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AND THE LOCAL GOVERNMENT COMMISSION

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Memorandum # 2016-08 **REVISED**

To: Finance Officers of Local Governments, Boards of Education, Public Authorities and Certified Public Accountants

From: Sharon Edmundson, Director Fiscal Management Section

Subject: Collateralization of Public Deposits and Pooling Bank List

Date: December 31, 2015 (original issue date), January 8, 2016 (revised)

On page three of this memo you will find an updated list as of December 2015 of the financial institutions using the Pooling Method of collateralization of public funds. **There have been several changes to the list since the last LGC-203 report cycle.** The State Treasurer monitors compliance with collateralization requirements for these institutions. The list is updated every quarter and can be found on the DST Website here: <https://www.nctreasurer.com/fod/Resources/PoolingBankList.pdf>. Any depository (and their branches) not included on this list is considered to be using the Dedicated Method of collateralization for which the finance officer has the responsibility of monitoring the pledged collateral covering the uninsured deposits.

IMPORTANT

Please review the list carefully to determine the method currently being utilized by each of your official depositories.

For situations where a financial institution utilizes the Dedicated Method of collateralization, the finance officer should determine that the market values of the pledged securities are at least 100% of the amount required to be collateralized at all times throughout the year and that the securities are eligible for pledging as specified by the North Carolina Administrative Code, Title 20, Chapter 7. **It is imperative that the market values of the pledged securities are checked not only at the time of the deposit of public funds, but on a continuing basis when funds exceed the federal deposit insurance limit.** This is essential due to the volatility of the pledged securities' market value and the fluctuation of the unit's bank balances. **Any occurrence of under collateralization is considered as non-compliance with G.S. 159-31.**

For eligible mortgage-backed securities that are pledged as collateral, the calculation of market values is more difficult due to their declining principal balances. The calculation of the market values of such securities should be based on the outstanding principal value, not the original face value. Therefore, it is important to require the depository to provide

a) the original face value b) the current outstanding principal and c) the current market value.

In addition, there are mandatory procedures concerning collateralization that must be followed when dealing with Dedicated Method financial institutions. They are as follows:

1. There must be a signed escrow agreement (INV-94) with a third party escrow agent for each Dedicated Method depository that holds uninsured deposits. However, if the escrow agent is the Federal Reserve Bank, an escrow agreement is not required since it is governed by federal regulations. The escrow agreement (federal regulations in the case of the Federal Reserve Bank) must require timely confirmations of pledged collateral.
2. A file of all pledges of collateral (INV-95) per depository must be maintained by the finance officer. There should be no releases or substitutions of collateral securities resulting in a decrease of the market value of pledged securities without the approval of the finance officer.
3. The depository is required to report to each public depositor the total par and market values of securities pledged at the end of each calendar quarter. Annually, as of June 30, the depository is to file with each public depositor an INV-98. This report is a detailed listing of collateral securities pledged at each escrow bank for that public depositor. This report may be requested by the public depositor to be filed more frequently.

Without exception, if governmental units utilizing the dedicated method of collateralization do not adhere to these procedures, public funds may not be properly collateralized and consequently may be at risk.

For more detailed information, the complete regulations, procedures, and the respective N.C. Administrative Code can be found in a document called ***Collateralization of Public Deposits in NC, revised April 2013***. It can be downloaded from the State Treasurer's website at <https://www.nctreasurer.com/fod/Pages/Collateralization.aspx>. The appropriate collateralization forms also are available from the same web page. If the collateralization booklet or forms are needed and cannot be retrieved from the web, please contact us. If you have any questions or need assistance, please call

- Becky Dzingeski at (919) 814-4287 - Becky.Dzingeski@nctreasurer.com or
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<i>POOLING METHOD FINANCIAL INSTITUTIONS (Updated as of December 2015)</i>			
<i>Refer to Notes on Page 2 of this document for footnote references</i>			
<i>Name of Institution</i>	<i>Home Office</i>	<i>Name of Institution</i>	<i>Home Office</i>
American National Bank & Trust	Danville, VA	HomeTrust Bank ³	Asheville
Aquesta Bank	Cornelius	KS Bank	Smithfield
Asheville Savings Bank	Asheville	Life Store Bank	West Jefferson
Bank of America, N.A.	Charlotte	Lumbee Guaranty Bank	Pembroke
Bank of Hampton Roads ⁵	Virginia Beach, VA	Mechanics and Farmers Bank	Durham
Bank of North Carolina ⁴	High Point	New Bridge Bank ^{6,7}	Greensboro
Bank of Tennessee	Johnson City, TN	North State Bank	Raleigh
Bank of the Ozarks ⁸	Little Rock, AR	Oldtown Bank	Waynesville
Branch Banking & Trust	Winston-Salem	Paragon Bank	Raleigh
Capital Bank	Raleigh	Park Sterling Bank	Charlotte
Carolina Alliance Bank ¹⁴	Spartanburg, SC	Peoples Bank	Newton
Carolina Bank	Greensboro	PNC Bank (formerly RBC Bank (USA)) ¹	Pittsburgh, PA
Carter Bank & Trust	Martinsville, VA	Providence Bank	Rocky Mount
Citizens Community Bank	South Hill, VA	Regions Bank	Birmingham, AL
Community One Bank, N.A. ¹⁰	Asheboro	Roxboro Savings Bank	Roxboro
CresCom Bank ¹⁹	Charleston, SC	Select Bank & Trust ¹⁵	Dunn
Entegra Bank ¹⁷	Franklin	Sound Banking Company	Morehead City
Farmers & Merchants Bank	Salisbury	South State Bank ¹	Orangeburg, SC
Fidelity Bank	Fuquay-Varina	Southern Bank & Trust Co. ⁹	Mount Olive
Fifth Third Bank	Cincinnati, OH	SunTrust Bank	Atlanta, GA
First Bank	Southern Pines	Surrey Bank	Mount Airy
First Carolina Bank ¹³	Rocky Mount	TD Bank	Cherry Hill, NJ
First Citizens Bank & Trust ¹²	Raleigh	Towne Bank	Suffolk, VA
First South Bank	Washington	Union Bank & Trust	Oxford
First Tennessee Bank ¹⁸	Memphis, TN	United Community Bank	Blairsville, GA
Four Oaks Bank & Trust	Four Oaks	Uwharrie Bank ¹¹	Albemarle
Great State Bank	Wilkesboro	Wake Forest Federal Savings & Loan	Wake Forest
High Point Bank & Trust	High Point	Wells Fargo Bank	Charlotte
Highlands Union Bank	Abingdon, VA	Yadkin Bank ^{2, 16}	Raleigh

Notes to Pooling Method Financial Institutions listing:

- ¹ North Carolina Bank & Trust (NCBT) changed name to South State Bank**
- ² Cardinal State Bank, High Country Bank and Piedmont Bank are owned by Yadkin Valley Bank. Yadkin Valley Bank change name to Yadkin Bank**
- ³ Cherryville Federal Savings, Home Savings Bank, Industrial Federal Bank, Rutherford County Bank, Shelby Savings Bank, Tryon Federal Bank are all owned by/in partnership with Home Trust Bank of Asheville**
- ⁴ Home Savings Bank of Albemarle merged with Bank of North Carolina - Thomasville**
- ⁵ Gateway Bank is owned by Hampton Roads Bancshares in Norfolk, Virginia**
- ⁶ Security Savings Bank and Capstone Bank merged with Newbridge Bank – Greensboro**
- ⁷ Newbridge Bank will be merging with Yadkin Bank in 2016.**
- ⁸ First National Bank of Shelby and Bank of Carolina merged with Bank of the Ozarks**
- ⁹ Heritage Bank merged with Southern Bank & Trust Co**
- ¹⁰ Bank of Granite merged with Community One Bank N.A.**
- ¹¹ Bank of Stanly, Cabarrus Bank and Anson Bank all merged with Uwharrie Bank**
- ¹² Mountain 1st Bank & Trust merged with First Citizens Bank & Trust Company in January 2014**
- ¹³ First Carolina State Bank changed name to First Carolina Bank**
- ¹⁴ Forest Commercial Bank merged with Carolina Alliance Bank - Spartanburg, SC**
- ¹⁵ New Century Bank (Dunn) merged with Select Bank & Trust-Greenville**
- ¹⁶ Vantage South Bank merged with Yadkin Bank-Elkin**
- ¹⁷ Macon Bank changed name to Entegra Bank**
- ¹⁸ Trust Atlantic merged with First Tennessee Bank**
- ¹⁹ First Community merged with CresCom Bank**