Indiana Board for Depositories

Semi-Annual Report to the State Budget Committee

6/23/2010

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 January through June 2011.

Recent Activities

The primary focus of the IBFD staff in the last six months has been the implementation of the collateralization program authorized by HEA 1336-2010. The system became operational in May 2011. It was reported at the June 13, 2011 board meeting that the average daily balance of net public funds (after deducting for FDIC coverage) held by the 185 approved depositories was approximately $10.2 million. This reduction from the $12.4 billion reported in the first six month report could be the result of several factors such as:

- Less gross public funds held, including depositories reducing public funds are part of a larger corporate strategy.
- More depositories reporting the effect from FDIC coverage. This net effect has only recently been more formally tracked with the passage of HEA 1336-2010.

Based on the financial profile ratings received in May and the reported average net public funds held as of March 31, 2011, 15 depositories are required to pledge and deliver collateral at 100% which covers approximately 5% of the total average daily balance; 36 depositories which hold 27% of funds are required to pledge at 50% which covers approximately 14% of the public funds; and 134 depositories holding 68% of the public funds are not required to pledge collateral. When the voluntary 100% collateralization is factored in, approximately $2.7 billion or 26% of the average daily balance of public funds held by Indiana depositories is secured by the new program.

The financial profile ratings received in May reflected a general improvement in the financial health of Indiana depositories. Ten institutions moved from the 100% category to the 50% category where only two moved in the opposite direction within those categories. Twenty-three depositories moved from 50% pledging to no pledging while only 4 depositories moved from not having to pledge collateral to the 50% category. The reduction in public funds held and these in changes financial profile ratings resulted in the industry having to pledge less collateral than what was anticipated earlier this year.

At the time of the filing of the previous report it was anticipated that up to 29 institutions holding $1.4 billion or 11% of all public funds would be required to collateralize 100% of those funds. Forty-four depositories which at the time held approximately 42% were expected to pledge collateral at 50% resulting in coverage of 21% of total public funds; and 117 institutions holding $5.7 billion or 46% of the $12.4 billion were not expected to collateralize. The coverage percentage of all public funds, including the 100% voluntary collateralization, was expected to be 39% at that time.

Fund Status

As a supplement to the collateralization program summarized above, the PDIF had a fund balance of $299.5 million as of May 31, 2011. 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. At its June board meeting, the IBFD amended its 2004 resolution documenting the advancement to the State. The amendment was introduced to revise the maturity date to 2023 to align with actions of the Indiana General Assembly in the last session. When the available PDIF balance is added to the collateralization program, the coverage of the security is increased from 26% to 28% of the average daily balance of public funds held by depositories.

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