

TBS Insights: 1Q 2020

# The Time is Now for Insured Deposit Programs

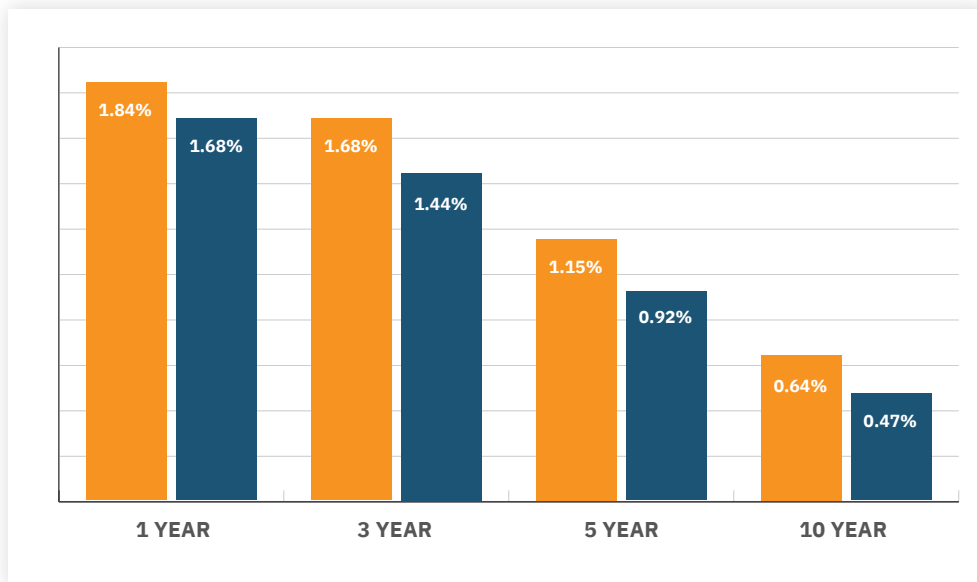
## A Proven Solution during Uncertain Times

When faced with uncertainty, investors seek investment options that prioritize principal protection and access to liquidity. Insured Deposit Programs (IDP) offer financial intermediaries and their clients the opportunity to obtain extended FDIC insurance and same day liquidity for cash sweep investments with net yields that have consistently outperformed government and treasury money market funds.

The COVID-19 crisis has triggered a flight to safety among investors and the ensuing monetary policies and fiscal stimuli implemented by the Federal Reserve and U.S. Government have resulted in a historically low rate environment, similar to what we experienced due to the 2007-2009 “Great Recession”. As yields on repurchase agreements (repos), short-coupon US Treasury bills and other short term instruments continue to fall, TBS’s IDP has maintained its historical interest rate advantage over competing money market fund yields.

## Maintaining a Competitive Return on Cash Awaiting Investment

The TBS Insured Deposit Program has outperformed US Treasury and US Government institutional money market funds over one, three, five and ten year periods.



■ TBS IDP      ■ Crane Gov & Treasury MMF Index

## Focus on Safety

Knowing that their deposit balances are FDIC insured offers cash investors peace of mind. Beyond insurance, prudent investors also consider a range of investment criteria and their attendant risks when evaluating potential investments.

At TBS, we manage risk proactively. First, we establish stringent criteria to determine the eligibility of potential program banks. Then, using our proprietary **TBS Bank Monitor® service**, we apply a thorough screening process to evaluate each bank’s individual risk profile across a range of indicators.

Bank Monitor® calculates a “shadow” CAMELS score to evaluate the safety and soundness of all FDIC insured banks. In addition, Bank Monitor® incorporates a bank stress index (BSI) to capture emerging risks and a counterparty quality score (CQS) as a current risk indicator. This process is designed to ensure that only banks that meet and maintain the highest standards of safety and soundness are included in the program.

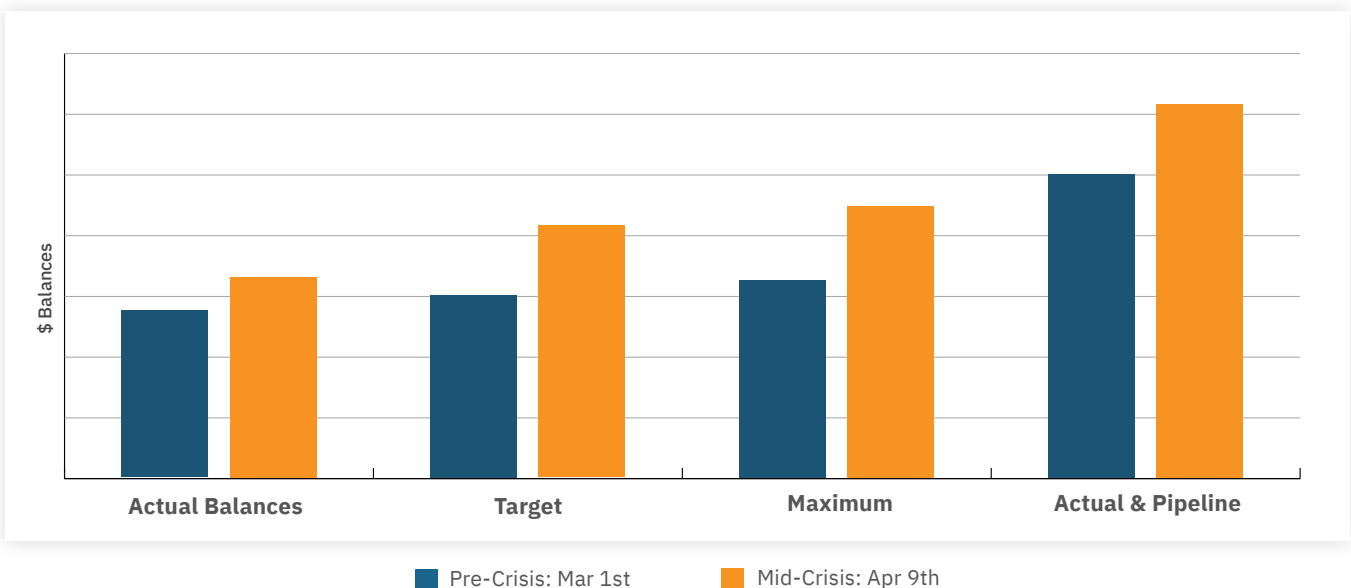
We have a proven track record of success, having successfully navigated numerous economic cycles and never having experienced the failure of a participating program bank. Furthermore, the FDIC has never failed to reimburse depositors’ money in the event of a bank failure.

## Access to Liquidity

Leveraging our growing network of over 150 contracted depository institutions, TBS has been able to accommodate a 20% increase in client cash balances from the impact on financial markets during the COVID-19 pandemic. When designing sweep programs, we consider the potential for unexpected liquidity inflows and build in excess bank capacity contractually to address unforeseen situations.

Incorporating banks’ requested target and maximum balances, TBS is able to efficiently manage surge inflows, while simultaneously positioning our programs for the eventual return to normal levels when markets stabilize.

### TBS Capacity Management During COVID-19 Crisis:



## Simplicity When Compared to Money Market and Stable Value Funds

Insured Deposit Programs are not securities, therefore, each sweep depositor maintains a direct beneficial interest in and access to each deposit placed with a participating program bank. Given this distinction, deposits are not subject to the price volatility associated with the securities markets or potential illiquidity based on market dislocations as with money market funds. Because depositors are not shareholders in a commingled fund, they are not individually exposed to large withdrawals or purchases that could negatively impact existing shareholders.

Insured Deposit Programs are easy to understand and are less complex than alternative cash sweep options. By comparison, for retirement plan participants that invest cash in stable value funds, there are additional layers of complexity to consider. First, stable value funds rely on the availability of sufficient insurance wrap capacity at the industry level to provide credit support for the funds. In addition, the use of book value accounting enables portfolio managers to extend the average duration of stable value portfolios to achieve higher returns.

***Insured Deposit Programs are easy to understand and are less complex than alternative cash sweep options.***

In normal market conditions these features can serve investors well, at the same time, investors still need to monitor the availability of wrap capacity and the risk of potential credit spread widening. Significant price changes due to spread widening could create gaps between the market value of the portfolio and the book value of the fund.

During times of stress, the structural risks associated with commingled funds are tested. As we have seen in both the 2007-2008 period and current COVID-19 crisis, several individual money market mutual funds in both periods have required direct intervention by fund sponsors to provide liquidity for shareholders. More broadly, money market funds have also had to receive systemic support through targeted monetary and fiscal policy actions designed to stabilize the money market mutual fund industry.

Insured Deposit Programs, on the other hand, have not experienced liquidity constraints requiring similar forms of intervention during the 2007-2008 period or the current COVID-19 crisis.

## History of Success

Since their inception in the early 1980s, insured deposit programs have continued to gain increased adoption across many financial intermediaries, including bank-affiliated and independent trust companies, broker-dealers, clearing firms, custodians, municipalities, registered investment advisers, banks, retirement plans, and emerging technology platforms. Recent studies have estimated the current size of the cash sweep investments market to exceed \$1 Trillion.

## Pending Regulatory Changes that could Support Insured Deposit Programs

On December 12, 2019 the FDIC issued a Notice of Proposed Rulemaking (NPR) in an effort to modernize the regulatory framework governing the classification of deposits. If the FDIC approves the framework outlined in the NPR, we believe that sweep deposits that satisfy certain conditions will receive more favorable regulatory treatment. As a result, we expect to see an increased demand among financial intermediaries and banks to participate in Insured Deposit Programs.

TBS has prepared a response to the NPR and will submit a comprehensive public comment letter by the June 9th, 2020 deadline. If approved, the final rule is likely to be implemented by either year-end 2020 or 1Q 2021.

## We're Here to Help

Since 2004 we have we have served the needs of banks and financial intermediaries, combining deep industry experience with superior business process to create innovative solutions. Please contact us today to establish an Insured Deposit Program, a superior cash sweep alternative for uncertain times.

### Contact Total Bank Solutions today:

[info@totalbanksolutions.com](mailto:info@totalbanksolutions.com)

[totalbanksolutions.com/contact](https://totalbanksolutions.com/contact)