Department of Legislative Services

Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE
Revised

House Bill 844 (Delegate Conway, *et al.*)

Appropriations Budget and Taxation

Local Government Funds - Redeposit into Insured Accounts

This bill authorizes local governments to deposit unexpended or surplus money in any federally insured bank or savings and loan association in excess of the Federal Deposit Insurance Corporation (FDIC) maximum insurance coverage limit without the State financial institution pledging collateral to secure the deposits under certain conditions. The investment must be placed for deposit with a State financial institution that is selected by the local government to arrange for the redeposit of money through a deposit placement program.

Fiscal Summary

State Effect: None.

Local Effect: Potential meaningful operational benefit to local governments. Local governments may also realize a minimal increase in investment income. Local expenditures are not affected.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The State financial institution selected by the local government must act as custodian for the deposit and arrange for the redeposit of the money into one or more deposit accounts in one or more federally insured banks or savings and loan associations with each redeposit in an amount of not more than the applicable FDIC maximum insurance coverage limit. Any local government money deposited into a State financial institution held at the close of a business day that is in excess of the FDIC maximum insurance coverage limit must be secured with collateral. The bill specifies that the full amount of any local government money redeposited by the selected State financial institution into deposit accounts in other federally insured banks and savings and loan associations is insured by FDIC.

Current Law: A local government may deposit unexpended or surplus money in any federally insured bank or savings and loan association. Any deposits with financial institutions in excess of the FDIC limit must be collateralized by the financial institution. Any amount in excess of the FDIC limit may be deposited without the financial institution pledging collateral to secure the deposits as long as:

- the financial institution arranges for the amount over the limit to be further deposited into one or more CDs in other federally insured financial institutions;
- each CD cannot exceed the FDIC maximum insurance coverage limit;
- the CDs must be issued for the benefit of the local government;
- the local government's financial institution must receive deposits from customers of the other financial institutions equal to the amount of money invested in the CDs; and
- the local government's financial institution acts as custodian for the local government with respect to the CDs.

The FDIC insures deposits in most banks and savings and loan associations located in the United States. The FDIC protects depositors against the loss of their deposits if a FDIC-insured bank or savings and loan association fails. FDIC insurance is backed by the full faith and credit of the U.S. government. In October 2008, FDIC deposit insurance was temporarily increased from $100,000 to $250,000 per depositor, per insured bank. On January 1, 2014, the standard maximum deposit amount is scheduled to return to $100,000, except for certain retirement accounts, which will remain at $250,000.

"State financial institution" includes any of the following that have a branch in the State that takes deposits:

- bank, trust company, or savings bank incorporated under the laws of the State;
- bank incorporated under federal law;
- bank incorporated under the laws of any other state; or,
- savings and loan association incorporated under the laws of the State or of the United States.

Background: Through the authority granted in Chapter 173 of 2005, local governments may participate in the bank service called the Certificate of Deposit Account Registry Service (CDARS). This service, in essence, breaks up a customer's large deposit balances into smaller amounts of less than the applicable FDIC insurance limit and places those deposits at other banks within its network. The network can insure up to $10 million of a single customer's deposit. Advantages for a customer include maintaining one bank relationship, getting one interest rate at CD level which can be higher than other collateral alternates, and receiving one consolidated bank statement. Banks pay a fee to participate in the network, but there is no fee to the customer.

Local Fiscal Effect: The bill provides an operational benefit to local governments by increasing the types of investments a particular local government can invest in a bank or savings and loan. The bill may increase the investment income of local governments as a result of maintaining a relationship with one financial institution instead of several institutions for these deposits. Presumably, a local government may be able to negotiate a better rate with one financial institution. It is assumed that any increase in investment income will be minimal.

Small Business Effect: To the extent this bill allows small banks without means to collateralize a local government's deposits to retain or attract a local government as a customer, small banks will be positively impacted.

Additional Information

Prior Introductions: None.

Cross File: Senate Bill 777 (Senator DeGrange, *et al.*) - Budget and Taxation.

Information Source(s): Caroline County, Maryland Municipal League, Maryland State Treasurer's Office, Department of Legislative Services

Fiscal Note History: First Reader - February 19, 2010
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