Office of the State Treasurer

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Pooled Method Disclosure Circular
September 2019

O.C.G.A. §45-8-12 requires banks to collateralize public funds and O.C.G.A. §45-8-13 allows banks to collateralize public funds using either a dedicated or pooled method. Administration of the pooled method ("Pooled Method") is delegated to the State Treasurer ("Treasurer") who is authorized to contract with a private entity to carry out its rights and responsibilities in respect to the Pooled Method for the State of Georgia. Since 1999, Georgia Bankers Association Services, Inc. (GBASI), a wholly-owned subsidiary of the Georgia Bankers Association, has contracted with the Treasurer to administer the Pooled Method ("Pooled Method Administrator"). GBASI receives monthly reports from banks and custodians to monitor the collateralization of deposits and assesses fees to participating banks for administering the Pooled Method. GBASI receives no compensation from the Office of the State Treasurer or the State. GBASI is currently the only approved Pooled Method Administrator.

Each participating bank selects a custodian to hold collateral pledged for public funds. Each participating bank pledges a pool of collateral held by a custodian to secure all of the public depositors that select the Pooled Method with that respective bank. Pooled collateral is assigned to the Treasurer instead of each public depositor. A custodian is not permitted to release collateral without prior permission from Pooled Method Administrator.

The Treasurer has established a list of securities that a bank may use as collateral under the Pooled Method. This list can be accessed via the Office of the State Treasurer's website at: http://ost.georgia.gov.

There are three agreements required to utilize the Pooled Method that reflect the roles and responsibilities for the Treasurer, Pooled Method Administrator, banks, and custodians in administering the program. These agreements are the Pledging Pool Administrator Agreement, Custodial Agreement, and Security Agreement. Electronic copies of the agreements can be accessed via the Office of the State Treasurer's website at: http://ost.georgia.gov. Some banks select the Federal Reserve as custodian to hold pledged collateral. In these instances, the Federal Reserve Bank Operating Circular No. 7 (Book-entry Securities Account Maintenance and Transfer Services) will govern the actions of the custodian instead of the Custodial Agreement. The public depositor should be aware that the rules of the Operating Circular may differ from the Custodial Agreement and state or local requirements.

While the Pooled Method provides efficiency for banks as they collateralize public funds, there are certain risks associated with the Pooled Method and such risks are assumed by public depositors. It is advised that public depositors discuss with their depository banks the benefits and risks associated with the Pooled Method as well as the dedicated method.

Public depositors may also contact GBASI at 404.420.2029 or sscruggs@gabankers.com with questions or for additional information.

The Pooled Method is offered as a convenience for banks and public depositors. The State assumes no risk associated with accounts secured by pooled collateral under the Pooled Method.

Following is a summary of some of the risks of the Pooled Method.

Risks of the Pooled Method

1. The Pooled Method allows banks that may not qualify to hold State funds to still be eligible to utilize the program to pledge collateral for local government deposit accounts.
2. The State Treasurer does not approve or monitor the credit of individual banks except those holding State funds.
3. The State Treasurer establishes eligibility criteria for collateral. The State Treasurer does not value, monitor or approve each depositor's collateral. Neither the Pooled Method Administrator nor the State Treasurer receives collateral reports on a "real-time" basis. Therefore, balances on any specific date may not be fully collateralized.
4. A bank may fail quickly due to liquidity problems, especially if associated with undetected fraud. In such instances, any recent public deposits may be insufficiently collateralized, causing a shortfall to "all" local governments having accounts with the failed bank secured by the Pooled Method. Such an event could trigger liquidity and budget problems for some public depositors in the pool.
5. In the event a bank fails during a market crisis, the liquidation of collateral may generate significantly less proceeds than expected. Some securities may be thinly traded and the State Treasurer may have to accept abnormally low bids or delay liquidation of some securities. Such events could trigger liquidity and budget problems for some public depositors in the pool.
6. It can take up to 10 business days from month-end for the Pooled Method Administrator to receive collateral reports from depository banks and custodians. It can also take up to 20 business days from month-end before the State Treasurer receives reports from the Pooled Method Administrator. A large deposit made on the first day of any month could be insufficiently collateralized for up to 43 business days before the State Treasurer is notified. The State Treasurer could take action to liquidate securities which would require additional time.
7. The Pooled Method allows a bank three business days to pledge sufficient collateral and five business days to correct a deficiency if the account is secured by a Federal Home Loan Bank letter of credit. Although this time is less than the maximum allowed by statute, it poses some risk and may be longer than allowed by certain local governments when using the dedicated method.
8. The Pooled Method allows each bank to select its own custodian. The State Treasurer does not conduct independent due diligence on custodian banks nor monitor their financial condition. The State Treasurer cannot attest to the financial condition of any custodian nor assure that each is fully insured for errors, omissions, or fraud.
9. The State Treasurer cannot attest that the Pooled Method Administrator will carry out all its responsibilities including monitoring collateral reports.
10. The State Treasurer cannot attest that all steps are taken by a specific bank or its custodian to assure there is a perfected security interest in pledged collateral.

NEITHER THE STATE TREASURER NOR THE STATE ASSUMES ANY LIABILITY FOR ANY LOSS BY A PUBLIC DEPOSITOR UTILIZING THE POOLED METHOD.