

South Carolina Office of the State Treasurer



Pooled Collateralization of Public Deposits

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Statute

Qualified Public Depository, Local Funds, Collateral Required:

§6-5-15 – Securing deposits of funds by local entities:

(A) As used in this section, 'local entity' means the governing body of a municipality, county, school district, other local government unit or political subdivision, or a county treasurer.

(B) A qualified public depository, as defined in subsection (G) of this section, upon the deposit of funds by a local entity, must secure these deposits by deposit insurance, surety bonds, investment securities, or letters of credit to protect the local entity against loss in the event of insolvency or liquidation of the institution or for any other cause.

(C) To the extent that these deposits exceed the amount of insurance coverage provided by the Federal Deposit Insurance Corporation, the qualified public depository at the time of deposit must:

(1) furnish an indemnity bond in a responsible surety company authorized to do business in this State; or

(2) pledge as collateral:

(a) obligations of the United States;

(b) obligations fully guaranteed both as to principal and interest by the United States;

(c) general obligations of this State or any political subdivision of this State; or

(d) obligations of the Federal National Mortgage Association, the Federal Home Loan Bank, Federal Farm Credit Bank, or the Federal Home Loan Mortgage Corporation; or

(3) provide an irrevocable letter of credit issued by the Federal National Mortgage Association, the Federal Home Loan Bank, Federal Farm Credit Bank, or the Federal Home Loan Mortgage Corporation, in which the local entity is named as beneficiary and the letter of credit otherwise meets the criteria established and prescribed by the local entity.

(D) The local entity must exercise prudence in accepting collateral securities or other forms of deposit security.

(E) (1) A qualified public depository has the following options:

(a) To secure all or a portion of uninsured funds under the Dedicated Method where all or a portion of the uninsured funds are secured separately. The qualified public depository shall maintain a record of all securities pledged, with the record being an official record of the qualified public depository and made available to examiners or representatives of all regulatory agencies. The local entity shall maintain a record of the securities pledged for monitoring purposes.

(b) To secure all or the remainder of uninsured funds under the Pooling Method where a pool of collateral is established by the qualified public depository under the direction of the State Treasurer for the benefit of local entities. The depository shall obtain written approval from each entity before pooling an entity's collateral. The depository shall maintain a record of all securities pledged, with the record being an official record of the qualified public depository and made available to examiners or representatives of all regulatory agencies. The State Treasurer shall determine the requirements and operating procedures for this pool. The State Treasurer is responsible for monitoring and ensuring a depository's compliance and providing monthly reports to each local entity in the pool.

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(2) Notwithstanding the provisions of item (1) of this subsection, the local entity, when other federal or state law applies, may require a qualified public depository to secure all uninsured funds separately under the Dedicated Method.

F) A qualified public depository shall not accept or retain any funds that are required to be secured unless it has deposited eligible collateral equal to its required collateral with some proper depository pursuant to this chapter.

(G) 'Qualified public depository' means any national banking association, state banking association, federal savings and loan association, or federal savings bank located in this State and any bank, trust company, or savings institution organized under the law of this State that receives or holds funds that are secured pursuant to this chapter."

Qualified Public Depository, State Funds, Collateral Required:

§11-13-60 – Security for state funds deposited in excess of FDIC coverage:

(A) A qualified public depository, as defined in subsection (E) of this section, upon the deposit of state funds by the State Treasurer, must secure these deposits by deposit insurance, surety bonds, investment securities, or letters of credit to protect the State against loss in the event of insolvency or liquidation of the institution or for any other cause. To the extent that these deposits exceed the amount of insurance coverage provided by the Federal Deposit Insurance Corporation, the qualified public depository, at the time of deposit, shall:

(1) furnish an indemnity bond in a responsible surety company authorized to do business in this State; or

(2) pledge as collateral:

(a) obligations of the United States;

(b) obligations fully guaranteed both as to principal and interest by the United States;

(c) general obligations of this State or any political subdivision of this State; or

(d) obligations of the Federal National Mortgage Association, the Federal Home Loan Bank, Federal Farm Credit Bank, or the Federal Home Loan Mortgage Corporation; or

(3) provide an irrevocable letter of credit issued by the Federal National Mortgage Association, the Federal Home Loan Bank, Federal Farm Credit Bank, or the Federal Home Loan Mortgage Corporation, in which the State Treasurer is named as beneficiary and the letter of credit otherwise meets the criteria established and prescribed by the State Treasurer. *The State Treasurer shall exercise prudence in accepting collateral securities or other forms of deposit security.*

(B) (1) A qualified public depository has the following options:

(a) To secure all or a portion of uninsured state funds under the Dedicated Method where all or a portion of the uninsured state funds are secured separately. The qualified public depository shall maintain a record of all securities pledged, with the record being an official record of the qualified public depository and made available to examiners or representatives of all regulatory agencies. The State Treasurer shall maintain a record of the securities pledged for monitoring purposes.

(b) To secure all or the remainder of uninsured state funds under the Pooling Method where a pool of collateral is established by the qualified public depository under the direction of the State Treasurer for the benefit of the State. The State Treasurer shall determine the requirements and operating procedures for this pool. The depository shall maintain a record of all securities pledged, with the record being an official record of the qualified public depository

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and made available to examiners or representatives of all regulatory agencies. The State Treasurer shall maintain a record of the securities pledged for monitoring purposes.

(2) Notwithstanding the provisions of item (1) of this subsection, the State Treasurer, when other federal or state law applies, may require a qualified public depository to secure all uninsured state funds separately under the Dedicated Method.

(C) A qualified public depository shall not accept or retain any state funds that are required to be secured unless it has deposited eligible collateral equal to its required collateral with some proper depository pursuant to this chapter.

(D) The State Treasurer may assess a fee against the investment earnings of various state funds managed or invested by the State Treasurer to cover the operation and management costs associated with this section and Section 6-5-15(E)(1)(b). These fees may be retained and expended to provide these services and may not exceed the actual costs associated with providing the services.

(E) 'Qualified public depository' means any national banking association, state banking association, federal savings and loan association, or federal savings bank located in this State, and any bank, trust company, or savings institution organized under the law of this State that receives or holds state funds that are secured pursuant to this chapter."

Collateralization Methodologies for Public Deposits

Dedicated Method:

Under the Dedicated Method (current method), each accounts uninsured funds are secured separately. The qualified public depository shall maintain a record of all securities pledged, with the record being an official record of the qualified public depository and made available to examiners or representatives of all regulatory agencies. The local entity shall maintain a record of the securities pledged for monitoring purposes.

Pooling Method:

Under the Pooling Method, a pool of collateral is established by the qualified public depository (for all accounts) under the direction of the State Treasurer for the benefit of local entities. The depository shall obtain written approval from each entity before pooling an entity's collateral. The depository shall maintain a record of all securities pledged, with the record being an official record of the qualified public depository and made available to examiners or representatives of all regulatory agencies. The State Treasurer shall determine the requirements and operating procedures for this pool. The State Treasurer is responsible for monitoring and ensuring a depository's compliance and providing monthly reports to each local entity in the pool.

Eligible Collateral Securities

Eligible Collateral Securities:

The following types of securities are eligible for pledging as collateral:

- Obligations of the United States

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- Obligations of any agency or instrumentality of the United States if the principal and interest of such obligation is fully guaranteed by the United States
- General obligations of this State, or any political subdivision of this State
- Obligations of the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Banks, and the Federal Farm Credit system.
- Letters of Credit issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Banks, and the Federal Farm Credit system, in which the South Carolina State Treasurer is named the beneficiary.

The State Treasurer shall exercise prudence in accepting collateral securities or other forms of deposit security.

Collateral Securities Guidelines:

- All collateral must be delivered to a third party bank.
- Mortgage backed securities must be collateralized at a minimum of 115% of the value of deposits.
- For all other securities, a minimum of 102% collateralization of the value of deposits is required.

Pooled Collateral Requirements

Initial Requirements by Treasurer's Office:

The following information is to be provided to the Investment Management Division of the South Carolina State Treasurer's Office before participating in the pooled collateral system:

- Written Letter of Intent
- Total public fund balance
- Public entity fund balances (for each entity)
- Entity File
- Securities File

Entity File Requirements:

The following information is to be provided to the Investment Management Division of the South Carolina State Treasurer's Office using the Entity File template:

- Fund Balance
- Name
- Address
- Contact Person
- Phone Number
- Email Address

Securities File Requirements:

The following information is to be provided to the Investment Management Division of the South Carolina State Treasurer's Office using the Security File template:

- Holding Entity
- CUSIP #
- Original Par Amount

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- Current Par Amount
- Interest Rate
- Issue Date
- Maturity Date
- First Payment Date

Daily Requirements:

The following information must be provided to the Investment Management Division of the South Carolina State Treasurer's Office by the Qualified Public Depository:

- Total public fund balance to State Treasurer's Office
- Security Transactions sent to State Treasurer's Office

Monthly Requirements:

The following information must be provided to the Investment Management Division of the South Carolina State Treasurer's Office by the Qualified Public Depository:

- Securities Held counterparty reconciliation

Reporting Requirements:

The following information must be provided to the Investment Management Division of the South Carolina State Treasurer's Office by the Qualified Public Depository:

- Collateral sufficiency reports sent to each entity on a monthly basis

Getting Started

Procedure:

1) The Bank sends the State Treasurer's Office a written Letter of Intent, stating its desire to participate in the Pooled Collateralization of Public Deposits. Correspondence can be sent to the following:

South Carolina State Treasurer's Office
Wade Hampton Building
1200 Senate Street
Columbia, SC 29201
Attn: West Summers

2) The State Treasurer's Office will ensure the Bank has the proper file layouts for all necessary files (Asset File, Transaction File).

3) The Bank will contact all public depositors that wish to participate, and each public depositor will select either the "Dedicated" or "Pooling" method to collateralize deposits. A copy of the collateralization selection letter will be sent to the State Treasurer's Office.

4) The Bank will send test files (Asset File, Transaction File) to the State Treasurer's Office to ensure proper layout, and upload capabilities.

5) The State Treasurer's Office will establish a secure file transfer process.

6) The Bank and State Treasurer's Office will test the secure file transfer process, and upon mutual agreement, the Bank will go live with Pooled Collateralization of Public Deposits.

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