

To: Participating SPDA depositories

From: Thelma Ingle, Agency Accounting Manager

Date: December 18, 2008

Re: Changes in calculation method of required collateral approved at the December 17, 2008 Treasury Board Meeting

At the December 17, 2008, Treasury Board meeting a change in the methodology used to determine the required collateral amount was approved. The Treasury Board approved a graduated tier approach to determining the required collateral for banks. Please note, this change in methodology *does not* restrict or change Treasury Board's current policy to increase collateral based on the financial condition of any individual bank. The new methodology will not affect the majority of the participating banks and is designed to substantially mitigate the contingent liability inherent in the use of a pool approach to securing public funds.

The required collateral amount will be calculated under this new methodology beginning **February 1, 2009**. Required collateral will continue to be calculated using the larger of month-end public deposits or average monthly public deposits. Banks with less than \$50 million in public deposits less FDIC insurance will continue to have a collateral requirement of 50% of the net public deposits (unless otherwise instructed by the Treasury Board).

Banks with deposits in excess of \$50 million in net public deposits will be required to use the new calculation methodology. I have outlined the new calculation methodology in bullet form below.

- 50% required collateral on the first \$50 million in deposits
- 75% required collateral on deposits above \$50 million but less than \$250 million
- 100% required collateral on deposits above \$250 million.

Below are examples for calculating required collateral amounts for a bank with \$65 million in public deposits in excess of FDIC and a bank with \$ 255 million in public deposits in excess of FDIC.

As always, if you have any questions or concerns, Treasury staff is ready to assist you in any way we can.

\$ 65 million in net public deposits

Amount at each tier	Required collateral %	Required Collateral Amount	
\$ 50,000,000.00	50%	\$ 25,000,000.00	
<u>\$ 15,000,000.00</u>	75%	<u>\$ 11,250,000.00</u>	
<u><u>\$ 65,000,000.00</u></u>		<u><u>\$ 36,250,000.00</u></u>	Total Collateral Required
effective rate		56%	

\$ 255 million in net public deposits

Amount at each tier	Required collateral %	Required Collateral Amount	
\$ 50,000,000.00	50%	\$ 25,000,000.00	
\$ 200,000,000.00	75%	\$ 150,000,000.00	
<u>\$ 5,000,000.00</u>	100%	<u>\$ 5,000,000.00</u>	
<u><u>\$ 255,000,000.00</u></u>		<u><u>\$ 180,000,000.00</u></u>	Total Collateral Required
effective rate		71%	