Indiana Board for Depositories

Semi-Annual Report to the State Budget Committee

12/4/2012

In the 2010 legislative session, the Indiana General Assembly passed HEA 1336 that gave the Indiana Board for Depositories (IBFD) the tools to be more strategic in the safekeeping and prompt payment of public funds held in Indiana depositories. Until this time, the primary tool in fulfilling this mission was the maintenance and operation of the Public Deposit Insurance Fund (PDIF) which could be drawn upon to pay claims of those public funds held by a failed depository that were not covered by a federal deposit insurance program. Included in this legislation was the requirement for the IBFD to prepare a report each June and December on its activities and the status of the PDIF, and for the IBFD chairperson or designee to present the report to the budget committee at a public hearing. The following is the report for June through December 2012.

Recent Activities

The collateralization system became operational in May 2011. It is a tiered system based on the financial profile ratings of the Indiana depositories and the amount of non-federal insured public deposits held. Indiana depositories have the option of pledging marketable government securities or a letter of credit from the Federal Home Loan Bank. Approximately half of the depositories required to collateralize use letters of credit to satisfy all or a portion of their pledging requirements.

The average daily balance of net public funds (after deducting for FDIC coverage) held by the 176 approved depositories was approximately $10.7 billion as of September 30, 2012, up slightly from the previous report.

The most recent financial profile ratings reflect a continuing improvement in the financial health of Indiana depositories. Since September 2010 the average rating for eligible Indiana depositories has increased from 43 to 55 with the most recent ratings as of June 2012. Based on these current ratings and the reported average net public funds held as of September 30, 2012, 7 depositories are required to pledge and deliver collateral at 100% which covers approximately 1.1% of the total average daily balance; 16 depositories which hold 2.8% of funds are required to pledge at 50% which covers approximately 1.4% of the public funds; and 153 depositories are not required to pledge collateral. When voluntary 100% collateralization is factored in, approximately $1.7 billion or 16% of the average daily balance of public funds held by Indiana depositories is secured by the collateralization program, a reduction from 22% in the last report.

This reduction does not reflect a less secure program. The reduction is driven by two primary factors. The improved financial profile ratings mean institutions that once had to collateralize may no longer be required to do so at all or less than previous levels. The other factor is that the institutions which have elected to voluntarily collateralize are holding less deposits to which the PDIF has exposure. This is most likely the result of Indiana public funds participating in the federal Transaction Account Guarantee (TAG) program in which non-interest-bearing accounts receive full federal insurance. Collateralization requirements are based on the level of deposits net of federal insurance. TAG is due to expire at the end of 2012. Its expiration or extension will influence future collateralization levels.

At its June meeting, the Board for Depositories authorized the study of the collateralization program. Past studies had focused primarily on the sufficiency of the cash fund balance to satisfy claims under various risk simulation scenarios. The Board has engaged Aon Risk Solutions to review the hybrid cash reserve/collateralization program that was implemented in May 2011. The findings of the analysis will be presented to the Board at its December meeting.

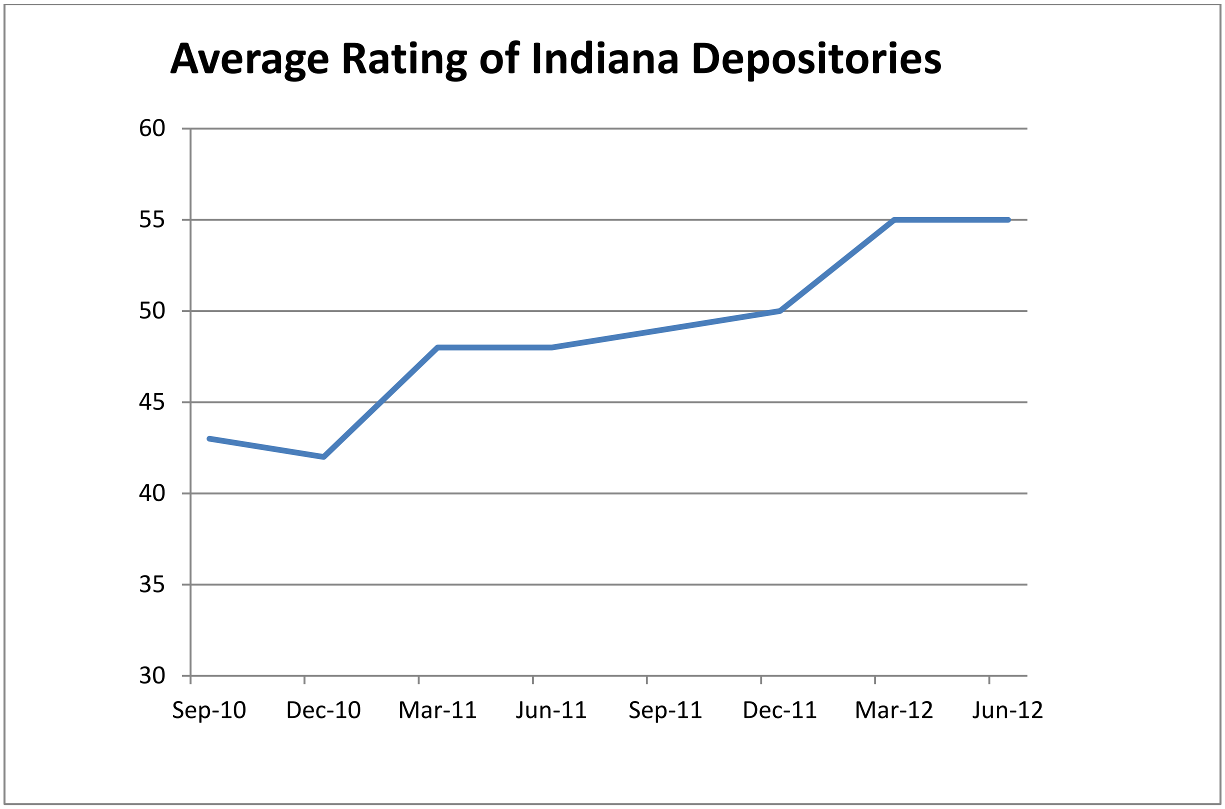
Fund Status

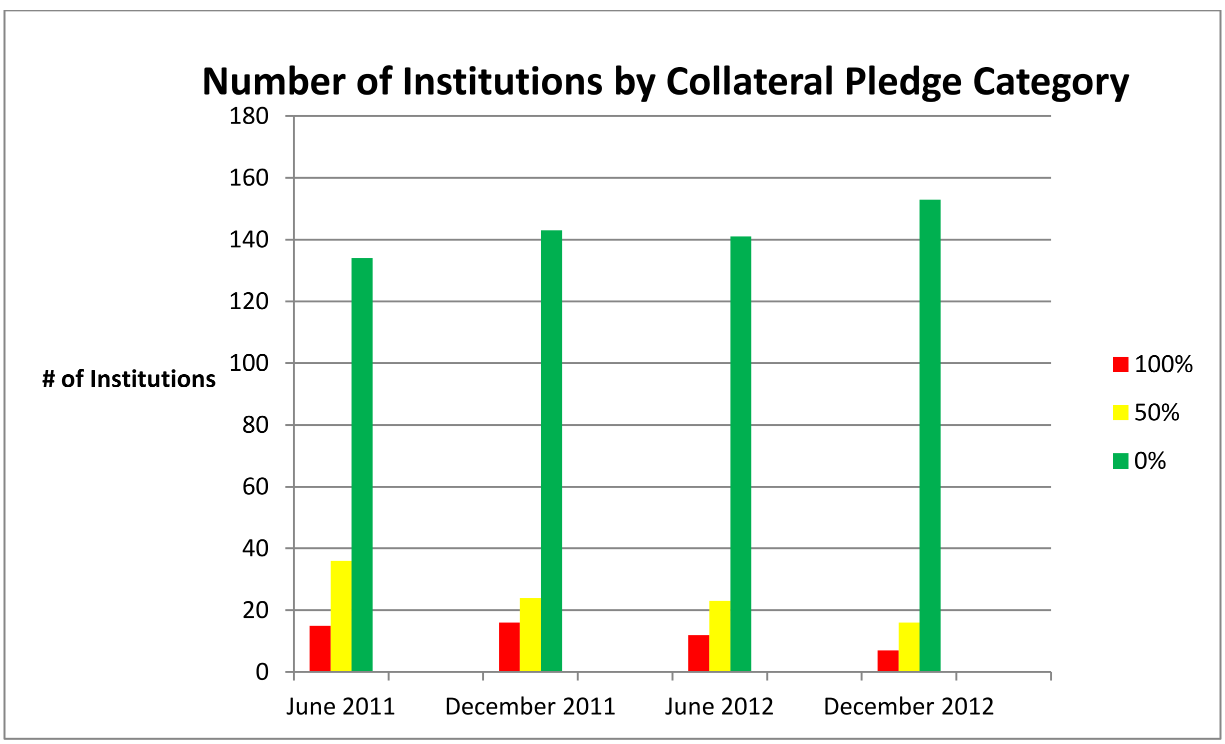
As a supplement to the collateralization program summarized above, the PDIF had a fund balance of $300 million as of November 30, 2012. The fund balance includes the $5 million bond purchase agreement with the Indiana Housing and Community Development Authority and the $50 million receivable from the State of Indiana. When the available PDIF balance is added to the collateralization program, the coverage of the security is increased from 16% to 19% of the average daily balance of public funds held by depositories.

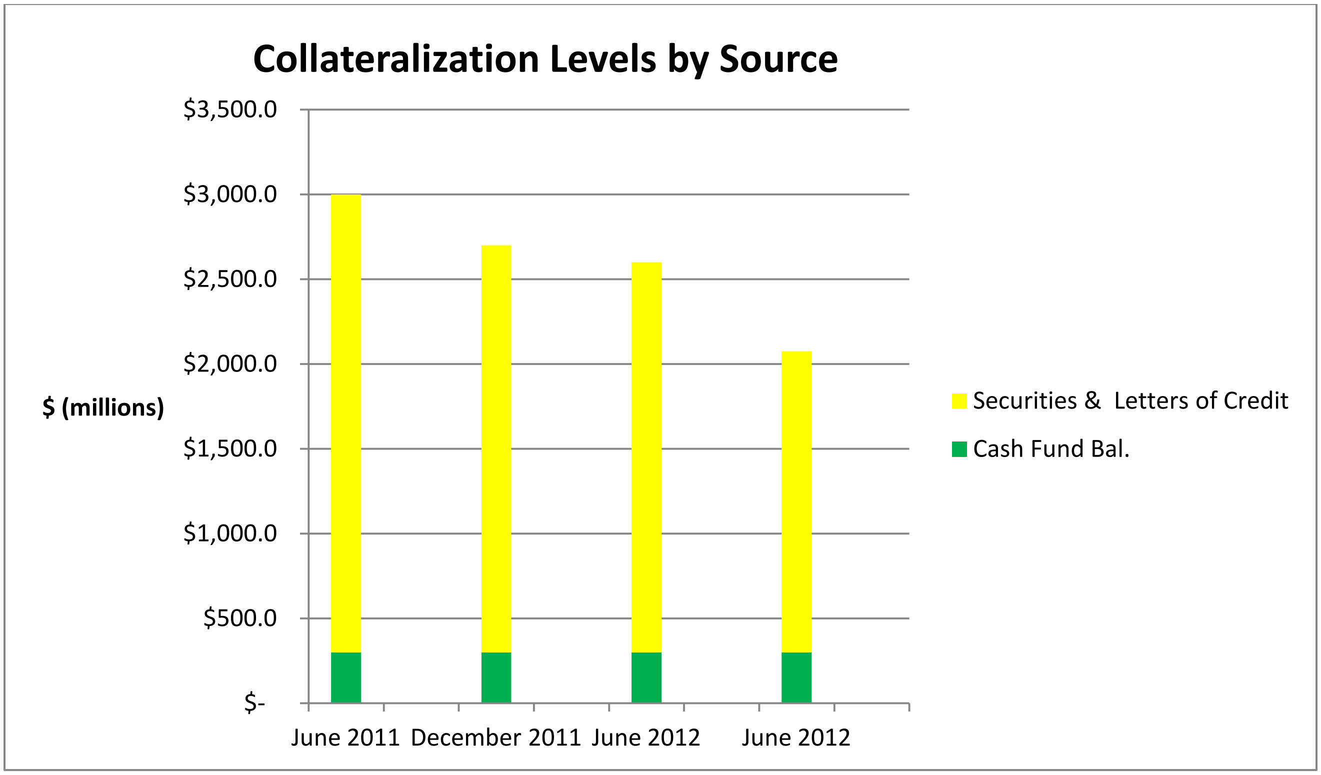
There were no draws on the PDIF in the last six months.

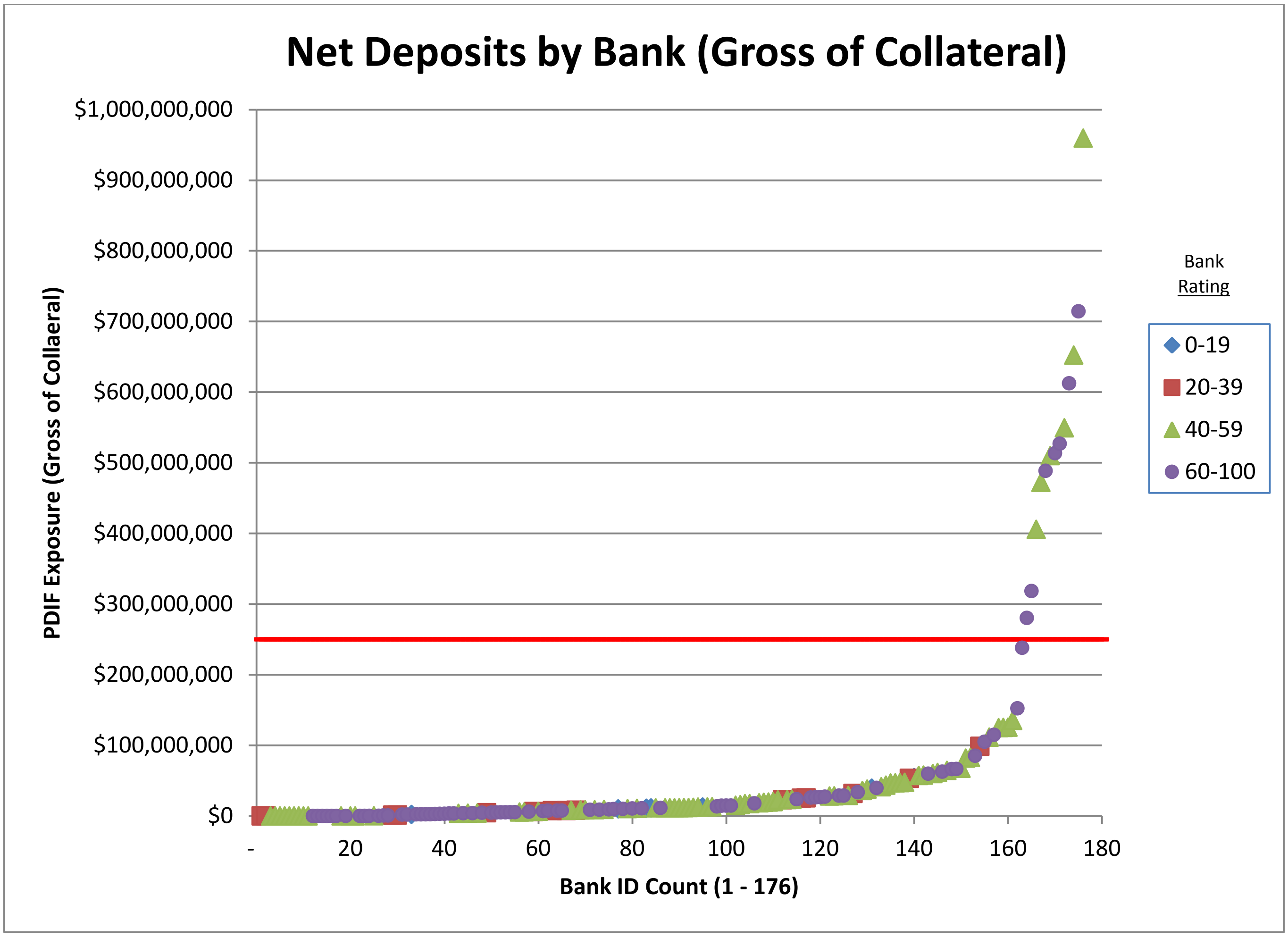
The following pages provide graphs of the level of collateralization since the inception of the collateralization program. The graphs on the final two pages capture well the concept of the collateralization program by graphing the deposit levels by institution and the respective financial rating.

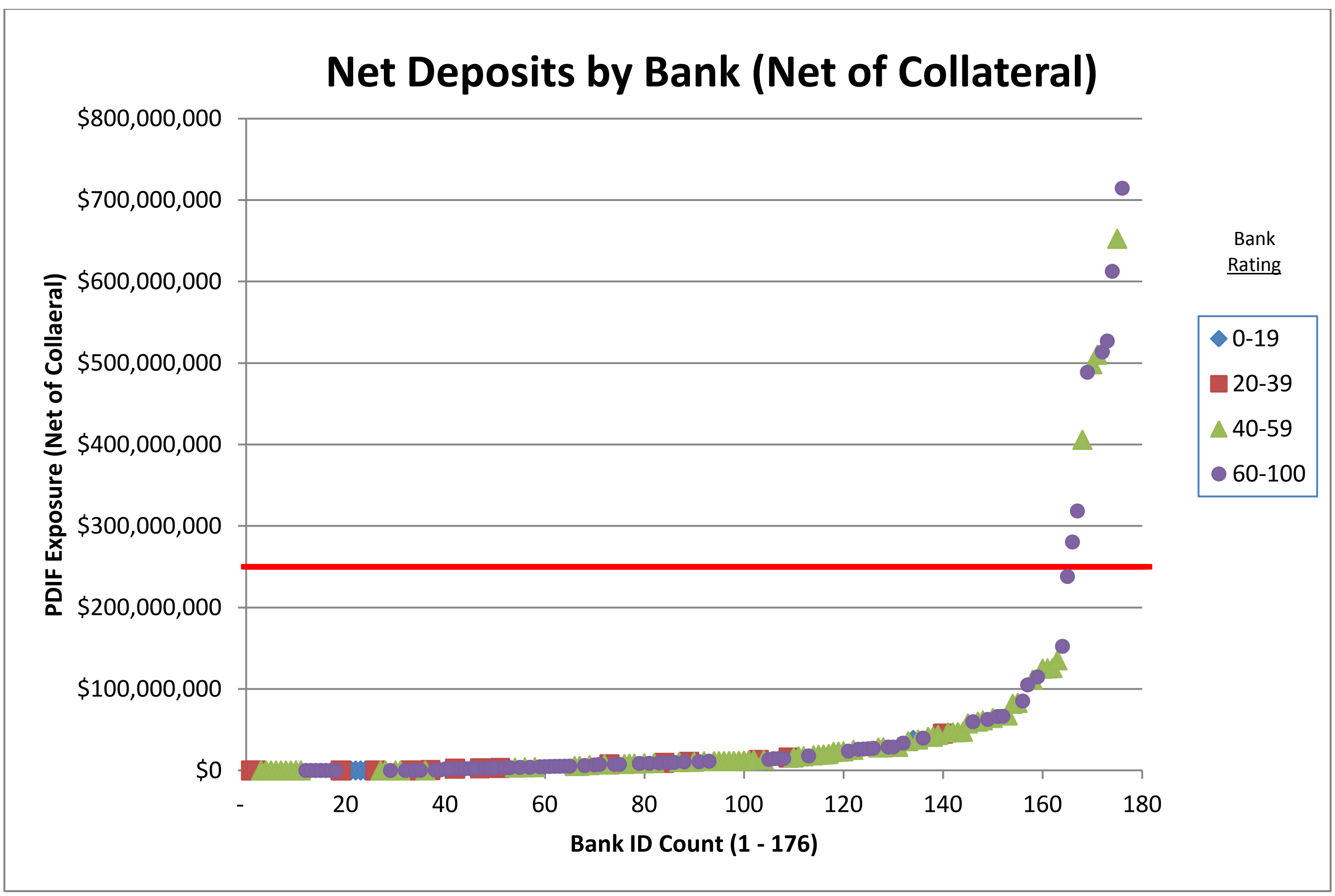
Appendix-Collateral Program Data






Collateralization Levels by Source
$ (millions)
$3,500.0
$3,000.0
$2,500.0
$2,000.0
$1,500.0
$1,000.0
$500.0
$-
June 2011
December 2011
June 2012
June 2012
Securities & Letters of Credit
Cash Fund Bal.


Net Deposits by Bank (Gross of Collateral)
$1,000,000,000
$900,000,000
$800,000,000
$700,000,000
$600,000,000
$500,000,000
$400,000,000
$300,000,000
$200,000,000
$100,000,000
$0
PDIF Exposure (Gross of Collaeral)
-
20
40
60
80
100
120
140
160
180
Bank ID Count (1 - 176)
Bank Rating
0-19
20-39
40-59
60-100


Net Deposits by Bank (Net of Collateral)
$800,000,000
$700,000,000
$600,000,000
$500,000,000
$400,000,000
$300,000,000
$200,000,000
$100,000,000
$0
PDIF Exposure (Net of Collaeral)
-
20
40
60
80
100
120
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Bank ID Count (1 - 176)
Bank Rating
0-19
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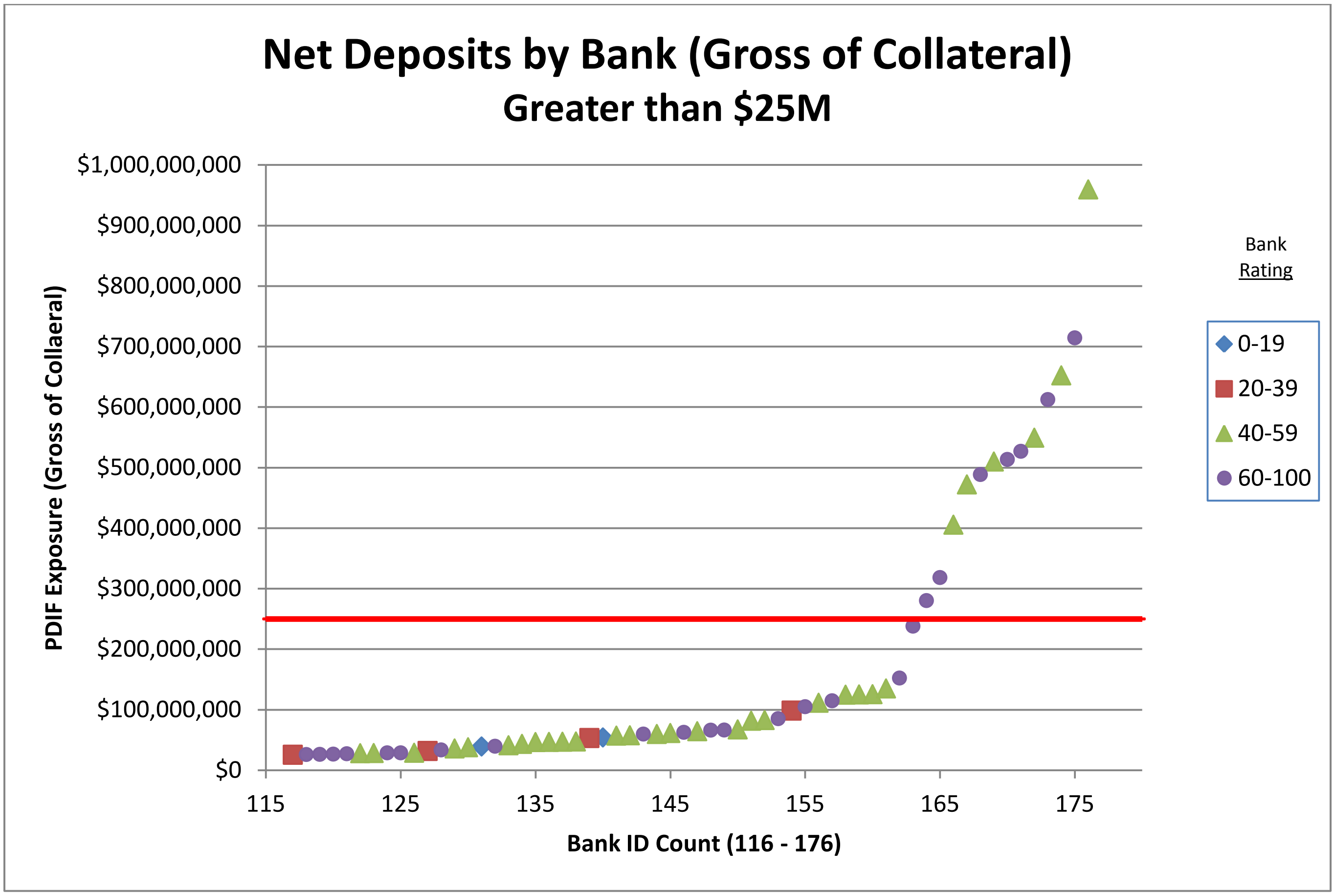
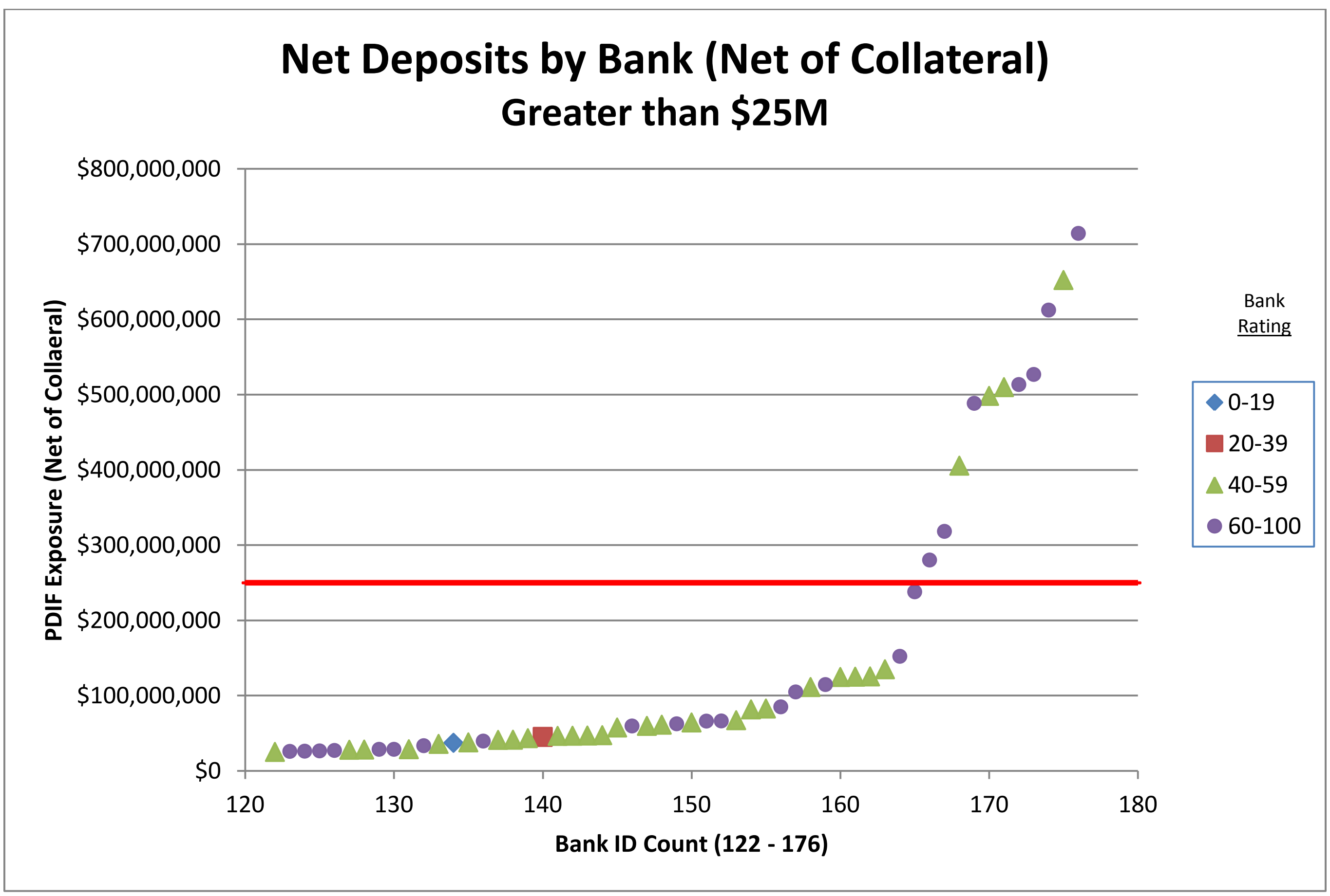


Net Deposits by Bank (Gross of Collateral)
Greater than $25M
$1,000,000,000
$900,000,000
$800,000,000
$700,000,000
$600,000,000
$500,000,000
$400,000,000
$300,000,000
$200,000,000
$100,000,000
$0
PDIF Exposure (Gross of Collaeral)
115
125
135
145
155
165
175
Bank ID Count (116 - 176)
Bank
Rating
0-19
20-39
40-59
60-100



Net Deposits by Bank (Net of Collateral)
Greater than $25M
$800,000,000
$700,000,000
$600,000,000
$500,000,000
$400,000,000
$300,000,000
$200,000,000
$100,000,000
$0
PDIF Exposure (Net of Collaeral)
120
130
140
150
160
170
180
Bank ID Count (122 - 176)
Bank
Rating
0-19
20-39
40-59
60-100