

Georgia Secure Deposit Program

Multibank Contingent Liability Public Deposit Collateralization Program

January 2020



Comparison of Methods

	Dedicated Method	Single Bank Pledging Pool	Multibank Pledging Pool
Method	Directly pledged to public depositor	Pooled collateral for each bank	Pooled collateral for each bank
Required Collateral Level	<ul style="list-style-type: none"> • 110% less FDIC Insurance • Banks allowed right of set-off • Collateral permitted by statute 	<ul style="list-style-type: none"> • 110% less FDIC Insurance • No right of set-off • Collateral permitted by State Depository Board 	<ul style="list-style-type: none"> • Ranges from 25%-125% less FDIC insurance • No right of set-off • Collateral permitted by State Depository Board
Custodian	Determined by Bank and Depositor	Approved by OST	Approved by OST
Annual Certification Required	No	No	Yes
Program Costs and Fees	None	Application Fee, Monthly Fee Per Public Depositor	Application Fee, Monthly Fee Per Public Depositor, Monthly Total Deposit Fee, Monthly Program Fee (Tiered)
Reports to OST	No	Yes	Yes
Penalties	No	No	Yes
Contingent Liability to Cover Program Losses	No	No	Yes
Disclosure to Depositors Requested by OST	No	Yes	Yes

Secure Deposit Program

SDP Program Benefits

Provides an alternative method to protect public depositors against loss that:

- ▶ Fully guarantees public deposits
- ▶ Potentially reduces the amount of collateral a bank pledges to collateralize public deposits thereby reducing associated collateralization costs
- ▶ Potentially improves a bank's liquidity ratios due to lower levels of pledged collateral
- ▶ Potentially increases bank's capacity for public deposits

Secure Deposit Program

Contingent Liability

Covers loss to public depositor resulting from default of participating bank

- ▶ Calculated as each non-defaulting bank's pro rata share of the total deposits in the pool

Secure Deposit Program

Secure Deposit Program (SDP) Participants

- ▶ Mandatory banks - those with assets greater than \$50 billion that qualify as a state depository
- ▶ Voluntary banks - those with assets less than \$50 billion that qualify as a state depository

Note: As of 7/1/2017, the dedicated and single bank collateralization pool methods will no longer be options for either the mandatory banks or any voluntary banks that are approved to participate. For these banks, all public deposit accounts requiring collateralization must be covered by the SDP. The dedicated method or, if qualified as a state depository, the single bank collateralization pool method, or a combination of the two, remain available to non-participating banks.

Secure Deposit Program

Oversight

- ▶ State Depository Board approves policies and procedures
- ▶ State Treasurer delegated administrative powers
- ▶ State Banking Commissioner selects rating service and sets collateralization tiers
- ▶ GBA Services, Inc. contracted with State Treasurer to administer the program

Secure Deposit Program

Collateralization Tiers

Based on bank's quarterly SNL Bank Insight National Rating score

- ▶ Tier 1 - 25% (score of 65 or higher)
- ▶ Tier 2 - 50% (score between 50 and 64)
- ▶ Tier 3 - 75% (score between 35 and 49)
- ▶ Tier 4 - 110% (score of 34 or lower)

Secure Deposit Program

Collateralization

Other considerations

- ▶ Deposits above 200% of bank's common equity Tier 1 capital will be collateralized at 100%
- ▶ Bank's deposits that exceed 20% of total pool balance will be collateralized at 100%
- ▶ State Depository Board may increase collateralization to 125% should economic conditions warrant

Secure Deposit Program

Expanded Collateral Options

State Depository Board has approved the following collateral as eligible (See Policy Exhibit A for details):

- ▶ U.S. Treasuries
- ▶ Agency Debentures & Structured Notes
- ▶ SBA Pass-throughs
- ▶ FHLB Letters of Credit
- ▶ GNMA securities
- ▶ Agency Mortgage Backs
- ▶ FNMA & FHLMC REMICs
- ▶ Municipal Bonds
 - ▶ Georgia, G.O. and Revenue Bonds, rated BBB or higher
 - ▶ State of Georgia Private Placements, upon Treasurer approval
 - ▶ Non-Georgia state-issued Bonds, rated A or higher (no more than 25% of total collateralization)

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Valuation of Collateral

Bank uses independent service to set fair market value of collateral on monthly basis (except FHLB LOCs that are valued at face amount and held directly by the Treasurer)

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Custodian

- ▶ State Treasurer approves all custodians eligible to participate in program
- ▶ GBA Services, Inc. maintains list of approved custodians
- ▶ Bank selects an approved custodian

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Reporting

Monthly reports are required of participants:

- ▶ Custodian
- ▶ Bank
- ▶ GBA Services, Inc.

Secure Deposit Program

Reporting

Bank reports monthly to GBA Services, Inc.:

1. Depositor Report: Number of and List of Public Depositors
2. Bank Monthly Report:
 - a) Total amount of deposits requiring collateralization
 - b) FDIC insurance coverage of deposits requiring collateralization
 - c) Total net deposits ($a - b = c$)
 - d) Common Equity Tier 1 Capital from most recent call report
 - e) Original and current market value of collateral using outside source
3. List and valuation of collateral pledged

Secure Deposit Program

Reporting

GBA Services, Inc. reports monthly to Treasurer and posts on public website:

1. List of Banks in program
2. Each bank's total and net deposits requiring collateralization
3. Each bank's collateralization percentage and required collateral value amount
4. Each bank's reported market value of collateral
5. Amount each bank is over/under collateralized
6. Each bank's pro rata share of total pool
7. List and count of Public Depositors (not identifying bank)
8. FEIN lookup for depositors seeking verification

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Sample Public Monthly Report

Georgia Secure Deposit Program Review

1/23/2020

As of: 11/30/2019

2,838 Total Depositors Reported.

Bank Name	Total Public Deposits in Accounts Requiring Collateralization	FDIC Insurance Covering Public Deposits	Total Net Deposits in Pool (Total Public Deposits Req. collateralization less FDIC Insurance)	Pledge Level %	Total Required Collateral	Current Reported Collateral	Over /Under Collateral	Pro Rata - Net Deposits - Current Reporting Period
AB&T	\$13,375,141	\$1,425,739	\$11,949,403	50%	\$5,974,701	\$6,500,000	\$525,299	0.09%
American Commerce Bank	\$5,159,830	\$2,080,574	\$3,079,256	50%	\$1,539,628	\$3,000,000	\$1,460,372	0.02%
American Pride Bank	\$244,293	\$244,293	\$0	25%	\$0	\$0	\$0	0.00%
Ameris Bank	\$946,024,917	\$62,691,634	\$883,333,283	50%	\$441,666,641	\$455,309,107	\$13,642,466	6.75%
Bank of America, National Association	\$1,117,236,932	\$15,652,151	\$1,101,584,781	50%	\$550,792,391	\$676,902,352	\$126,109,961	8.41%
BankSouth	\$43,950,578	\$4,166,213	\$39,784,365	50%	\$19,892,183	\$13,000,000	(\$6,892,183)***	0.30%
Branch Banking and Trust Company	\$1,179,643,798	\$51,123,750	\$1,128,520,048	50%	\$564,260,024	\$580,229,017	\$15,968,993	8.62%
Cadence Bank	\$354,314,743	\$19,598,905	\$334,715,838	50%	\$167,357,919	\$213,795,239	\$46,437,320	2.56%
CenterState Bank	\$54,474,764	\$3,710,492	\$50,764,272	50%	\$25,382,136	\$27,441,332	\$2,059,196	0.39%
Citibank, N.A.	\$0	\$0	\$0	50%	\$0	\$0	\$0	0.00%
Colony Bank	\$154,985,418	\$23,944,033	\$131,041,385	50%	\$65,520,693	\$91,383,296	\$25,862,604	1.00%
Douglas National Bank	\$8,783,236	\$1,250,000	\$7,533,236	25%	\$1,883,309	\$2,743,437	\$860,128	0.06%
Fifth Third Bank	\$1,361,493	\$750,000	\$611,493	25%	\$152,873	\$742,110	\$589,236	0.00%

Note: Net deposits used for calculating 20% of pool for additional required collateral: **\$13,094,554,196.00**

Note: Banks showing required collateral level totals above their required percentages indicate they have either deposits above 20% of net deposits in the pool based on above threshold, deposits above 200% of their Common Equity Tier 1 Capital or a combination of both, which requires additional collateral.

*Bank was in compliance for required collateral amount within three business days of month end.

*** Bank is in compliance as of the most recent approved data provided by the bank.

Secure Deposit Program

Participation Fees

- ▶ Program operates without state funding
- ▶ The State Depository Board has adopted the following fee schedule for the 2019-20 fiscal year:
 - ▶ Application Fee: \$500
 - ▶ Per depositor monthly fee: \$8.50
 - ▶ Program fee per bank per month:
 - ▶ Collateralization Tier 1: \$83.33
 - ▶ Collateralization Tier 2: \$70.83
 - ▶ Collateralization Tiers 3 and 4: \$41.67
 - ▶ Total deposit annual fee: 0.00000875
 - ▶ Non-compliance fee per occurrence: \$250

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Fee Example

- ▶ Bank has:
 - ▶ 20 public depositors in Secure Deposit Program (\$8.50/depositor/month)
 - ▶ \$25 million in public deposits
 - ▶ Qualifies for Tier II (50% collateralization) (\$70.83/month)
- ▶ Monthly Fee: \$240.83
 - ▶ $20 \times \$8.50 = \170.00
 - ▶ Program Fee = \$70.83
- ▶ Annual Deposit fee: \$250 ($\$25,000,000 \times 0.00000875$)
- ▶ One time application fee: \$500

		Monthly Fee	First Year Fees
Application Fee			\$500.00
Depositor Fee (20 depositors)	\$8.50	\$170.00	\$2,040.00
Program fee	\$70.83	\$70.83	\$849.96
Annual deposit fee (\$25 million)	\$25,000,000.00		\$218.75
Totals		\$240.83	\$3,608.71

Secure Deposit Program

Withdrawal from Program

- ▶ If voluntary withdrawal, bank sends GBA Services, Inc. written request to withdraw
- ▶ Treasurer reviews and submits to State Depository Board for approval
- ▶ Once approved, bank notified and date set for withdrawal
- ▶ If withdrawal is mandatory due to non-renewal of certificate from State Depository Board, bank is notified and date set for withdrawal
- ▶ After withdrawal, whether voluntary or mandatory, bank retains contingent liability for 12 months

Secure Deposit Program

Effect of a Merger

- ▶ A non-participating bank acquiring a participating bank automatically becomes a participant for 90 days and assumes all liability of the bank being acquired
- ▶ During the 90-day period, the acquiring bank may apply to participate in the program
- ▶ Otherwise, the withdrawal procedures apply

Secure Deposit Program

Contingent Liability

Example should loss occur:

- ▶ Bank A defaults
- ▶ Following liquidation of Bank A's pledged securities, loss to depositor(s) following default = \$1,000,000
- ▶ 20 banks other than Bank A participate in pool with total balance among those non-defaulting banks of \$10,000,000,000
- ▶ Bank B has pool balance of \$10,000,000
- ▶ Bank B pro rata share of non-defaulted pool = 0.1%
- ▶ Bank B contingent liability for loss = \$10,000

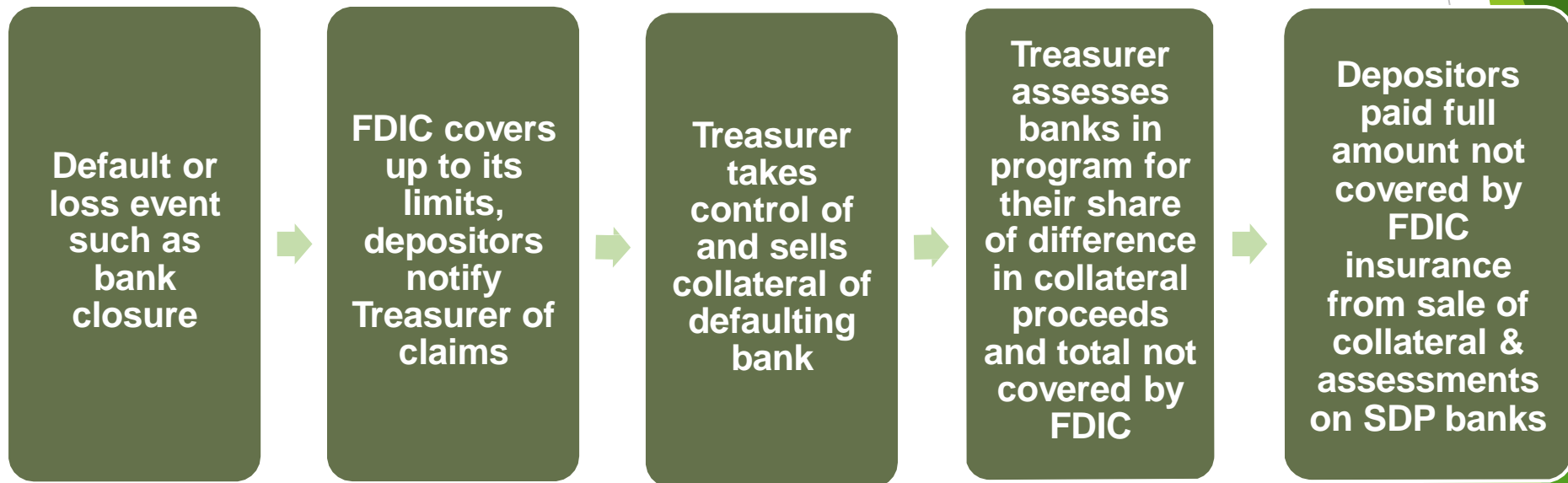
Secure Deposit Program

Avoiding Contingent Liability

- ▶ Banks report monthly, or more frequently if directed
- ▶ Collateralization percentage reviewed/changed quarterly, or more frequently, if deemed necessary by Treasurer/State Depository Board
- ▶ Collateralization percentage increases as health of institution deteriorates
- ▶ Upon default, institution likely would have been at highest deposit collateralization level (110% or 125%)
- ▶ Defaulted bank's pledged collateral sold and proceeds cover loss
- ▶ If no loss, therefore no contingent liability assessment of non-defaulting banks

Secure Deposit Program

Georgia Secure Deposit Program
If There's a Default or Loss Event



Secure Deposit Program

Depositor Emphasis All Deposits are Covered

- ▶ Contingent liability of banks in the pool fully covers public deposits - the banks are on the hook
- ▶ Collateral will be called first to cover losses
- ▶ Any losses not covered by collateral will be covered by the other pool participants based on their proportion of total deposits in the pool

Secure Deposit Program

Benefits to Public Depositors

- ▶ Deposits fully protected
- ▶ Spreads risk among participating banks, in addition to depositor's bank, under the contingent liability agreement
- ▶ Compliance oversight and loss recovery by the Office of the State Treasurer
- ▶ Keeps more banks competing for public deposits

Secure Deposit Program

How to Participate



State of Georgia Secure Deposit Program

[Log in](#)



About

Learn more about the State of Georgia Secure Deposit Program for protecting public deposits from loss.

[Learn more »](#)

Banks

If your bank is interested in participating in the State of Georgia Secure Deposit Program for protecting public deposits, please contact us.

[Contact us »](#)

Custodians

If you are a security custodian and you have a client bank that is or wants to participate in the State of Georgia Secure Deposit Program for protecting public deposits, please contact us.

[Contact us »](#)

Reports

See the latest monthly reports on participating banks, total deposits protected by the program and public depositors that are protected by the program.

[Reports »](#)

Secure Deposit Program

Qualifications of a State Depository or Voluntary Applicant to SDP

- ▶ Tier 1 leverage ratio 6 percent or greater
- ▶ Return on average assets of 0.0 percent or greater over trailing 12-month period
- ▶ SNL Bank Insight National Rating of 35 or higher
- ▶ Other factors considered by the State Depository Board

Secure Deposit Program

Designation as a Covered Depository

“Covered Depository” is the statutory term used for banks participating in the program. These banks must:

- ▶ Be qualified, apply and be approved by the State Depository Board
- ▶ Execute agreements:
 - ▶ Full Application
 - ▶ Security Agreement
 - ▶ Custodial Agreement
 - ▶ Account Exemption Certification Form for certain accounts not eligible to participate in pooled programs or exempt by Treasurer.
- ▶ Receive Certificate as a Covered Depository (renewed annually)
- ▶ Comply with program reporting requirements

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Voluntary Bank Application Process

- ▶ Application and supporting, signed documents filed with GBA and Office of the State Treasurer
- ▶ If metrics to qualify as a state depository are met, application submitted to Treasurer
- ▶ If Treasurer concurs bank is qualified as a state depository, application is presented at next State Depository Board meeting (usually meets quarterly)
- ▶ Bank must attend a briefing by the Treasurer explaining program.
- ▶ If approved by the Board, Treasurer issues certificate and he and GBA Services, Inc. sign to execute agreements. Participation begins on agreed upon date.

Secure Deposit Program

Other Information

- ▶ Information contained herein summary in nature
- ▶ Any decision to participate should be based upon a thorough review of definitive documentation
- ▶ Approved policies and procedures supersede any conflicting information contained herein
- ▶ Policies and procedures may be changed at the discretion of the State Depository Board

Secure Deposit Program

Resources

Georgia Office of the State Treasurer

Link to Program Documents

<https://ost.georgia.gov/banking-0/collateralization-state-accounts>

Secure Deposit Program

Public Reports Link

<https://sdp.treasury.ga.gov/Home/Reports>

Secure Deposit Program

Questions

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Multibank Contingent Liability Public Deposit Collateralization Program