

# Georgia Secure Deposit Program

Multibank Contingent Liability Public Deposit Collateralization Program

December 2018



# Comparison of Methods

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

# Secure Deposit Program

## Georgia Secure Deposit Program Snapshot (December, 2018)

- Contingent-liability protection of deposits with tiered-collateralization levels
- In operation since July 1, 2017
- \$13.3 billion in public deposits covered as of Dec. 19, 2018
- More than 2,200 depositors covered
- \$6.7 billion in collateral - 55.2% collateralized
- Originally 10 mandatory banks (\$10B+ in assets), four voluntary
- 33 banks are covered depositories - 10 mandatory, 23 voluntary
- 8 banks with total assets below \$300 million participating
- 4 banks with <\$10 million in public deposits participating
- 4 applicants approved for Feb. 1, 2019, entry

# 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 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)

# Secure Deposit Program

## 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)

# Secure Deposit Program

## Custodian

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

# Secure Deposit Program

## 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

# Secure Deposit Program

## Sample Public Monthly Report

### Georgia Secure Deposit Program Review

12/19/2018

As of: 11/30/2018

2,259 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	Pro Rata - Net Deposits - Current Reporting Period
AB&T	\$13,271,235	\$1,590,768	\$11,680,468	50%	\$5,840,234	\$6,500,000	\$659,766	0.10%
American Pride Bank	\$223,893	\$223,893	\$0	25%	\$0	\$0	\$0	0.00%
Ameris Bank	\$743,344,588	\$54,459,205	\$688,885,383	50%	\$344,442,691	\$338,675,296	(\$5,767,396)*	5.80%
Bank of America, National Association	\$1,023,608,290	\$15,991,591	\$1,007,616,699	50%	\$503,808,350	\$627,097,360	\$123,289,011	8.48%
BankSouth	\$16,825,933	\$3,016,726	\$13,809,208	25%	\$3,452,302	\$5,000,000	\$1,547,698	0.12%
Branch Banking and Trust Company	\$1,348,938,602	\$52,653,183	\$1,296,285,420	50%	\$648,142,710	\$668,299,717	\$20,157,007	10.91%
Calumet Bank	\$27,265,035	\$2,018,811	\$25,246,224	50%	\$12,623,112	\$18,923,903	\$6,300,791	0.21%
Citibank, N.A.	\$0	\$0	\$0	50%	\$0	\$0	\$0	0.00%
Douglas National Bank	\$7,561,464	\$1,250,000	\$6,311,464	25%	\$1,577,866	\$3,142,063	\$1,564,197	0.05%
Fidelity Bank	\$105,467,722	\$7,278,442	\$98,189,280	75%	\$73,641,960	\$86,788,932	\$13,146,972	0.83%
Fifth Third Bank	\$683,704	\$404,053	\$279,651	25%	\$69,913	\$503,450	\$433,538	0.00%
First Landmark Bank, a Division of National Bank of Commerce	\$22,212,887	\$2,059,853	\$20,153,034	75%	\$15,114,776	\$16,927,686	\$1,812,910	0.17%

**Note:** Net deposits used for calculating 20% of pool for additional required collateral: **\$11,881,657,350.84**

**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 regained compliance for required collateral amount by FHLB Letter of Credit within three-to-five business days.



# Secure Deposit Program

## Participation Fees

- ▶ Program operates without state funding
- ▶ The State Depository Board has adopted the following fee schedule for the 2018-19 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

# Secure Deposit Program

## 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 x \$8.50 = \$170.00
  - ▶ Program Fee = \$70.83
- ▶ Annual Deposit fee: \$250 (\$25,000,000 x 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

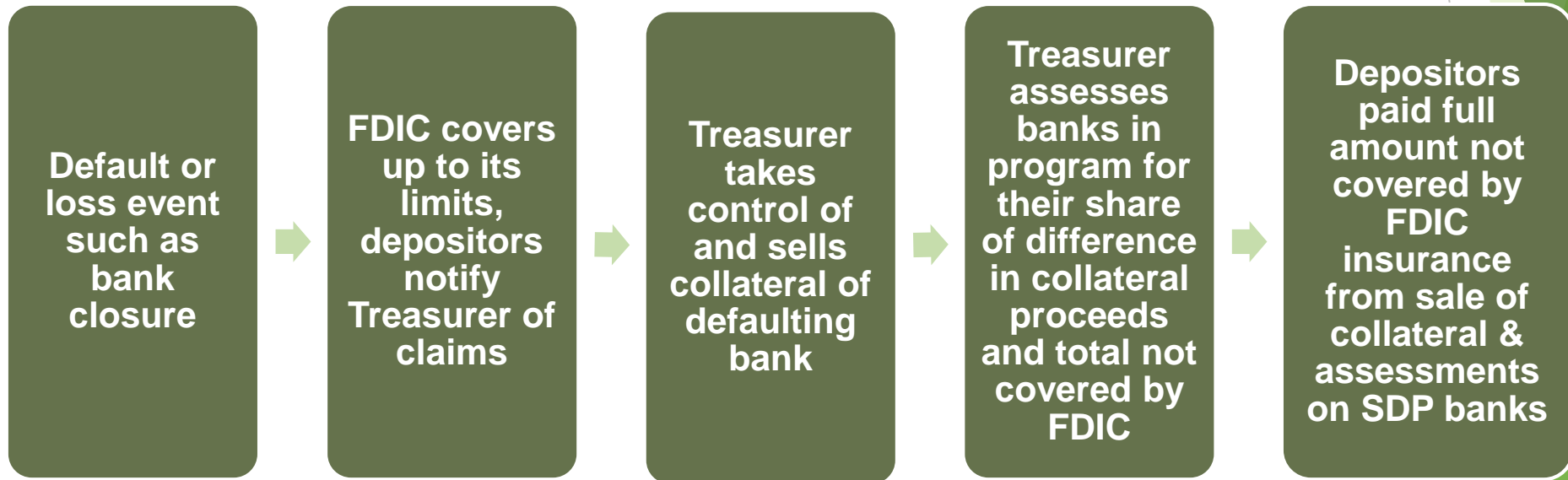
## Secure Deposit Program

# 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

## Secure Deposit Program

# 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/news-events>

**Secure Deposit Program**  
Public Reports Link

<http://sdp.azurewebsites.us/Home/Reports>

# Secure Deposit Program

## Questions

Sherry Scruggs  
Georgia Bankers Association  
Public Deposit Collateral Pools Manager  
404.420.2029  
sscuggs@gabankers.com

Joe Brannen  
President & CEO  
Georgia Bankers Association  
404.420.2026  
jbrannen@gabankers.com

David Oliver  
Georgia Bankers Association  
SVP, Member Solutions  
404.420.2036  
doliver@gabankers.com



# Georgia Secure Deposit Program

Multibank Contingent Liability Public Deposit Collateralization Program