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A Missouri Bank is Using Tech to Secure Large Deposits from Public Entities.

Bank of Franklin County, a Washington, Mo.-based bank with \$273 million in assets, is using 'cash sweep' technology to gain large deposits from public funds without having to put up its own assets as collateral.

While accepting large deposits is not a pain point for most financial institutions, accepting public funds requires additional steps. If a bank accepts a deposit over the FDIC insurance limit (\$250,000) from a public entity, banks have to put up their own assets as collateral, limiting their abilities to use these funds for other purposes.

Becky Buhr, vice president of finance and retail manager at Bank of Franklin County, told Bank Innovation the bank has sought help from the tech company Reich & Tang to seek an alternate solution to this problem that involves spreading out the deposit among a network of institutions.

"All these banks that participate in the [Reich & Tang] network each have \$250,000 of FDIC insurance coverage, so they can take my \$13 million, put it out there on that network and it gets spread out among all these banks in increments of less than \$250,000," Buhr said.

According to Bank of Franklin County, this tool has been used since May of this year, when the bank secured a \$13 million deposit from the local school district. "The school district gets full FDIC insurance. They get a good interest rate. I get \$13 million that I have access to any time," Buhr explained.

The deposit came from the School District of Washington, which wanted to work with a local bank that could reinvest that money in the community. When Bank of Franklin County was deciding whether or not to bid on the deposit, Buhr said she needed to find a way to secure it without having to offer up the bank's assets as insurance. Reich & Tang, which has hundreds of banks on its deposit marketplace, told Buhr it could spread those funds throughout its member institutions and provide the required FDIC insurance.

The bank can access the funds by emailing Reich & Tang, which will then wire the money to the bank, explained Buhr. Institutions on the marketplace can also request capital to fund new loans, but they must pay Reich & Tang back with interest.

The technology acts as a two-way street for capital solutions. Banks that need money can request it, and banks that need to insure their deposits can send money. Bank of Franklin County, according to Buhr, actually generates revenue from interest Reich & Tang pays to keep the deposit on its marketplace.

The Bank of Franklin County has five branches in eastern Missouri, slightly west of St. Louis. Although its primary functions are commercial transactions, it also features retail products like personal checking and savings accounts. According to Buhr, the cash sweep technology is part of a bigger effort to digitize operations.

“We have a very robust online banking platform, and we have a very robust mobile banking platform. We offer remote deposit capture so our business customers can scan in their checks right on site,” Buhr said. “We really can compete with the big banks, but what limits us is the size of those relationships.”

Bank Innovation

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