Government Finance
Officers Association

NATIONAL ASSOCIATION OF
STATE TREASURERS

December 6, 2024

James P. Sheesley
Assistant Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

ATTN: RIN 3064–ZA42

Dear Mr. Sheesley:

The Government Finance Officers Association (GFOA), the National Association of State Auditors, Comptrollers and Treasurers (NASACT), and the National Association of State Treasurers (NAST) appreciate the opportunity to comment on the FDIC's Request for Information on Deposits (RIN 3064-ZA42). Members of GFOA, NAST and NASACT are treasurers, finance directors and finance professionals from state and local governments and governmental entities who manage a variety of treasury, banking and investment operations for tens of thousands of public units throughout the United States.

Under FDIC regulations, public deposits above the $250,000 insurance threshold, which most public units exceed, are technically considered uninsured deposits even though public deposits are often highly collateralized (thus included as "preferred deposits"). Public deposits carry little risk to the banking system despite the FDIC defining collateralized public deposits as uninsured.

Prior to the FDIC finalizing its Special Assessment Pursuant to Systemic Risk Determination Rule (12 CFR Part 327 RIN 3064–AF93) last year, our organizations submitted comments (Attachment A). These comments provided background information on the long-standing practice and importance of collateralized deposits in the public sector. Our comments pointed to the fact that (most) public deposits are collateralized at 100% or above, as required and established by state laws. Thus, these deposits should not be considered "uninsured" since governments, working with their banks, have sought to ensure there is no or very limited risk exposure for public units, banks and the federal banking system for collateralized public deposits.

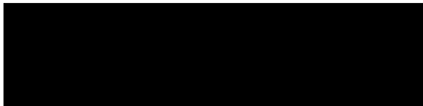
In its Final Rule, the FDIC stated that there is no reporting requirement for banks to specify their collateralized public deposit holdings. The FDIC noted that these deposits are a subset of "preferred deposits" and dismissed the appropriateness of considering them to be insured deposits. Doing so, the release states, would create a preferential treatment for all types of preferred deposits, rather than specifically for collateralized public deposits. Additionally, the Final Rule states that that "the presence of collateral does not fully mitigate run risk."

Due to the commentary in the Final Rule Release, the FDIC may wish to consider an additional reporting line for banks to provide information on their collateralized public deposit holdings, as a subsection of "preferred deposits," and the amounts of the collateralization. We also believe that with many states requiring collateralization levels that exceed 100% for public deposits, the risk of "runs" for these deposits are minimal, and that should be addressed by the FDIC in its definition of "deposits."

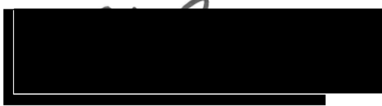
In this RFI, there are many questions asked as part of Question 1, that relate to collateralized public deposits. Our organizations continue to stand by the position that collateralized public deposits should not be defined by the FDIC as "uninsured deposits." The labeling of these deposits as uninsured makes these deposits less attractive for banks to hold, which could lead to greater costs to governments who must place deposits at financial institutions to meet essential liquidity needs for operations. This could also lead to governments having to find other investment vehicles to invest their funds that are riskier and could conflict with state and local laws. For example, many state laws, which are difficult to change, mandate governments hold a percentage of their assets in deposit accounts. If banks do not wish to hold public fund deposits due to a challenging federal regulatory landscape, meeting state law requirements could become difficult.

As the FDIC further considers its definition of deposits, our organizations ask that it takes the time and effort to look at the true risks that collateralized public deposits pose on the federal banking system, look for ways to consider collateralized public deposits as insured deposits, and engage with our organizations about this matter.

Sincerely,



Emily Brock, Federal Policy Director
Government Finance Officers Association



Cornelia Chebinou, Washington Director
National Association of State Comptrollers Auditors and Treasurers

Shaun Snyder, Executive Director
National Association of State Treasurers

ATTACHMENT A

July 21, 2023

Mr. James P. Sheesley
Assistant Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC. 20515

ATTN: Comments-RIN 3064-F93

Dear Mr. Sheesley:

The Government Finance Officers Association; the National Association of State Auditors, Comptrollers and Treasurers; and the National Association of State Treasurers appreciate the opportunity to comment on the FDIC's Proposed Rule on Special Assessments to Systemic Risk Determination. Our organizations represent treasurers, finance directors and finance professionals from state and local governments and governmental entities who manage treasury operations for tens of thousands of public units throughout the United States.

Under FDIC regulations, public deposits above the $250,000 insurance threshold, which most public units exceed, are considered technically uninsured even though public deposits are often highly collateralized. We are concerned this proposed Rule to assess additional fees on banks based on uninsured deposits will unintentionally, and without public purpose, raise costs on government bank depositors and reduce the number of banks willing to serve local governments.

Finance officials and officers have the fundamental responsibility to keep public funds safe. As such, governments utilize bank deposits and other bank liquidity products as part of their public funds and cash flow management strategies and responsibilities. Collateralization of public deposits, through the pledging of appropriate securities or other instruments by depositories, is an important safeguard for such deposits. To ensure safety of these public/tax- and rate-payer funds, states determine collateralizations standards for their respective state to protect public funds that exceed the FDIC limit. These collateralizations are typically backed by products outside of the federal banking system and can include – U.S. Government Treasuries; Issuances of US Government Agencies and Instrumentalities; municipal securities; irrevocable stand by Federal Home Loan Bank letters of credit; and surety bonds. Several states have established programs for the pooling of collateral for deposit of public funds. Each of these pledging pools operates under the specific laws and guidelines of the respective state. In some instances, depending on the strength and credit

quality of a bank, it may be able to pledge collateral at a level less than required by law. Several state pledging pools are set up as joint and several liability pools. In the event of a bank failure of a member in these types of pools, each bank in the pool must distribute the difference owed to the public units if the collateral is insufficient and the failed bank cannot return all of the funds owed to each entity in the collateral pool.

Currently, collateralized public deposits are considered by the FDIC to be 'uninsured deposits.' Our organizations assert that this does not properly or accurately reflect the exposure a bank may have to truly "uninsured" public deposits. We consider the collateralization of public fund deposits to be a type of deposit insurance, and we thus argue that if a banking crisis arose where a bank's deposits were lost and not fully covered, as we saw most recently this Spring, most collateralized public deposits would only have the $250,000 FDIC limit exposure since the balance of most of their deposits are collateralized by other means.

The Governmental Accounting Standards Board (GASB) is the independent, organization that establishes accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles (GAAP). A pronouncement issued by the GASB, Statement No. 40, requires certain disclosures of deposits with financial institutions, specifically disclosures around deposits that are not covered by depository insurance. A public entity must detail if its deposits are uncollateralized or collateralized with collateral held by the pledging financial institution or held by the pledging financial institution but in the depositor-government's name.[i] The GASB recognizes there is limited risk to public fund deposits if insured or collateralized, as opposed to uninsured or non-collateralized public funds.

These state-level collateralization laws place a great deal of financial responsibility on banks to ensure the safe collateralization of funds, which come at a cost for public entities who may have interest earning rates curtailed due to the extra costs banks incur for collateralization of public funds, or pay additional fees. This is why in some areas, especially in smaller states and regions, some banks do not accept state and local government as clients, or in recent years, are curtailing their business with governmental entities. This leads to concerns about the safety of public funds and the costs taxpayers must ultimately bear in order to safeguard their funds. This has become an even more important issue as large national banks have stepped back from serving smaller local government depositors over the last few years. In some areas of the country over the last 5 years, existing contracts have been canceled by major banks with smaller governmental entities. It appears that some major banks are moving to limit their services to just larger metropolitan areas when dealing with municipalities. Thus, it is very important that local and regional banks, who have stepped in to fill the void, are not disincentivized from offering services to municipalities by making it more costly to do business with municipalities.

A proposal such as this, which places additional assessments on uninsured bank deposits, could further drive banks away from accepting public deposits because they are defined by the FDIC as uninsured. Governments and their deposits will in effect be paying twice – once for the collateralization mechanism and then for the proposed increase in fees that would ultimately be borne by governments, and thus taxpayers. This is a problem that all levels of governments should seek to avoid.

Public deposits do not lend themselves to problems or exposures that cause bank insolvencies or crises. Unlike brokered deposits which make up the majority of bank deposits and by their very

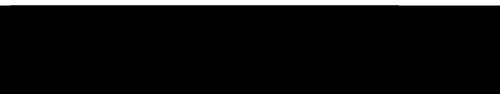
nature did negatively expose banks in the recent banking crisis, public deposits are stable, robust assets that could actually assist with a bank's balance sheet and composition of deposits.[ii] Excluding collateralized public deposits from the uninsured deposits definition would be an easy solution for the FDIC to take in order to help bolster the solvency of banks, quell actions by banks that deter acceptance of public deposits, and better facilitate the safety of public funds.

Thus, we request that the FDIC take into consideration that collateralized public deposits over $250,000 are not uninsured, rather protected by other means. **The FDIC should exempt collateralized public deposits when using "uninsured deposits" as the base for special assessments**. Collateralized public deposits do not expose the FDIC to losses that actual uninsured deposits do, and the FDIC should consider this as it reviews its assessment structure. We would also argue, that generally, collateralized public deposits should not be included within the FDIC's definition of uninsured deposits for all FDIC fees and assessments.

While these comments do not seek to speak directly to the FDIC's assessment proposal, our comments are applicable to questions 1, 4 and 7.

We appreciate the opportunity to comment on this matter and would welcome the opportunity to discuss the importance of state and local government access to banks, and the true nature and minimal risks to the banking system of collateralized public deposits.

Sincerely,



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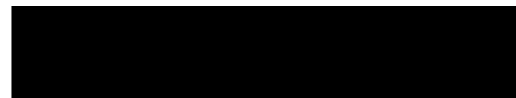

Shaun Snyder, Executive Director
National Association of State Treasurers

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[i] https://gasb.org/page/PageContent?pageId=/standards-guidance/pronouncements/summary—statement-no-40.html&isStaticPage=true

[ii] See NAST 8/24/2014 letter discussing the strength of public deposits in a comment letter to the FDIC and other regulators regarding Basel III liquidity coverage ratios: https://nast.org/wp-content/uploads/hqla-lcr-final-letter-8.29.14.pdf