



CBA Regulatory Compliance Bulletin

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Collateral Requirement For State Deposits Eased

A new bill, SB 363, decreases from 110% to 100% the value of collateral that a bank needs to pledge for public deposits if the collateral is a Federal Home Loan Bank letter of credit.

According to the California Treasurer's Office, FHLB letters of credit have high credit quality, maintain face values that do not fluctuate with the market, can be paid quickly and directly to beneficiaries on presentment, and are not subject to call provisions. For these reasons, many public entities prefer letters of credit to other forms of collateral.

Under existing Government Code Section 16521 FHLB letters of credit, as with other forms of collateral, must be pledged at 110% of the amount on deposit by the state Treasurer: (1) for both demand and time deposits where the letter of credit is issued by the FHLB of San Francisco; or (2) for demand deposits only for non-California banks where the letter of credit is issued by a FHLB in another region.

SB 363 lowers this requirement to 100% in both instances on the grounds that the current requirement is unnecessary and adds needless cost to banks.

The bill becomes effective as of January 1, 2018. Kevin Gould is CBA's lead lobbyist on SB 363.

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