**Overview**

Governmental entities (county, city, town, school district, hospital district, public authority, public corporation, public commission, special district, political subdivision, but not an entity with authority over public pension funds) are required to designate one or more financial institutions as a depository for public funds. If the amount of a deposit is in excess of available federal deposit insurance, the governmental entity must require the financial institution to furnish collateral security or a corporate surety bond in an amount at least 10 percent more than the uninsured deposit amount plus interest due.

This bill provides an alternative collateral pool for qualifying financial institutions.

1. **Commissioner.** Means the commissioner of commerce for the purposes of the chapter governing deposits and investments of local public funds (Minnesota Statutes, chapter 118A).

2. **Qualifying financial institution.** Means a savings association, commercial bank, trust company, or industrial loan and thrift company. Excludes credit unions.

3. **In lieu of surety bond.** Permits public depositories to use, as collateral for public deposits, marketable non-governmental securities and debt instruments approved by the commissioner of commerce for that purpose.

4. **Alternative collateral pool for qualifying financial institutions.**
   - **Subd. 1. Alternative.** States that this section is an alternative to the regular collateral requirements of section 118A.03 and requires the commissioner of commerce to adopt regulations requiring that qualifying financial institutions deposit collateral securities to secure public funds in each qualifying financial institution. Provides for the amount of collateral to be established in rule.
   - **Subd. 2. Application to alternative collateral pool.** Requires a qualifying financial institution to notify the commissioner in writing if it wants to participate in the alternative collateral pool. Permits the qualifying financial institution to begin participating 31 days after the commissioner
receives notice unless the commissioner extends the review period, in which case the institution may begin participating only on prior written notice from the commissioner.

**Subd. 3. Terms for denying application.** Permits the commissioner to deny participation if it would be contrary to the public interest.

**Subd. 4. Termination by qualifying institution in pool.** Permits a participating qualifying financial institution to cease participation 90 days after providing written notice to the commissioner. Permits the commissioner to provide for an earlier or later cessation date. Requires proof that all uninsured public funds held by the qualifying financial institution are fully collateralized under section 118A.03.

**Subd. 5. Restricted account.** Requires the qualifying financial institution to place required collateral securities in a restricted account in an institution not owned or controlled by the qualifying financial institution. Requires the qualifying financial institution to give the commissioner the power of attorney to transfer or liquidate the securities as needed. Requires the qualifying financial institution to insure that the commissioner has first priority interest in the pledged collateral.

**Subd. 6. Collateral.** Requires the commissioner to periodically determine the minimum ratio for collateral pledging for participating qualifying financial institutions. Requires the minimum ratio to be set so that the total amount of collateral required of all qualifying financial institutions equals the average amount of uninsured public funds held in the previous year by the institution holding the most public funds. Sets the minimum at 10 percent and the maximum at 50 percent of each qualifying financial institution's uninsured public funds.

**Subd. 7. Additional collateral.** Requires the commissioner to adopt rules to require collateral equal to 110 percent of a qualifying financial institution's uninsured public funds if the institution's deposits exceed the statewide average ratio of public deposits to total deposits and the institution's financial condition is weakening.

**Subd. 8. Valuation.** Requires rules for valuation of collateral if market value is not readily determinable.

**Subd. 9. Reporting.** Requires rules for reporting and administrative procedures.

**Subd. 10. Default.** Specifies the procedures the commissioner must follow in the event of a default or insolvency of a participating qualifying financial institution. Requires the loss to be covered first by insurance if available, then through the sale of securities pledged by the defaulting qualifying financial institution, and then through the sale of assets of the defaulting qualifying financial institution. Provides for the commissioner to cover the remaining loss by assessment against other qualifying financial institutions' pledged collateral, and finally by assessment against other qualifying financial institutions.

**Subd. 11. Additional deposit.** Requires a qualifying financial institution to replenish its collateral if the commissioner sells any of it.

**Subd. 12. Fee.** Permits the commissioner to assess a fee to qualifying financial institutions participating in the collateral pool to cover the commissioner's costs.