

# CD for Small Banks Tracks the S&P 500

■ BY JOHN REDSTI

Working with the Federal Home Loan Bank of Pittsburgh, four Pennsylvania banks — none with assets of more than \$440 million — have begun selling a certificate of deposit whose return is determined by the performance of the Standard & Poor's 500 index.

Though big banks have offered market-tracking CDs for years, community banks have steered clear because they could not generate enough volume to interest options traders.

Teaming up with the Home Loan bank enabled them to do so, said Robert Colvin, the president of Risk Analytics Inc., the consulting firm that came up with the arrangement. The Denver firm plans to offer the product to community banks throughout the country this year through arrangements with other Home Loan banks, he said.

The product yields 90% of the S&P 500's total return during its five-year term. Had it been available in December 1995, an \$1,000 investment would have paid \$1,941.15 at maturity. So far this year, however, the S&P 500 index is down more than 5%.

The four Pennsylvania banks — Premier Bank in Doylestown, Brentwood Bank in Bethel Park, Abington Savings Bank in Jenkintown, and Charleroi Federal Savings Bank in Charleroi — attracted \$4.7 million during the CD's first offering, which began in mid-January and ended Feb. 15.

The index-powered CD "has the sex appeal of the stock market with the protection of a bank," said Thomas Bailey, president of Brentwood Bank. "This is going to be of interest to people out there who want the return of the stock market but can't stomach the thought of a downturn."

The four banks agreed to pay the Pittsburgh Home Loan Bank 5.1% interest. The Pittsburgh bank in turn purchased options to cover the banks' rate promise to customers and will stand as the ultimate guarantor if the option writers cannot meet their obligations.

"Our job is to act as business partner to the banks in our region," said David Jones, a vice president and money desk manager at the Federal Home Loan Bank of Pittsburgh. "They've lost a lot of customers to mutual funds."

"All of our clients say they are finding it more and more difficult to raise money in retail deposits," Mr. Colvin said. "In three to five years, without a product like this I think they would be in real trouble."

Mr. Colvin said several other banks in Pennsylvania, West Virginia, and Delaware — the states the Federal Home Loan Bank of Pittsburgh serves — have expressed interest in the

product. At least four more will have signed on by March 15, when a second offering is planned, he said.

In addition, the Federal Home Loan Bank of Topeka has agreed to partner with Risk Analytics to make the CD available to community banks in Colorado, Kansas, Nebraska, and Oklahoma.

Frank Tiernan, senior vice president and treasurer of the Topeka bank, said it hopes to hold its first offering March 15.

"The game is on now," Mr. Colvin said. "We can only grow from here."

Mr. Jones of the Pittsburgh bank said it took almost a year to obtain the necessary approvals for its program. That was three times as long as officials thought it would take, he said. ■