



# HAWAII BANKERS ASSOCIATION

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**Supplemental Presentation to the**  
House Committee on Consumer Protection & Commerce  
Wednesday, March 12, 2008 at 2:00 p.m., Conference Room 325

**Re: SB 2312 Relating to Condominiums**

Representative Robert N. Herkes, Chair  
and members of the Committee:

## LATE TESTIMONY

My name is Michael Lai. I am an employee of Hawaii National Bank and I testify for the Hawaii Bankers Association (HBA) in support of SB 2312. HBA is a trade organization whose membership includes all commercial banks and thrift institutions doing business in Hawaii.

SB 2312 is identical to HB 2460, which passed out of this Committee unamended. The purpose of this bill is to clarify that condominium associations may invest in certificates of deposit through the Certificate of Deposit Account Registry Service (CDARS) network. CDARS is a program that enables even the smallest financial institution in Hawaii to provide its customers with access to multi-million dollar Federal Deposit Insurance Corporation (FDIC) insurance coverage for their certificates of deposit. As summarized in the attachment, CDARS has already been deemed an acceptable investment for public funds in Hawaii.

Yesterday, in a hearing on HB 2460 before the Senate Committee on Commerce, Consumer Protection, and Affordable Housing, the Real Estate Commission questioned whether an investment in CDARS was consistent with other sections of the condominium law, which address where association funds may be deposited or held. It was unclear to the Commission "whether CDARS funds are deposited in a local financial institution and whether such investment is in fact a "deposit" as required." HBA appreciates the Commission's comments. In response to their concerns, we propose adding the following clarification to the end of §514A-97(c), HRS, and §514B-149(c)(1), HRS:

"Placed through a federally insured financial institution located in the State for investment in certificates of deposit issued through the Certificate of Deposit Account Registry Service in federally insured financial institutions located in the United States."

We respectfully request the Committee to pass SB 2312 with the proposed amendment.

Thank you for the opportunity to testify.

Michael Lai



# CDARS: The Smart, Easy Way to Manage Public Funds

With CDARS, you get:

## One Bank

Get multi-million dollar FDIC insurance by working directly with just one bank – any local bank that offers CDARS – and avoid the burden of tracking changing collateral values.

## One Rate

Negotiate one rate for each CD maturity and enjoy the option of reinvesting them through a simple process.

## One Statement

Receive one easy-to-read statement summarizing all your CD holdings.

Now, through the CDARS® service, you can access multi-million dollar FDIC coverage on CD investments made through a single bank. This means that you can enjoy peace of mind knowing your funds are secure while avoiding the hassles associated with tracking collateral, requiring surety bonds, or working with multiple banks – and you can strengthen the community in the process.

### How does CDARS work?

Banks that offer CDARS are members of a special network. When a public fund depositor places a large deposit with a network member, that bank uses the CDARS service to place your funds into CDs issued by other members of the network. This occurs in increments of less than \$100,000 to ensure that both principal and interest are eligible for full FDIC protection. Other network members do the same thing with their customers' funds. With help from a sophisticated matching system, banks exchange funds with other members of the Network. These exchanges, which occur on a dollar-for-dollar basis, bring the full amount of your original deposit back to each originating bank. As a result, member banks can make the full amount of your deposit available for community lending purposes (your money stays local!) and your public unit can access FDIC coverage from many banks while working with just one.

### What else should I know?

The CDARS benefits of *One Bank*, *One Rate*, and *One Statement*<sup>SM</sup> help to reduce your administrative burden, especially during tax and financial reporting seasons. Also, your organization's confidential information remains protected.

*The CDARS program is something every county, city, and town should investigate. With CDARS, our deposits are eligible for multi-million dollar FDIC insurance, so we don't have to track those constantly changing collateral values, and they earn a decent rate. This is a good deal for the county and its constituents; our investment dollars work harder while being backed by the 'full faith and credit' of the Federal government and our time is freed up to work on other important matters.*

– Bonita Stadler, Treasurer – Payne County, OK

### Want to learn more?

Please contact one of your representatives:

#### Business Development Advisors

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If a depositor is subject to restrictions with respect to the placement of funds in depository institutions, it is the responsibility of the depositor to determine whether the placement of the depositor's funds through CDARS or a particular CDARS transaction satisfies those restrictions. Public fund deposits must be placed through a CDARS Reciprocal transaction to ensure that the total dollar amount is maintained by the financial institution that offers CDARS. Funds may be submitted for placement only after a depositor has signed a CDARS Deposit Placement Agreement with a member bank. CDARS is a registered service mark of Promontory Interfinancial Network, LLC.

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# Using CDARS for Public Funds In the State of Hawaii

*The investment of public funds through CDARS by the State of Hawaii and its counties is authorized by provisions of the Hawaii public funds statutes, as recently confirmed by the State's Attorney General.*

## **State Funds**

Section 36-21 of Hawaii Revised Statutes (HRS) provides in relevant part:

"(a) The director of finance may invest any moneys of the State which in the director's judgment are in excess of the amounts necessary for meeting the immediate requirements of the State in ... (11) Time certificates of deposit;"

Section 38-2 of HRS requires that state funds placed with a financial institution be protected by collateralization, but Section 38-3 further provides that:

"[s]ecurity shall not be required for that portion of any deposit that is insured under any law of the United States."

The Attorney General of the State confirmed in a letter dated January 20, 2004, to the Director of Finance, that:

"[a]ssuming that the CDARS program complies with its recordkeeping and other program requirements such as keeping the certificate of deposit amounts below \$100,000 (principal and interest), we believe that the CDARS program complies with the statutory requirements regarding the investment of state treasury moneys and the protection of such deposits."

## **County Funds**

Section 46-50 of HRS provides in relevant part that: the director of finance of each county may invest excess moneys in "(10) Time certificates of deposit;"

Section 46-48 of HRS provides that:

"Chapter 38, relating to the deposit of state money in banks, is extended to the several counties" so that each county shall have the same rights and obligations as the State. This provision in effect extends the Attorney General's Opinion with respect to investment of State funds through CDARS, to the investment of county funds through CDARS.

## **Security for Protection of Funds Deposited**

Section 38-3 of HRS specifies the securities that may be deposited for the protection of funds deposited in excess of amounts covered by federal deposit insurance. In 2004 the Legislature amended this section to add to the list of approved security for deposits;

"(9) Certificates of deposit issued through the Certificate of Deposit Account Registry Service in an amount at least equal in their market value, but not to exceed their par value, to the amount of the deposit with the depository;"

CDARS satisfies the FDIC's requirements for agency pass-through deposit insurance coverage.

If a depositor is subject to restrictions with respect to the placement of funds in depository institutions, it is the responsibility of the depositor to determine whether the placement of the depositor's funds through CDARS or a particular CDARS transaction satisfies those restrictions. Public fund deposits must be placed through a CDARS Reciprocal transaction to ensure that the total dollar amount is maintained by the financial institution that offers CDARS.

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