



Collateral Process Risk Assessment

New Mexico State Treasurer's Office



What is Collateral?

- ▶ Something pledged as a security in the event of default; a guarantee.
- ▶ The collateral (assets pledged) may be sold and the proceeds used to satisfy any remaining obligations.



What is the Purpose of Collateral?

- ▶ The main reason for taking collateral is credit risk reduction.
- ▶ Generally, the FDIC insures aggregate balances up to \$250,000 per depositor.
 - ▶ Balances in excess of \$250,000 are generally not covered.
- ▶ The State of New Mexico requires banks to pledge collateral for public funds that exceed the FDIC insured maximum.



Why is Collateral Important?

- ▶ Collateral protects public funds. This is especially important during times of financial crisis.
- ▶ Many banks failed during the Great Recession in the United States. No New Mexico public funds were lost during the financial crisis in financial institutions.



Mission

- ▶ To ensure adequate protection of State money held in:
 - ▶ Time deposits
 - ▶ The fiscal agent account
 - ▶ Agency account deposits
- ▶ ...by means of:
 - ▶ Reviewing
 - ▶ Tracking
 - ▶ Reconciling
- ▶ ...the collateral pledged to secure these deposits.



Collateral Policy NMAC 2.60.4

► Scope

- The Collateral Policy covers “State Treasurer and financial institutions holding deposits of public money or collateral pledged to secure those deposits under the State Board of Finance authority.”



New Mexico State Treasurer's Office



Depository Institution Process

- ▶ A letter from the financial institution requesting to become a depository bank
- ▶ Copy of Federal Deposit Insurance Corporation (FDIC) certification or the National Credit Union Administration certification (NCUA)
- ▶ Financial reports for the preceding four quarters
 - ▶ Newly chartered financial institutions must provide their most recent financial report



Depository Agreement

- ▶ An agreement between:
 - ▶ New Mexico State Treasurer
 - ▶ New Mexico State Board of Finance
 - ▶ Prospective depository institution for the State



New Mexico State Treasurer's Office




Custodial Agreement

- ▶ “An Agreement between the New Mexico State Treasurer, the New Mexico State Board of Finance, a depository institution, and a third-party custodian to hold collateral pledged by the depository securing deposits, over and above FDIC insurance, on behalf of the State Treasurer.”



STO Quarterly Risk Assessment Report

NEW MEXICO FINANCIAL INSTITUTION STATE DEPOSITS QUARTERLY REPORT	
DATE: _____	
TO: New Mexico State Treasurer Collateral Bureau P.O. Box 5135 Santa Fe, New Mexico 87505	
From: _____ Address: _____	
The balance on hand in this financial institution to the credit of the NEW MEXICO STATE TREASURER, STATE DEPOSITS at the close of business on _____ was _____ (date)	
The collateral pledged to secure STATE DEPOSITS , held by a third party approved custodian, to the credit of the NEW MEXICO STATE TREASURER , at the close of business on _____ was _____ as per approved governing BOARD OF FINANCE policy.	
All required financial data as stipulated in the current BOARD OF FINANCE policy are correct and accurately reflect our statement of risk assessment.	
CERTIFIED CORRECT: Depository Member : FDIC	
BY: _____ (Print or Type)	
SIGNATURE: _____ Bank Officer (Authorized Signature)	
TITLE: _____	
SUBSCRIBED AND SWORN to before me this _____ day of _____, 20____	
MY COMMISSION EXPIRES _____	NOTARY PUBLIC _____

- ▶ Each depository institution submits an NM STO Quarterly Risk Assessment Report that is based on the financial institution's Consolidated Report of Condition (Call Report).
- ▶ This report is based on NMAC 2.60.4 State Board of Finance Collateral Policy.

New Mexico State Treasurer's Office



Finding Figures to Perform Risk Assessment

- ▶ Each depository institution that has FDIC or NCUA Insurance must report financial information on a quarterly basis to its respective regulator.

Report of Condition and Income
FDIC

Federal Financial Institutions Examination Council

Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices—FFIEC 031

Report at the close of business March 31, 2016

This report is required by law: 12 U.S.C. § 304 (State member banks); 12 U.S.C. §1817 (State nonmember banks); 12 U.S.C. §161 (National banks); and 12 U.S.C. §1464 (Savings associations).

NOTE: Each bank's board of directors and senior management are responsible for establishing and maintaining an effective system of internal control, including controls over the Reports of Condition and Income. The Reports of Condition and Income are to be prepared in accordance with Federal regulatory authority instructions. The Reports of Condition and Income must be signed by the Chief Financial Officer (CFO) of the reporting bank or the individual performing an equivalent function and attested to by not less than two directors (trustees) for state nonmember banks and three directors for state member banks, national banks, and savings associations.

I, the undersigned CFO (or equivalent) of the named bank, attest that the Reports of Condition and Income (including the supporting schedules) for this report date have been prepared in conformance with the instructions issued by the appropriate Federal regulatory authority and are true and correct to the best of my knowledge and belief.

We, the undersigned directors (trustees), attest to the correctness of the Reports of Condition and Income (including the supporting schedules) for this report date and declare that the Reports of Condition and Income have been examined by us and to the best of our knowledge and belief have been prepared in conformance with the instructions issued by the appropriate Federal regulatory authority and are true and correct.

Director (Trustee): _____
Director (Trustee): _____
Director (Trustee): _____

Signature of Chief Financial Officer or Equivalent: _____
Date of Signature: _____

Submission of Reports

Each bank must file its Reports of Condition and Income (Call Report) data by either:

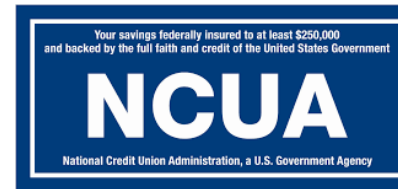
(a) Using computer software to prepare its Call Report and then submitting the report data directly to the FFIEC's Central Data Repository (CDR), an Internet-based system for data collection (<https://cdr.ffiec.gov/>); or

(b) Completing its Call Report in paper form and arranging with a software vendor or another party to convert the data into the electronic format that can be processed by the CDR. The software vendor or other party then must electronically submit the bank's data to the CDR.

For technical assistance with submissions to the CDR, please contact the CDR Help Desk by telephone at (888) CDR-3111, by fax at (703) 774-3846, or by e-mail at CDR.Help@ffiec.gov.

FDIC Certificate Number: _____

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Perform Risk Assessment (continued)

- In the NMSTO Quarterly Risk Assessment Report, there is reference to each line item from the financial institution's call report that is used in the calculation.

RISK ASSESSMENT DATA		
A. KEY FINANCIAL DATA	CALL REPORT REFERENCE	AMOUNT(in thousands)
1) Total Equity Capital	Schedule R-C Balance Sheet Line 28	
2) Total Deposits	Schedule R-C Balance Sheet Line 13a	
3) Total Assets	Schedule R-C Balance Sheet Line 12	
4) Total Loans	Schedule R-C Balance Sheet Line 4d	
5) Allowance for Loan Losses	Schedule R-C Balance Sheet Line 4c	
6) Past Due 90 days or More & Accruing	Schedule RC-N Past Due & Non Accruing Column B, Total of Items 1 thru 8	
7) Non Accrual	Schedule RC-N Past Due & Non Accruing Column C, Total of Items 1 thru 8	
8) Restructured Loans & Leases	Schedule RC-N Past Due & Non Accrual Column B & C, Line M1	
B. STATE DEPOSITS	STATE FORM REFERENCE	AMOUNT(in thousands)
1) General Fund CD's	STO-page 7	
2) State Agency Acct. Deposits	STO-page 5	
3) State Deposits	Add lines B1 + B2	
4) Severance Tax Perm.Fund CDs	Total	
C. NET INCOME (ANNUALIZED)		
Call Report - Schedule RI-Income Statement, Line 12 as of quarter end minus Line 12 of previous quarter end report, except for the March Call Report for which Line 12 is the income for the quarter.		
1) Current Quarter		
2) First Preceding		
3) Second Preceding Quarter		
4) Third Preceding Quarter		
5) Total 4 Quarters		
D. AVERAGE ASSETS		
Call Report - Schedule RC-K Quarterly Averages, Item RCON 336B.		
1) Current Quarter		
2) First Preceding Quarter		
3) Second Preceding Quarter		
4) Third Preceding Quarter		
5) Total		
6) Divide By:		4
7) Average 4 Quarters		

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Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices

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RC-69

For information or assistance, national banks, state nonmember banks, and savings associations should contact the FDIC's Data Collection and Analysis Section, 550 17th Street, NW, Washington, DC 20426 toll free on (800) 659-FDIC(3542), Monday through Friday between 8:00 a.m. and 5:00 p.m., Eastern Time. State member banks should contact their Federal Reserve District Bank.

03/2015

New Mexico State Treasurer's Office



Collateral Levels

RISK ASSESSMENT RATIOS FOR BANKS					
	RATIOS	LINE REFERENCE	AMOUNT IN THOUSANDS	RATIO	PERCENT LEVEL OF COLLATERALIZATION REQUIRED (50% or 75% or 102%) (See Ratios Chart Below)
1	TOTAL STATE DEPOSITS EQUITY CAPITAL	** B3 + B4 ** A1			%
2	TOTAL STATE DEPOSITS TOTAL DEPOSITS	** B3 + B4 ** A2			%
3	TOTAL LOANS TOTAL DEPOSITS	** A4 ** A2			%
4	PRIMARY CAPITAL ASSETS	** A1 + A5 ** A3 + A5			%
5	NET INCOME AVERAGE ASSETS	** C5 ** D7			%
6	NON-PERFORMING LOANS PRIMARY CAPITAL	** A6 + A7 ** A1 + A5			%
(** REFERENCES from STO-page 2)					
PERCENTAGE LEVEL OF COLLATERALIZATION REQUIRED					
RATIOS	50%	75%	102%		
1	TOTAL STATE DEPOSITS EQUITY CAPITAL	Less than 200%			More than 200%
2	TOTAL STATE DEPOSITS TOTAL DEPOSITS	Less than 10%			More than 10%
4	PRIMARY CAPITAL ASSETS	Above 6.00%	5.00% - 6.00%		Less than 5.00%
5	NET INCOME AVERAGE ASSETS	Above .61%	.51% - .60%		Less than .51%
6	NON-PERFORMING LOANS PRIMARY CAPITAL	Under 34.9%	35.00% - 49.9%		Above 49.9%
THE PERCENTAGE LEVEL OF COLLATERALIZATION REQUIRED FOR THIS FINANCIAL INSTITUTION IS _____%.					
PREPARER'S NAME: _____					
PHONE NUMBER: _____					

- ▶ Call report data is input into a Risk Assessment calculation to determine the required level of collateralization consistent with the collateral policy.



Level of Collateral Required

- ▶ A risk assessment analysis is performed every quarter on all depository institutions having depository agreements on file with the New Mexico State Treasurer's Office to determine the level of collateral required. There are three levels of required collateralization: 50%, 75%, and 102%.
- ▶ The risk assessment utilizes the following ratios:

Total State Deposits
Equity Capital

Total State Deposits
Total Deposits

Primary Capital
Assets

Net Income
Average Assets

Non-Performing Loans
Primary Capital



Level of Collateral Required (continued)

PERCENTAGE LEVEL OF COLLATERALIZATION REQUIRED				
	RATIOS	50%	75%	102%
1	<u>TOTAL STATE DEPOSITS</u> EQUITY CAPITAL	Less than 200%		More than 200%
2	<u>TOTAL STATE DEPOSITS</u> TOTAL DEPOSITS	Less than 10%		More than 10%
3	<u>PRIMARY CAPITAL</u> ASSETS	Above 6.00%	5.00% - 6.00%	Less than 5.00%
4	<u>NET INCOME</u> AVERAGE ASSETS	Above .61%	.51% - .60%	Less than .51%
5	<u>NON-PERFORMING LOANS</u> PRIMARY CAPITAL	Under 34.9%	35.00% - 49.9%	Above 49.9%

New Mexico State Treasurer's Office



Depository Institution Reporting

- ▶ Risk assessment analysis for the depository bank shall be calculated from the quarterly call statements, thrift reports, or national credit union administration reports of the financial institution and from the State Treasurer. The generated report is the “New Mexico Financial Institution Quarterly Report.”
- ▶ By the 10th day, depository banks shall submit a monthly collateral level report (including surety bonds and letters of credit) to the State Treasurer on STO-generated report, “State Treasurer Collateral Compliance Monthly Report.”



Acceptable Securities for Collateral

6-10-16. Security for deposits of public money

- A. Deposits of public money shall be secured by:
1. Securities of the United States, its agencies or instrumentalities
 2. Securities of the state of New Mexico, its agencies, instrumentalities, counties, municipalities or other subdivisions
 3. Securities, including student loans, that are guaranteed by the United States or the state of New Mexico
 4. Revenue bonds that are underwritten by a member of the financial industry regulatory authority, known as "FINRA," and are rated "BAA" or above by a nationally recognized bond rating service, or
 5. Letters of credit issued by a federal home loan bank.



Acceptable Securities for Collateral

(continued)

- B. No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration.
- C. All securities shall be accepted as security at market value. The restrictions of Subsection A of this section apply to all securities subject to this subsection.



Going Forward

- ▶ Staying in tune with changes, regulations, policies, and statutes



New Mexico State Treasurer's Office



Thank You

► Contact Information

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New Mexico State Treasurer's Office

