

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

Senate Bill 606

(Senator DeGrange)

Budget and Taxation

Appropriations

Finance and Procurement - State Treasury - Collateral

This bill adds a letter of credit issued by a Federal Home Loan Bank to the list of collateral that can be used to secure public funds that the State has on deposit with financial institutions. A letter of credit must meet the conditions under guidelines issued by the State Treasurer's Office. The bill also makes a technical correction.

The bill takes effect June 1, 2012.

Fiscal Summary

State Effect: The State Treasurer's Office can develop guidelines using existing resources. Revenues are not affected.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The collateral for State money on deposit with a financial institution must be approved by the State Treasurer and must have, at all times, a market value that at least equals the State money that is on deposit with the financial institution and is not covered by deposit insurance. An obligation of the Federal Home Loan Bank System is one of several items on the list of collateral that may be used. According to recent advice from the Attorney General's Office, "obligation" does not include letters of credit.

Background: The Federal Home Loan Banks (FHL Banks) are a group of cooperatives that lending institutions use to finance housing and economic development. FHL Banks were created by the U.S. Congress in 1932 and operate under agreements with the Federal Reserve and the U.S. Treasury. There are over 7,700 FHL Bank System members, including commercial banks, thrifts, credit unions, and insurance companies. Each member is a shareholder in 1 of the 12 regional FHL Banks; each regional bank is an individual corporate entity, which must meet strict management and capitalization criteria under its status as a government-sponsored enterprise.

Additional Information

Prior Introductions: None.

Cross File: HB 868 (Delegate Conway) - Appropriations.

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

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Analysis by: Scott P. Gates

Direct Inquiries to:
(410) 946-5510
(301) 970-5510