



State of Iowa Treasurer's Office

Capitol Building
1007 E Grand Avenue
Des Moines, IA 50319

Public Fund FAQ

Q: How is "public funds" defined?

A: [Section 12C.1\(2\)\(E\)](#) of the Iowa Code provides a definition of "public funds" and "public deposits." Additional guidance is given in Chapter 781(13) of the Iowa Administrative Rules. Generally speaking, public funds include funds held in an account owned by the state of Iowa or any of its political subdivisions or instrumentalities, monies of an entity created pursuant to chapter 28E of the Iowa Code, and federal and state grant monies of a quasi-public state entity.

Q: How much collateral must a bank pledge to comply with Iowa Code 12C?

A: A bank shall pledge and maintain eligible collateral with the Treasurer's approved custodian that has an aggregate market value that **at all times** equals or exceeds the amount by which the bank's public deposits exceed its total capital. Banks are required to determine if circumstances on any given day require them to pledge securities that day.

Q: How is "total capital" defined or calculated?

A: The formula for banks and savings and loans is in Iowa Code chapter 12C.22(2).

For state chartered banks, total capital is defined as:

Tier One Capital (as reported on the Call Report) – *Core Capital: Shareholder's Equity, Retained Earnings, Common Stock (Primary funding sources)*
+ Qualifying Subordinated Debt (Tier Two Capital)
+ Redeemable Preferred Stock (Tier Two Capital)
+ Cumulative Perpetual Preferred Stock (Tier Two Capital)
= Total Capital

The formula for an out-of-state bank that operates a branch in Iowa is located in Iowa Code Chapter 12C.22(3).

For a non-state chartered bank, total capital is defined as:

Tier One Capital (as reported on the Call Report)
+ Qualifying Subordinated Debt (Tier Two Capital)
+ Redeemable Preferred Stock (Tier Two Capital)
+ Cumulative Perpetual Preferred Stock (Tier Two Capital)
x Deposits of Iowa branches as percentage of total deposits
= Total Capital (of Iowa branch)

Q: What are excess public funds?

A: For a state-chartered bank:

The amount by which the public funds deposited by a public unit having an aggregate market value plus accrued interest that exceeds the total capital of the bank as defined in Iowa Code section 12C.22(2).

For an out-of-state branch:

The amount by which the public funds deposited by a public unit in an Iowa branch of the out-of-state

bank having an aggregate market value plus accrued interest that exceeds the Iowa branch capital of the out-of-state bank as determined by Iowa Code section 12C22.(3)

Q: Can a bank use multiple custodians from the Treasurer's approved list?

A: No, a pledging bank shall not use the services of more than one approved custodian for pledging purposes. The only exception is when pledging securities AND utilizing LOCs from FHLB.

Q: What is acceptable collateral?

A: According to 12C.22(6), the collateral used to secure public deposits shall be in one or more of the following forms acceptable to the Treasurer:

1. Investment securities and shares in which a bank is permitted to invest under Iowa Code section 524.901
2. Investment securities, as defined in section 524.901(1)(a), representing general obligations of a state or a political subdivision of a state that is geographically contiguous with the state, provided that such investment securities are rated within the four highest grades according to a reputable rating service or represent unrated issues of equivalent value.
3. Investment securities, as defined in section 524.901(1)(a), representing general obligations of a state or a political subdivision of a state that is not contiguous with the state, provided that such investment securities are rated within the two highest grades according to a reputable rating service.
4. Nontransferable letters of credit upon which the payment of principal and interest is fully secured or guaranteed by the United States of America or an agency or instrumentality, including government-sponsored enterprises of the United States of America.
5. Private insurance policies or bonds written by companies approved by the Superintendent of Banking.
6. Certificates of deposit issued by an FDIC-insured bank, the payment of which is fully insured by the FDIC both as to principal and accrued interest, and that have been assigned a CUSIP number and deposited for the account of the public funds depository bank at the Depository Trust Company.

Q: Are securities in physical certificate form acceptable as collateral?

A: No, pledged securities must be in book-entry form.

Q: Can bank owned time certificates of deposit be used as acceptable as collateral?

A: Effective July 1, 2012 House File 2168 changed Iowa Code 12C22(6-f) to allow institutions to pledge bank owned time certificates of deposit.

House File 2168 effective July 1, 2012: Section 12C.22, subsection 6, Code 2011, is amended by adding the following new paragraph: NEW PARAGRAPH. f. Certificates of deposit issued by a federal deposit insurance corporation insured bank, the payment of which is fully insured by the federal deposit insurance corporation both as to principal and accrued interest, and that have been assigned a committee on uniform security identification procedures number and deposited for the account of the public funds depository bank at the depository trust company.

Q: Are municipal revenue bonds acceptable as collateral?

A: Municipal bonds are allowable investment securities for pledging; however they must represent the general obligation of the municipality. Per interpretation of 12C.22(6)(b) by legal counsel, revenue bonds are allowed.

Q: How is FDIC Deposit Insurance handled in the calculation of required collateral?

A: No provisions in the law were made for FDIC Insurance. Therefore, total public deposits are used. The FDIC-insured amount of each depositor can NOT be deducted from the total public funds in determining excess public funds for the purpose of pledging.

Q: How does a reciprocal deposit program like CDARS affect pledging requirements?

A: Effective July 1, 2006, Chapters 12B and 12C of the Iowa Code were amended to permit banks to use the CDARS program from the Promontory Network for Iowa public funds, regardless of the location of the other institutions that might receive the deposits. Deposits that comply with section 12B.10(7) of the Iowa Code are not considered public funds when determining how much a bank must pledge. However, if the need for a sinking fund assessment arises, banks will be assessed for these deposits in the calculation. CDARS can be used for CDs and brokered deposits/CDs. ICS, Insured Cash Sweep service within the Promontory Network, is treated the same as the CDARS program.

Q: We are a state-charter bank located along one of the state's borders. On occasion we will accept public fund deposits from out-of-state public units. Do we pledge for those public unit deposits as well?

A: An Iowa state-chartered bank does not have to pledge for public fund deposits owned by public units outside the state of Iowa. However, because all public funds are reported in a single field on the call report, neither IDOB nor Treasurer's office will be able to ascertain which public deposits are owned by Iowa public units and which are owned by out-of-state public units. Therefore, a bank should retain precise records of out-of-state public deposits that are not included in calculating excess public funds or go ahead and pledge for all "public unit deposits" in excess of its capital. Also, out-of-state public deposits may not be covered by the sinking fund under Iowa Code 12C.25.

Q: We are an out-of-state chartered bank with branches located in Iowa that accept Iowa public fund deposits. Are we subject to the Iowa pledging rules or our charter state's rules?

A: The State of Iowa pledging laws are specific - banks that accept Iowa public deposits must follow Iowa pledging rules. The out-of-state chartered bank however, would calculate its total capital based on the out-of-state total capital calculation provided in Iowa Code 12C.22(3)(a-g).

Q: My bank received an out of compliance letter at quarter end. We utilize CDARS and/or ICS funds so why is it showing as insufficient collateral pledged?

A: Banks don't need to pledge assets for CDARS or ICS funds. However, those funds are not broken out and will show on the call report under total public funds. There is a section on the letter to label and explain your acceptance of CDARS and/or ICS funds. This also applies to out of state funds. We are only concerned with Iowa public funds so utilize the explanation section to label this as well.

Q: What happens if a bank fails?

A: When a failed bank closes and its deposit liabilities are not assumed in full by a purchaser, any loss to a public funds depositor will be satisfied in the following order:

- Federal deposit insurance, current limit \$250,000
- The sale or disposition of any collateral pledged by the closed bank
- Proceeds from sale assets of the closed bank
- The sinking fund will be accessed to pay remaining uninsured public funds deposits
- Assessment for a proportional share of the loss against all remaining banks

Q: How is the sinking fund assessment calculated?

A: The assessment is based on average as of the four calendar quarters prior to date of failure and calculated as follows:

Assessed bank's uninsured public funds ÷ statewide uninsured public funds X failed Bank remaining uninsured public funds = Assessed Payment Due. Each bank shall pay its assessment within three business days after receiving notice.