

## **Indiana Board for Depositories: Rules for Collateralization**

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## **ARTICLE 1. GENERAL RULES**

### **1.1. Purpose.**

The purpose of these rules ("Rules") is to establish procedures for securing, by the pledge and/or the delivery of Eligible Collateral, Public Funds maintained in Indiana Depositories which are not otherwise insured by a Federal Deposit Insurance Agency.

### **1.2. Authority.**

(a) Pursuant to Indiana Code ("IC") 5-13-9.5-1, the designation of a Financial Institution to serve as a Depository of Public Funds of the State qualifies a Financial Institution to serve also as a Depository of Public Funds of the political subdivisions of the State. A Financial Institution that is designated a Depository for Public Funds of the State and of political subdivisions through its Depository application presented to the State Board of Finance has agreed to provide the security for such funds as required in IC 5-13-13-7 and as described in these Rules.

(b) Pursuant to IC 4-9.1-1-4, the State Board of Finance is vested with the authority to supervise the fiscal affairs of the State and all Public Funds of the State and shall arrange for the convenient deposit of all Public Funds of the State according to IC 5-13. As a Financial Institution must be designated as a Depository for Public Funds of the State in order to be designated as a Depository for Public Funds of political subdivisions, the authority of the State Board of Finance extends to the supervision of Public Funds on Deposit at a Financial Institution desiring to be a Depository of Public Funds of political subdivisions. In accordance with its authority to supervise the fiscal affairs and Public Funds of the State, the State Board of Finance has adopted a resolution delegating the authority for the supervision of all Public Funds to the Indiana Board for Depositories for the purpose of implementing and managing the provisions of HEA 1336-2010 which relates to Public Funds.

(c) Pursuant to IC 5-13-12-3(a), the Board has all powers necessary, convenient, or appropriate to carry out and effectuate its public and corporate purposes.

(d) Accordingly, as stated in IC 5-13-12-3(a)(1), the Board may, among other things, adopt and amend rules and bylaws to regulate its affairs and to effect the powers and purposes of the Board.

(e) Pursuant to Board resolution, the Board has delegated to the Secretary-Investment Manager of the Board the authority to implement these Rules on behalf of the Board. The Secretary-Investment Manager of the Board shall have all powers necessary to carry out the purposes of the Board under these Rules.

### **1.3. Scope.**

To insure the security of Public Funds on Deposit, the Board has determined to establish a framework for requiring the collateralization of such Public Funds maintained at Depositories throughout the State. These Rules establish procedures for determining collateralization requirements for Depositories and establish a framework for the operation of a voluntary 100% Collateralization Level Option for Depositories.

#### 1.4. **Definitions.**

As used in these Rules, the following definitions apply:

"Appendix C" means Appendix C to the Operating Circular.

"Assessment" means the amount a Depository must pay into the Public Deposit Insurance Fund under IC 5-13-12.

"Average Daily Balance" means the average of Public Funds on Deposit at a Depository for the previous calendar quarter as reported by a Depository under Section 2.7 herein and is calculated by adding the daily Close of Business balance of Public Funds on Deposit and dividing such sum by the number of calendar days in such quarter. If a Depository does not have systems capable of calculating the Average Daily Balance as described in the preceding sentence, then the Average Daily Balance for that Depository means the average of the Public Funds on Deposit at the Depository for the previous three (3) month-end dates as reported by the Depository under Section 2.7 herein and is calculated by adding the Public Funds on Deposit balances as of the three (3) month-end dates and dividing such sum by three. A Depository using the month-end public fund balances described in the preceding sentence must designate on their report to the Board it is utilizing this method and certify under penalty of perjury to that Board that it is doing so because its systems are incapable of calculating an Average Daily Balance utilizing daily Close of Business balances of Public Funds on Deposit.

"Authorized Officer" means an officer of a Depository, duly authorized by the Depository's board of directors to legally bind the Depository.

"Board" means the Indiana Board for Depositories, created under IC 5-13-12-1.

"Business Day" means any day other than a Sunday or a day on which Financial Institutions are required or authorized by law to be closed.

"Close of Business" means the hour of day at which a Depository closes for regular business operations.

"Collateral" means Eligible Collateral that has been pledged by a Depository pursuant to a Collateral Requirement established under these Rules.

"Collateral Requirement" means the Market Value of Eligible Collateral required to be pledged or delivered to the Board by a Depository and is equal to a specific percentage of a Depository's Average Daily Balance or Public Funds on Deposit as communicated in the Board's Order.

"Control Agreement" means a security and control agreement among a Depository, the Board and a Depository's Federal Reserve Bank, or the Board's Custodian, granting the Board a security interest in Collateral and providing for the custody of such Collateral in a Restricted Securities Account at the Federal Reserve Bank or the Board's Securities Account with its Custodian.

"Custodian" means the third-party custodian appointed by the Board for the establishment of Securities Accounts for the custody and maintenance of Eligible Collateral pledged and delivered to the Board by the Depositories.

"Deficiency" means at any time, for any Depository, the difference in Market Value between the Collateral and the Collateral Requirement, where the Market Value of the Collateral is less than that required under the Collateral Requirement.

"Depository" means a Financial Institution that has made application to the State Board of Finance under IC 5-13-9.5-1 for designation as a depository of Public Funds of the State, and which as so designated, is eligible also to receive Public Funds of political subdivisions. Pursuant to IC 5-13-9.5-1(c), a Depository shall maintain a capital ratio in excess of the minimum required by the governmental supervisory body of the Depository, and if the Depository has received an individual minimum capital requirement from any federal or state regulator in an Order or other communication, such Depository shall be subject to the requirements of Article 4 of this Rule. The minimum capital ratio shall never be less than "adequately capitalized." Also pursuant to IC 5-13-9.5-1(c), a Depository must not be out of substantial compliance with the federal Credit Card Accountability Responsibility Act of 2009, as it applies to Indiana borrowers.

"Eligible Collateral" means United States dollars or unencumbered book-entry debt securities and other rights, valued at Market Value, eligible for pledging and/or delivery to the Board under these Rules, and include:

- (1) United States Treasury securities;
- (2) Federal agency securities;
- (3) Securities of government-sponsored enterprises, including securities from:
  - a. farm credit banks
  - b. federal land banks
  - c. the Federal Home Loan Bank and its district banks
  - d. federal intermediate credit banks
  - e. the Federal Home Loan Mortgage Corporation (Freddie Mac)
  - f. the Federal National Mortgage Association (Fannie Mae)
  - g. the Government National Mortgage Association (Ginnie Mae)
  - h. the Federal Agricultural Mortgage Corporation (Farmer Mac); and
- (4) Irrevocable letters of credit issued by a Federal Home Loan Bank, if:
  - a. the Federal Home Loan Bank issuing the irrevocable letter of credit maintains a rating of at least the third highest level from at least one (1) of the nationally recognized rating agencies;
  - b. the rights and proceeds to the letter of credit are expressly assigned to the Board in a Security Agreement; and
  - c. the irrevocable letter of credit provides that the Board may draw on the letter when necessary to satisfy losses to the Public Deposit

Insurance Fund, or to protect the Public Deposit Insurance Fund from incurring any loss.

The definition of Eligible Collateral specifically excludes preferred stock; provided, however, that the Board, in exigent circumstances, to be determined in the Board's sole discretion, may allow a Depository to pledge other collateral that the Board deems acceptable should the Board deem such pledge advantageous to the Public Deposit Insurance Fund.

"Federal Deposit Insurance Agency" includes, but is not limited to, the Federal Deposit Insurance Corporation and the Federal Credit Union Act.

"Financial Institution" has the meaning given in IC 5-13-4-10.

"Market Value" means the value of Collateral marked-to-market at the close of each Business Day.

"Matrix" means the Collateralization Matrix, attached hereto as Exhibit A and incorporated herein, used to determine the Collateral Requirement for individual Depositories, which may be amended, from time to time, at the discretion of the Board.

"100% Collateralization Level" means the pledge and delivery to the Board of Collateral equal to One Hundred Percent (100%) of a Depository's Public Funds on Deposit.

"Operating Circular" means the Federal Reserve Bank's Operating Circular No. 7, Book-Entry Securities Account Maintenance and Transfer Services, Effective October 29, 2017.

"Option" means participation in the voluntary election of a Depository to maintain a 100% Collateralization Level in order to receive exemption from Assessments, as established by IC 5-13-13-7(e).

"Order" means (i) a communication that documents the percentage of a Depository's Average Daily Balance or Public Funds on Deposit required by the Board to be collateralized by Eligible Collateral pledged or pledged and delivered to the Board, as determined by the Board pursuant to IC 5-13-13-7(a) and based on the considerations described in Section 2.1(a). Each Order, all information related to, and the analysis behind the Order are confidential and not open to public inspection pursuant to IC 5-13-12-2(c); or (ii) a communication from the Board, via the Board's electronic reporting system, establishing a Collateral Requirement in accordance with Section 2.1(c).

"Public Deposit Insurance Fund" means the fund created and maintained according to IC 5-13-12.

"Public Funds" means all fees and funds of whatever kind or character coming into the possession of any public officer by virtue of that office. The term does not include i) support payments made to the clerk of a circuit court under IC 31-16-9 (or IC 31-1-11.5-13 before its repeal); or ii) proceeds of bonds payable exclusively by a private entity.

"Public Funds on Deposit" means the total dollar amount of Public Funds deposited at a specific Depository. Public Funds on Deposit includes, but is not limited to, all funds held in Deposit accounts, as defined by IC 5-13-4-7, in any account subject to withdrawal by negotiable orders of withdrawal, in passbook savings accounts, in certificates of deposit, in money market deposit accounts, and in any interest-bearing account that is authorized to be set up and offered by a financial institution in the course of its business. If a Depository can determine the total dollar amount of Public Funds that are on deposit and are covered by the insurance of any Federal Deposit Insurance Agency, the Public Funds on Deposit for such Depository shall be defined as the total dollar amount of Public Funds deposited at a specific Depository less the total dollar amount of Public Funds deposited at the Depository that are covered by insurance of any Federal Deposit Insurance Agency. ~~For purposes of a collateralization requirement under these Rules, a Depository subject to Article 3 may deduct the total dollar amount of Public Funds deposited in Certificates of Deposit prior to November 15, 2010 from the total amount of Public Funds on Deposit in calculating the Public Funds on Deposit for collateralization purposes. If a Depository elects to make the deduction described in the preceding sentence, it must submit a schedule to the Board specifically identifying each certificate of deposit, its dollar amount, interest rate, date of issuance and the maturity date of each certificate of deposit being deducted from the calculation of total Public Funds on Deposit for collateralization purposes. This schedule shall be submitted to the Board within 15 Business Days of receipt of the Depository's initial Order to receive the benefit of this calculation.~~

"Restricted Securities Account" means an account held by a Federal Reserve Bank and pledged to the Board in which Collateral may be held.

"Securities Account" means an account held by the Custodian for the deposit of Eligible Collateral and for which the Board, the Depository and the Custodian have agreed that the Custodian may accept Orders from the Board for the disposition of Collateral without any further consent of the Depository.

"Security Agreement" means an agreement between a Depository and the Board granting the Board a security interest in the security or right pledged thereunder, including, but not limited to, a pledge agreement. Any Security Agreement shall:

- (1) be in writing and signed by Board and an Authorized Officer of the Depository;
- (2) pledge only Eligible Collateral as defined herein;
- (3) include a representation and warranty that:
  - a. all Eligible Collateral shall be valued daily at Market Value; and
  - b. the Depository has full and complete ownership rights in the Eligible Collateral and has the legal right and ability to transfer the Eligible Collateral free and clear of all liens, claims, interests, encumbrances and defenses, including security interests of the United States, which shall be disclosed.

"State" means the State of Indiana.

**1.5. Governing Law.**

These Rules, the transactions contemplated hereunder and the documents, instruments and agreements required by such Rules shall be governed by the laws of the State.

**1.6. Confidentiality.**

Pursuant to IC 5-13-12-2(c), all discussions and materials by the Board of (i) the financial strength of a particular Financial Institution; (ii) the Collateral Requirements of a particular Financial Institution; or (iii) any other matters concerning a particular Financial Institution shall occur during executive session. All records of the Board during such executive sessions shall be confidential.

**1.7. Costs and Expenses.**

All costs and expenses incurred by the Board or the Custodian in furtherance of these Rules, including the costs of delivery and safekeeping of Collateral, may be charged to the individual Depositories for reimbursement.

**1.8. Effective Date.**

The effective date of these Rules, as supplemented and amended to date, is ~~\_\_\_\_\_~~, 20—December 17, 2020.

## ARTICLE 2. ESTABLISHMENT OF COLLATERALIZATION SYSTEM

### 2.1. Establishment of Method.

The Board ~~shall establish~~has established a method for evaluating the financial condition of the individual Depositories and ~~shall use~~has used the method to develop ~~a matrix~~the Matrix, incorporated herein, as amended from time to time, at the discretion of the Board, hereto as Exhibit A, used to determine the Collateral Requirement for individual Depositories.

- a) The method ~~shall be~~is based on the overall financial condition of each Depository, which ~~shall be~~is analyzed based on the following factors:
  - i) capital adequacy;
  - ii) liquidity;
  - iii) asset quality;
  - iv) earnings;
  - v) ratings given by commercial services, including, but not limited to, "~~LACE Financial Bank Insight~~" and "~~Highline Financial FedFIS~~";
  - vi) trends experienced by the Depository;
  - vii) concentration of Public Funds;
  - viii) the financial condition of an affiliate of the Depository; and
  - ix) any other publicly available information the Board finds relevant in making its determination.
- b) Based on the analysis of financial condition for each Depository, the Board, at its discretion, may enter an Order establishing the Collateral Requirement for a Depository, which, at the Board's discretion, may require a Depository to:
  - i) pledge to the Board Eligible Collateral equal to a determined percentage of the Depository's Average Daily Balance, as described in Article 3 of these Rules; or
  - ii) pledge and deliver to the Board's Custodian Eligible Collateral equal to a determined percentage of the Depository's Average Daily Balance or Public Funds on Deposit as directed in the Order, as described below in Article 4 of these Rules.
- c) The Board shall enter an Order establishing the Collateral Requirement for a Depository which meets the threshold of a Collateralization Triggering Event, as set forth in the Matrix. Such Order shall remain in place until a Collateralization Terminating Event, as set forth in the Matrix, has occurred.
- e)d) Once the Board has entered an Order for a Depository, the Secretary-Investment Manager may apply the ~~matrix~~Matrix established pursuant to this section to revise the Collateral Requirement for a Depository at any time.



~~d)e)~~ Alternatively to collateralization according to the Board's Order and Collateral Requirement for a Depository, eligible Depositories may voluntarily elect to maintain a 100% Collateralization Level, as described in Article 5 herein.

~~e)f)~~ In order to provide for the perfection of its security interest in a Depository's Collateral, the Board has appointed the Custodian for the establishment of Securities Accounts to which Depositories may deliver Eligible Collateral. At the Board's discretion under Section 2.1(b)(ii) above, the Board may require a Depository to deliver Eligible Collateral to the Custodian. All Depositories shall cooperate with the requirements of such Custodian.

## 2.2. Security Agreement.

A Depository must execute a written Security Agreement granting a security interest in favor of the Board in all Eligible Collateral pledged or pledged and delivered pursuant to these Rules.

## 2.3. Collateral Transactions.

- a) *Deposit of Collateral.* A Depository may pledge or pledge and deliver additional Eligible Collateral at any time without the prior consent or notification of the Board.
- b) *Substitution of Collateral.* A Depository may substitute Eligible Collateral of an equal or greater Market Value for Collateral without the prior consent or notification of the Board.
- c) *Withdrawal of Collateral.*
  - i) Except as described in 2.3(c)(ii), a Depository may not withdraw Collateral without the prior written consent of the Board.
  - ii) Pursuant to IC 5-13-13-7(c), when the amount of Public Funds on Deposit is at least ten percent (10%) less than the Market Value of the Collateral pledged or delivered in satisfaction of a Collateral Requirement under an Order of the Board under these Rules, the Depository may withdraw the surplus funds without the prior consent or notification of the Board.
  - iii) In no case may a Depository withdraw Collateral if the remaining Collateral is less than the Collateral Requirement.

## 2.4. ~~Valuation Procedures~~Daily Reporting.

~~A Depository shall, to the extent practicable, at the Close of Business on each Business Day, total the following amounts:~~

~~the Public Funds on Deposit; and  
the Market Value of the Collateral.~~

- a) If the Board's Order requires the Depository to deliver Eligible Collateral to the Custodian, the Depository shall calculate ~~only item (a)(i) and communicate the~~ Public Funds on Deposit at the Close of Business on each Business Day and report this total to the Board through the Board's electronic reporting system and the

Board's Custodian, if collateral has been pledged and delivered to the Board Custodian, daily.

a)b) A Depository described in this subsection that has pledged and delivered collateral to the Board through the Board's Custodian will receive a daily report from the Custodian, which shall include the ~~amount of item (a)(ii)~~ Market Value of the Collateral at the Close of Business on the preceding Business Day.

## 2.5. **Deficiency.**

- a) Except as described in Section 2.5(b) below, if any Deficiency exists, the Depository shall pledge or pledge and deliver, as determined by the Collateral Requirement given in the Order, ~~by no later than the Close of Business on the following Business Day,~~ Eligible Collateral sufficient to cure such Deficiency by a day and time established by the Board or their designee after analysis of the Deficiency. Any Depository that fails to cure such Deficiency by the ~~Close of Business on the following Business Day~~ established day and time shall be in Default under these Rules.
- b) A Depository experiencing a Deficiency as a result of the receipt of an Order from the Board for adjustment to its Collateral Requirement that increases such Collateral Requirement by greater than twenty percent (20%) over the Depository's previous Collateral Requirement must pledge or pledge and deliver, as determined by the Board's Order, Eligible Collateral sufficient to cure such Deficiency within thirty (30) days of receipt of the aforementioned Order. A Depository failing to cure such Deficiency within such thirty (30) day period shall be in Default under these Rules.

## 2.6. **Default.**

- a) A Depository in Default under these Rules ~~shall~~ may, at the Board's discretion, lose its status as a Depository for Public Funds under IC 5-13 ~~and may, at the Board's discretion.~~ If a Depository's approved status is revoked, it shall be required to collateralize its remaining Public Funds on Deposit at a 100% Collateralization Level. A Financial Institution that has lost its depository designation may reapply for designation as a State Depository under IC 5-13.

## 2.7. **Quarterly Reporting.**

- a) Within thirty (30) days of the end of each calendar quarter, each Depository shall provide to the Board a report of its financial condition for the previous calendar quarter via the quarterly reporting process provided by the Board, which shall include information including:
- i) the public office, account number, account type, quarter-end account balance, and Average Daily Balance of each account which holds Public Funds;

- ~~ii)~~ ii) an affirmation of compliance with maintaining the minimum capital ratio required under these Rules, 12 U.S.C. § 3907 and 12 C.F.R. Part 3 and any other federal or state regulatory requirement, as applicable;
- ~~iii)~~ iii) the balance of total Public Funds on Deposit on the last day of the quarter and the Average Daily Balance of total Public Funds on Deposit with a certification of which method it utilized in calculating the Average Daily Balance;
- ~~iv)~~ iv) financial condition information specific to the applicable type of institution:
  - (1) banks must provide the quarter end balance of total capital, total surplus, total undivided profits, and market value of collateral provided.
  - (2) savings institutions must provide the quarter end balance of general insurance reserves, undivided profits, and market value of collateral provided, and
  - (3) credit unions must provide the quarter end balance of regular/statutory reserve, special reserves, undivided profits, and market value of collateral provided;
- ~~v)~~ v) the Market Value of Collateral on the last day of the quarter, including an affirmation that the Depository has maintained its Collateral Requirement;
- ~~vi)~~ vi) a statement identifying whether in determining the balance of Public Funds on Deposit, the balance of federally insured Public Funds has been subtracted from the total balance of Public Funds on Deposit with the Depository; ~~and~~
- ~~vii)~~ vii) an affirmation of the total principal of the Depository's outstanding loans to Indiana residents at least equals the sum of the Public Funds on Deposit at the Depository; and
- ~~viii)~~ viii) the existence and identification of any affiliate(s) of the Depository.

~~b)~~ b) In providing the balance of total Public Funds on Deposit as described in 2.7(a)(iii) above, Depositories must provide the quarter end actual balance and average daily balance of total Public Funds, Public Funds which are FDIC insured, and net Public Funds on Deposit.

~~b)c)~~ c) A Depository experiencing a material change in its financial condition, including, but not limited to, a change in asset quality, a negative change in liquidity, a decrease in capitalization or a notification of a capitalization status of anything other than "well capitalized," shall immediately notify the Board of such change in writing.

~~e)d)~~ d) The Board may, at its discretion and in the best interest of the Public Deposit Insurance Fund, require from any or all Depositories i) more frequent reporting; or ii) information in addition to the information required in Section 2.7(a) above, including itemization of Public Funds on Deposit by depositor.

~~d)e)~~ e) A Depository shall, during regular business hours, permit the Board to inspect, verify and review all documents, reports, records and all other financial information deemed by the Board as necessary to verify compliance with these Rules.



## **ARTICLE 3. ORDER FOR PLEDGE OF COLLATERAL**

### **3.1. Required Pledge of Collateral.**

If the Board's Order for a Depository's Collateral Requirement requires a Depository only to pledge Eligible Collateral to the Board, the Depository may satisfy the Collateral Requirement by entering into a Security Agreement for the Collateral. An Order under this section shall be only for a percentage of a Depository's Average Daily Balance. In addition to the general requirements of the Security Agreement listed in Section 2.2, a Security Agreement for Depositories required by Order to pledge Eligible Collateral to the Board shall include covenants of the Depository to:

- a) remedy any Deficiency according to the procedures described in Section 2.5; and
- b) submit to the Board the report required by Section 2.7 and a list of the specific securities pledged to the Board as Collateral on the last day of the quarter. This report shall be provided to the Board within thirty (30) days of the end of each calendar quarter unless required to be submitted more frequently pursuant to Section 2.7~~(ee)~~ hereof.

### **3.2. Articles 1 and 2 Applicable.**

The provisions of Articles 1 and 2 of these Rules apply to Orders for Collateral Requirements of pledged Collateral.

## ARTICLE 4. ORDER FOR PLEDGE AND DELIVERY OF COLLATERAL

### 4.1. Required Delivery of Collateral.

A Depository required by Order of the Board to pledge and deliver Eligible Collateral must use the Board's Custodian for doing so. A Depository may satisfy the Collateral Requirement by entering into a Security Agreement and/or a Control Agreement and delivering the Eligible Collateral to such Custodian for deposit into a Securities Account.

- a) *Security Agreement and Control Agreement.*
  - i) In addition to the general requirements of the Security Agreement listed in Section 2.2, a Security Agreement and/or a Control Agreement for Depositories required by Order to pledge to the Board and deliver Eligible Collateral to the Custodian shall include covenants of the Depository that:
    - (1) it shall ~~adopt the valuation~~perform the Daily Reporting procedures described in Section 2.4;
    - (2) it shall remedy any Deficiency according to the procedures described in Section 2.5;
    - (3) the security interest of the Board in the Eligible Collateral, including the letter of credit rights and proceeds, is not encumbered or on a parity with any other lien, claim, encumbrance or defense;
    - (4) the Board's security interest shall be perfected upon the delivery by the Depository of the Collateral to a Securities Account.
  - ii) Depository pledging and delivering as Collateral a Federal Home Loan Bank letter of credit, its rights and proceeds must also include in the Security Agreement, or the Control Agreement, and the letter of credit a representation and warranty that:
    - (1) the Board is the sole beneficiary of the letter of credit rights and proceeds; and
    - (2) the security interest of the Board in the letter of credit rights and proceeds is not encumbered or on a parity with any other lien, claim, encumbrance or defense.

### 4.2. Articles 1 and 2 Applicable.

The provisions of Articles 1 and 2 of these Rules apply to Orders for Collateral Requirements of Collateral pledged and delivered hereunder.

## **ARTICLE 5. VOLUNTARY 100% COLLATERALIZATION**

### **5.1. General.**

Pursuant to IC 5-13-13-7(e), an eligible Depository may, at any time, elect to pledge and deliver to the Board, which, at the discretion of the Board, may be to a Restricted Securities Account at the Depository's Federal Reserve Bank, Eligible Collateral in an amount equal to One Hundred Percent (100%) of its Public Funds on Deposit. Under this Option, any Depository making such election and complying with the provisions of this Article shall be exempt from the Assessments established under IC 5-13-12.

### **5.2. Eligibility.**

- a) Any Depository maintaining a 100% Collateralization Level for the immediately preceding twelve (12) months is eligible to make an election to have the Option apply.
- b) Regardless of the Collateral Requirement for a Depository established under a Board's Order, a Depository electing the Option shall pledge and deliver Eligible Collateral sufficient to maintain the 100% Collateralization Level at all times.
- c) Upon Default caused by the failure to cure a Deficiency as described in Section 5.9 below, a Depository shall lose its eligibility to participate in the Option and must establish a new, continuous twelve-month 100% Collateralization Level before being eligible to re-elect the Option.

### **5.3. Election.**

Any Depository electing the Option must notify the Board of its election in writing, signed by an Authorized Officer of the Depository. Any election shall take effect on the first day of the month following notification to the Board.

### **5.4. Pledge and Delivery of Collateral; Board's Discretion.**

- a) A Depository electing the Option must pledge and deliver Eligible Collateral equal to the 100% Collateralization Level to the Board, and must maintain such 100% Collateralization Level at all times.
- b) Except as described in 5.4(c) below, a Depository may pledge and deliver the Collateral to the Board:
  - i) through a Restricted Securities Account at its Federal Reserve Bank, as more specifically described in Section 5.5 below, or
  - ii) to the Board's Custodian as described in Section 5.6.
- c) The Board, at its discretion and based on the considerations described in Section 2.1(a), may require the Depository to deliver Collateral to the Custodian rather than to the Depository's Federal Reserve Bank.

### 5.5. Federal Reserve Bank as Custodian.

A Depository electing the Option and using its Federal Reserve Bank as Custodian for the Collateral shall adhere to the following Rules:

- a) *Control Agreement.*
  - i) A Depository choosing to maintain its Collateral at its Federal Reserve Bank must enter into a Control Agreement to serve as a security and control agreement among the Depository, the Board and the Federal Reserve Bank for the custody of the Collateral according to the terms set forth in Appendix C to the Operating Circular.
  - ii) In addition to the terms outlined in Appendix C, a Control Agreement for the Collateral must include all of the requirements of a Security Agreement as defined in Section 1.4.
  - iii) The Control Agreement must provide that the Depository shall indemnify the Board for any claims, including costs of litigation and reasonable attorneys' fees, with respect to the Collateral, if the Board is called on to indemnify the Federal Reserve Bank pursuant to Appendix C.
  - iv) The Control Agreement must also contain covenants of the Depository to:
    - (1) adopt the reporting and valuation procedures described in Section 5.8 below, and
    - (2) remedy any Deficiency according to the procedures described below in Section 5.9.
- b) *Restricted Securities Account.* The Collateral must be held by the Federal Reserve Bank in a Restricted Securities Account pledged to the Board according to Section 4.3 of the Operating Circular and Appendix C.
- c) *Perfected Security Interest.* Pursuant to Section 2.3 of Appendix C, the Board's security interest in the Collateral shall be perfected upon the Federal Reserve Bank's marking of the security interest on its books.

### 5.6. Board's Custodian.

A Depository electing the Option and using the Board's Custodian for the delivery of Collateral, shall adhere to the following Rules:

- a) *Security Agreement.* A Depository using the Board's Custodian must execute a Security Agreement in favor of the Board as required by Section 2.2 of these Rules. In addition to the requirements of the Security Agreement listed in Section 1.4, a Security Agreement for Depositories electing the Option must also contain covenants of the Depository to:
  - (1) adopt the reporting and valuation procedures described in Section 5.8 below, and



(2) remedy any Deficiency according to the procedures described below in Section 5.9.

b) *Perfected Security Interest.* The Board's security interest shall be perfected upon the delivery by the Depository of the Collateral to a Securities Account.

#### **5.7. Collateral Transactions.**

The Rules established under Section 2.3 above apply to collateral transactions under the Option.

#### **5.8. Reporting and Valuation Procedures.**

In addition to the reporting procedures described in Section 2.7, a Depository electing the Option must also adhere to the following reporting and valuation procedures.

- a) A Depository shall report to the Board at the Close of Business on each Business day:
  - i) the total Public Funds on Deposit; and
  - ii) the Market Value of the Collateral.
  
- b) A Depository using the Board's Custodian rather than a Federal Reserve Bank shall report only item (a)(i) above to the Board and the Custodian, as the Custodian shall provide item (a)(ii) to the Depository and the Board at the Close of Business on each Business Day.

#### **5.9. Deficiency.**

If a Deficiency exists, the Depository shall deliver to the Restricted Account or to the Custodian, as appropriate, Eligible Collateral sufficient to cure any such Deficiency by the Close of Business on the following Business Day.

#### **5.10. Default.**

A Depository failing to cure a Deficiency as required in Section 5.9 shall be in Default of these Rules and at such time loses its eligibility to elect the Option; therefore, from such time, the Depository is subject to the Assessments provided for in IC 5-13-12, if they are imposed.

#### **5.11. Re-Election.**

A Depository that loses its eligibility to participate in the Option may re-elect the Option after establishing a new, continuous twelve-month 100% Collateralization Level, beginning on the date such Depository lost its eligibility.

#### **5.12. Application of Articles 1 and 2.**

The provisions contained in Article 1 and Sections 2.2, 2.3 and 2.7 shall apply to a Depository electing to participate in the Option.

Exhibit A

**Collateralization Matrix**

<u>Collateral Class</u>	<u>Collateral Basis</u>	<u>Bank Insight National Rating</u>	<u>FIS FedFIS Rating</u>	<u>Pledge or Pledge and Deliver</u>
<b><u>0%</u></b>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<b><u>50%</u></b>	<u>Average Daily Balance of Net Public Funds for the previous quarter</u>	<u>N/A</u>	<b><u>3.99 ≤ n ≤ 3.50</u></b>	<b><u>Pledge</u></b>
<b><u>100% (FedFIS)</u></b>	<u>Actual Daily Balance of Net Public Funds for previous day</u>	<u>N/A</u>	<b><u>n ≥ 4.00</u></b>	<b><u>Pledge and Deliver</u></b>
<b><u>100% (Bank Insight)</u></b>	<u>Actual Daily Balance of Net Public Funds for previous day</u>	<b><u>0 ≤ n ≤ 10</u></b>	<u>N/A</u>	<b><u>Pledge and Deliver</u></b>

**Collateralization Triggering Events**

- 100% Collateralization – any one (1) quarter
  - Bank Insight Rating < 10; OR
  - FedFIS Rating ≥ 4.00
- 50% Collateralization – two (2) consecutive quarters
  - FedFIS Rating ≥ 3.50 and < 3.99

**Collateralization Terminating Events**

- 100% to 50% – four (4) consecutive quarters
  - Bank Insight Rating > 10; AND
  - FedFIS Rating < 4.00 with any one (1) quarter or more with FedFIS Rating ≥ 3.50
- Any to 0% – four (4) consecutive quarters
  - Bank Insight Rating > 10; AND
  - FedFIS Rating < 3.50

<b>Summary report:</b>	
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<b>Changes:</b>	
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<del>Delete</del>	48
<del>Move From</del>	6
<u>Move To</u>	6
<u>Table Insert</u>	1
<del>Table Delete</del>	0
<u>Table moves to</u>	0
<del>Table moves from</del>	0
Embedded Graphics (Visio, ChemDraw, Images etc.)	0
Embedded Excel	0
Format changes	0
<b>Total Changes:</b>	<b>165</b>