OLR Bill Analysis
sHB 7181

AN ACT ALLOWING PUBLIC DEPOSITORS TO RECEIVE SUPPLEMENTAL COLLATERAL AS SECURITY FOR PUBLIC DEPOSITS.

SUMMARY

By law, a qualified public depository (i.e., a bank or credit union that holds state or municipal deposits) must maintain a minimum amount of eligible collateral (See BACKGROUND) to secure public deposits.

This bill allows qualified public depositories to provide supplemental collateral as additional security for public deposits, subject to the same requirements that existing law applies to eligible collateral. The bill provides that (1) nothing in the public deposits law, as amended by the bill, may be construed to permit a qualified public depository to maintain supplemental collateral in lieu of statutorily required eligible collateral and (2) any supplemental collateral must serve only as additional security above the minimum statutory requirements.

Under the bill, “supplemental collateral” are investment securities or other similar obligations that (1) do not qualify as eligible collateral and (2) are offered by a public depository as additional securities for public deposits.

The bill also makes conforming and technical changes.

EFFECTIVE DATE: October 1, 2019

SUPPLEMENTAL COLLATERAL

The bill generally extends to supplemental collateral the same transfer and holding, security interest, reporting, substitution, deposit return, record keeping, and loss requirements that currently apply to
eligible collateral. These provisions generally:

1. require qualified public depositories to segregate collateral from other assets by transferring it to a trust department or federal reserve or home loan bank, depending on their leverage ratio;

2. require transfers of collateral to be made in a manner prescribed by the banking commissioner;

3. authorize qualified public depositories authorized to exercise fiduciary powers to hold collateral in their own trust departments or accept a transfer of collateral;

4. give the commissioner a perfected security interest in collateral;

5. require qualified public depositories to value and adjust the market value of collateral each month;

6. require qualified public depositories to (a) report to the commissioner quarterly the CUISP number, description, and par value of investments held as collateral (CUISP is a nine digit number assigned to securities) and (b) file a written report with the commissioner on each call report date that includes a description and market value of collateral;

7. reduce, in whole or in part, the amount of any supplemental collateral (existing law allows them to reduce eligible collateral held in excess of the minimum required amount);

8. specify that collateral belongs to the depository without restriction;

9. require the commissioner to instruct a qualified public depository on the return of public deposits and collateral in the event that the depository loses its qualification or no longer wants to be a public depository;

10. require qualified public depositories to maintain records that include a statement containing specified information for each
transfer or designation of collateral; and

11. after a loss (i.e., if a public depository enters receivership or is restrained from making payments by a supervisory authority), require the commissioner to ensure public depositors are made whole, including certifying the amounts due and, if the public depository fails to pay, take possession and liquidate collateral.

BACKGROUND

Eligible Collateral

By law, eligible collateral are:

1. general obligations that the United States or Connecticut guarantees fully as to principal and interest or for which the United States or Connecticut pledges its full faith and credit for the payment of principal and interest;

2. general obligations of any federal agency, including government sponsored enterprises, which are not guaranteed fully as to principal and interest by the United States or for which the full faith and credit of the United States is not pledged for the payment of principal and interest;

3. mortgage pass-through or participation certificates or similar securities that the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation or Government National Mortgage Association issued or guaranteed;

4. general obligations of municipalities and states other than Connecticut that are rated in the three highest rating categories by a rating agency recognized by the banking commissioner; and

5. revenue obligations for essential services, including education, transportation, emergency, water, and sewer services of municipalities and states that are rated in the three highest rating categories by a rating agency recognized by the commissioner and that are determined to be a prudent investment by the public depository’s governing board, management committee or
board committee, or an officer appointed thereby (CGS § 36a-330).

COMMITTEE ACTION
Banking Committee

Joint Favorable
Yea 15 Nay 0 (03/05/2019)