFi's network are eligible for FDIC insurance and are not subject to floating net asset values, liquidity fees, or liquidity gates.
- **Depositor control.** You can exclude banks from eligibility to receive the depositor's funds if, for example, you already have funds at another bank. You can also review and reject proposed placements before they become final. In ICS, Depositor Placement Review is available each business day online through the Depositor Control Panel.
- **Full transparency.** As noted above, you receive monthly statements, and ICS depositors can view information, such as balances, etc. on the Depositor Control Panel 24/7.[11]

"From the start, FDIC insurance coverage applied to a depositor's funds at each bank they did business with..."

IntraFi

[9] *A depositor request or other triggering event the previous business day is usually required. A relationship institution may limit withdrawals from a money market deposit account to six per month.*

[10] *Penalties for early withdrawal apply.*

[11] *Access is subject to Internet availability and scheduled or unscheduled maintenance.*

IntraFi: An Industry Leader

IntraFi's 20+ year history is one reason so many businesses, fiduciaries, financial advisors, nonprofits, public funds, and other large-dollar depositors work with financial institutions that are members of IntraFi's network.

In addition to ICS and CDARS, IntraFi also offers:

- **IntraFi Sweep℠**, a service that supports sweep programs that are offered by brokerage firm and other funds custodians to their customers. These programs "sweep" uninvested cash into FDIC-insured deposits at participating banks.
- **IntraFi Yankee Sweep®**, a service that enables financial institutions to sweep cash deposits, typically for institutional depositors, to U.S. branches of foreign banks that are not FDIC-insured. The uninsured branches may pay higher rates for the deposits, but they are subject to U.S. regulatory oversight and are rated by Standard & Poor's, Moody's, or Fitch.
- **IntraFi Repo℠**, a third-party, off-balance-sheet solution in which The Bank of New York Mellon acts as custodian, managing collateral and settlement. IntraFi Repo offers daily liquidity and collateralization with government securities.[12]

> *"More than half the states in the U.S. have adopted legislation enabling placement of public funds deposits through IntraFi's network, and the rest have permitted it under existing laws."*
>
> *IntraFi*

[12] *IntraFi Repo is offered by Assetpoint Services, LLC, a registered broker-dealer that is wholly owned by IntraFi Network LLC.*

Next Steps

Ask your institution if it offers ICS and CDARS, or find one of the thousands that do.

Find a Bank or Institution

IntraFi.

When deposited funds are exchanged on a dollar-for-dollar basis with other institutions that use ICS, our bank can use the full amount of a deposit placed through ICS for local lending, satisfying some depositors' local investment goals or mandates. Alternatively, with a depositor's consent, our bank may choose to receive fee income instead of deposits from other participating institutions. Under these circumstances, deposited funds would not be available for local lending.

Deposit placement through CDARS or ICS is subject to the terms, conditions, and disclosures in applicable agreements. Although deposits are placed in increments that do not exceed the FDIC standard maximum deposit insurance amount ("SMDIA") at any one destination bank, a depositor's balances at the institution that places deposits may exceed the SMDIA (e.g., before settlement for deposits or after settlement for withdrawals) or be uninsured (if the placing institution is not an insured bank). The depositor must make any necessary arrangements to protect such balances consistent with applicable law and must determine whether placement through CDARS or ICS satisfies any restrictions on its deposits. A list identifying IntraFinetwork banks appears at https://www.intrafi.com/network-banks. The depositor may exclude banks from eligibility to receive its funds. IntraFi and ICS are registered service marks, and the IntraFi hexagon and IntraFi logo are service marks of IntraFi Network LLC.

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