
**SENATE COMMITTEE ON
BANKING AND FINANCIAL INSTITUTIONS**
Senator Monique Limón, Chair
2021 - 2022 Regular

Bill No:	SB 239	Hearing Date:	March 10, 2021
Author:	Committee on Banking and Financial Institutions		
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Urgency:	No	Fiscal:	Yes
Consultant:	Eileen Newhall		

Subject: Government finance: surplus investments: savings and loan associations or credit unions.

SUMMARY This bill reduces, from 110% of the amount deposited, to 100% of the amount deposited, the required value of a Federal Home Loan Bank (FHLB) letter of credit that a credit union or a savings and loan association may use as security for a deposit of state funds by the State Treasurer into that credit union or savings and loan association and authorizes the State Treasurer to invest surplus state funds in money market mutual funds, as specified.

EXISTING LAW

- 1) Defines an eligible bank as a state or national bank located in California, selected by the Treasurer for the safekeeping of money belonging to or in the custody of the state, as specified. Provides that an eligible bank is eligible to receive deposits only to the extent that it furnishes security, as specified, but provides that security is not required for any portion of any deposit that is insured under any law of the United States (Government Code Sections 16500 and 16520). Contains a series of requirements applicable to security that is used by an eligible bank to collateralize deposits that are not insured under a law of the United States (Government Code Sections 16521 through 16533).
- 2) Defines eligible savings and loan associations and eligible credit unions in a nearly identical manner as eligible banks, provides that eligible savings and loan associations and eligible credit unions are eligible to receive deposits only to the extent that they furnish security, as specified, but provides that security is not required for any portion of any deposit that is insured under any law of the United States (Government Code Sections 16600 and 16610). Contains a series of requirements applicable to security that is used by an eligible savings and loan association or eligible credit union to collateralize deposits that are not insured under a law of the United States (Government Code Sections 16601 through 16622).
- 3) Generally requires banks, credit unions, and savings and loan associations to collateralize state deposits in an amount at least 10% greater than that which is deposited (Government Code Section 16511 and 16521), but provides an exception for banks, which provides that if a letter of credit from a FHLB is used as security for a state deposit in an eligible bank, the letter of credit must be in an amount equal to at least 100% of the amount deposited with the bank (Government Code Section

16522).

- 4) Lists twenty-one different types of eligible securities for the investment by the State Treasurer of surplus state and local moneys held in the Pooled Money Investment Account (PMIA), as specified (Government Code Section 16430).

THIS BILL

- 1) Reduces, from 110% of the amount deposited, to 100% of the amount deposited, the required value of a FHLB letter of credit that a credit union or savings and loan association may use as security for a deposit of state funds by the State Treasurer into that credit union or savings and loan association.
- 2) Authorizes the State Treasurer to invest surplus state and local funds held in the PMIA in money market mutual funds that invest exclusively in specified securities and obligations in which the Treasurer is already authorized to invest, including the following:
 - a) Bonds or interest-bearing notes or obligations of the United States or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
 - b) Bonds or interest bearing notes on obligations that are issued by or fully guaranteed as to principal and interest by a federal government-sponsored enterprise, as defined.
 - c) Bonds, consolidated bonds, collateral trust debentures, consolidated debentures, or other obligations issued by banks established under the Federal Farm Loan Act, Farm Credit Act, Federal Home Loan Bank Act, or National Housing Act; issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act; or obligations guaranteed by the Commodity Credit Corporation.
 - d) Repurchase agreements or reverse repurchase agreements of the aforementioned securities, as described in Government Code Section 16480.4.
- 3) Imposes the following additional requirements on the investment of surplus state and local funds in money market mutual funds described in Number 2, above:
 - a) The financial institution issuing shares of the money market mutual fund must have at least five years of experience investing in the types of securities and obligations being purchased by the state and must have assets under management in the money market fund in excess of ten billion dollars.
 - b) The money market mutual fund must have attained the highest ranking or rating from at least two nationally recognized statistical rating organizations.
 - c) The financial institution may not impose a commission on the purchase or sale of fund shares by the state.

- d) The state may not purchase more than ten percent of a money market mutual fund's total assets and may not invest more than ten percent of the pool's funds in any single money market mutual fund.

4) Makes other minor technical and conforming changes.

COMMENTS

- 1) Purpose: This bill is sponsored by State Treasurer Fiona Ma to: a) correct an inadvertent omission from a 2017 Treasurer's Office-sponsored bill and, in doing so, ensure that collateral requirements applicable to FHLB letters of credit are consistent among all depository institutions that accept deposits of state funds; and b) increase the number of safe and reliable short-term investment options available to the Treasurer to meet investment needs.
- 2) Background and Discussion: Each of this bill's two provisions is described immediately below:

Collateral for FHLB Letters of Credit. In 2017, SB 363 (Committee on Banking and Financial Institutions, Chapter 516, Statutes of 2017) amended Government Code Section 16522 to make a minor change to the collateral requirements applicable to banks that accept deposits of state funds. Specifically, the bill reduced, from 110% of the amount deposited, to 100% of the amount deposited, the required value of a FHLB letter of credit that a bank may use as security for demand and time deposits made by the State Treasurer. The change was requested by the State Treasurer's Office on grounds that the 110% requirement was unnecessary and imposed needless costs on the state's banking partners. Not only do letters of credit hold their value, but if a bank in which the state had a deposit backed by a FHLB letter of credit failed, the state would receive only the amount deposited, not 110% of that amount. The 110% requirement added no value to the state, but imposed higher costs on the banks in which the state deposits money.

SB 363 inadvertently failed to amend a parallel code section applicable to credit unions and savings and loan associations. Thus, these depositories are still subject to the 110% requirement when they use FHLB letters of credit to collateralize deposits of state funds. SB 239 proposes to update Government Code Section 16612 so that it parallels the change made to Section 16522 in 2017. This change will ensure that collateral requirements applicable to FHLB letters of credit are consistent among all depository institutions that accept deposits of state funds.

Money-Market Mutual Fund Investments. Government Code Section 16430 contains a list of eligible securities for the investment by the State Treasurer of surplus state and local agency moneys held in the Pooled Money Investment Account (PMIA), which is managed by the State Treasurer. Among the items on that list are bonds or interest-bearing notes or obligations of the United States, and bonds, interest-bearing notes, and other obligations issued by specified federal agencies or government-sponsored enterprises.

Over the past five years, the total assets held in the PMIA have increased by more than 50%, without any concurrent increase in the types of eligible securities

available for investment. As a result, there are insufficient short-term investment options available to the Treasurer to meet investment needs and maintain diversity within the PMIA. Short-term investment options are crucial for helping with state cash flows, which have grown increasingly volatile over the past few years, and for maintaining a safe and liquid investment pool. Allowing the Treasurer to invest in money market mutual funds that are exclusively invested in eligible securities will expand the pool of investment options available to the Treasurer, without diminishing the safety and soundness of those investments. These highly liquid money market mutual funds will also help the Treasurer manage the large swings in cash flow that have come with being one of the largest economies in the world.

In order to help ensure the safety of the money market mutual fund investments this provision would authorize, the provision also includes several safeguards, summarized above. Finally, to ensure that the state does not impose additional costs in connection with investments in allowable money market mutual funds, this provision prohibits financial institutions offering these funds from imposing a commission on the purchase or sale of fund shares by the state.

- 3) Support: State Treasurer Fiona Ma is sponsoring this bill for the reasons stated immediately above.
- 4) Opposition: None received.
- 5) Prior and Related Legislation:
 - a) SB 877 (Committee on Banking and Financial Institutions) contained language that is identical to Sections 2 and 3 of this bill (related to collateral for FHLB letters of credit). SB 877 was voluntarily pulled by its author prior to its hearing in the Senate Banking and Financial Institutions Committee, in response to the Pro Tem's COVID-19-related request that Senators limit their 2020 bill packages to only the most critical pieces of legislation.
 - b) SB 363 (Committee on Insurance, Banking and Financial Institutions), Chapter 516, Statutes of 2017 reduced, from 110% of the amount deposited, to 100% of the amount deposited, the required value of a FHLB letter of credit that a bank may use as security for demand and time deposits made by the State Treasurer.
 - c) SB 84 (Committee on Budget and Fiscal Review), Chapter 25, Statutes of 2015, authorized eligible banks that are selected by the State Treasurer for the safekeeping of funds, which have their headquarters outside of California, to submit letters of credit drawn on their regional FHLBs as security for deposits in demand accounts.

LIST OF REGISTERED SUPPORT/OPPOSITION

Support

State Treasurer Fiona Ma (sponsor)

Opposition

None received

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