

Department of Legislative Services  
Maryland General Assembly  
2012 Session

FISCAL AND POLICY NOTE

House Bill 868  
Appropriations

(Delegate Conway)

Budget and Taxation

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Finance and Procurement - State Treasury - Collateral

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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.

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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.

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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.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 606 (Senator DeGrange) - Budget and Taxation.

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

**Fiscal Note History:** First Reader - February 26, 2012  
ncs/rhh

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