

Member Stories | 11 Apr, 2025

## Member Bank Grows Bankruptcy Deposit Business with FHLBank Letter of Credit

In many ways, Genesis Bank operates like a larger traditional commercial bank, serving the banking needs of small to mid-sized businesses, the owners of those businesses, business professionals, and owners and investors of income-producing properties, including multifamily and commercial real estate and their operations, located primarily in Orange, Los Angeles, Riverside, and San Bernadino counties.

But Genesis Bank currently does not maintain an investment portfolio. Founding Chairman and Chief Executive Officer Stephen H. Gordon explained that the bank is intentionally unusual in this way to avoid introducing the volatility of alternative investment pricing into their balance sheet. He said, "If we went out and put on securities, the net interest margin wouldn't be enough to be compelling."

An idea that Gordon did find compelling was to use the bank's borrowing capacity at the Federal Home Loan Bank of San Francisco (FHLBank San Francisco) in a unique way. Genesis Bank has a specialty deposit division that encompasses escrow, title, HOA, and property management fund deposits. In the interest of developing it further, the leadership team saw an opportunity to take bankruptcy funds from banking trustees with fiduciary balances. By statute, these require a higher degree of security, and funds in excess of the FDIC-insured amount from bankruptcy estates must be collateralized via surety bonds or government securities.

When the Department of Justice (DOJ) bankruptcy funds opportunity arose, Genesis Bank was issued a FHLBank San Francisco letter of credit, which they then used to secure a surety bond. The surety bond meets the DOJ collateral requirements on the bankruptcy deposits.



**The letter of credit is very efficient and enables us to scale up certain things we're doing that require a higher level of funding.**

**Stephen H. Gordon**

**Founding Chairman and Chief Executive Officer**

Mr. Gordon's relationship with FHLBank San Francisco goes back over two decades. His banks have been using letters of credit from FHLBank San Francisco for years to fund various opportunities. He

commented, "The letter of credit is very efficient and enables us to scale up certain things we're doing that require a higher level of funding."

Mr. Gordon and his team continue to build this bankruptcy deposit business. They are now approved through the DOJ U.S. Trustee's Office to take fiduciary balance deposits in central and northern California, Nevada, Arizona, Delaware, New Jersey, Pennsylvania, and some regions in Texas. They will also continue to use FHLBank San Francisco letters of credit to secure the required surety bond. "We have a phenomenal relationship with the bank. FHLBank San Francisco is always very easy to work with and so timely in terms of providing us the coverage we need," said Jenny Simmons, President and Chief Operating Officer.

To learn more about how your organization could leverage letters of credit in creative ways that address your unique needs, contact your Relationship Manager or the Member Services Desk at (415) 616-2500.

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