



COLORADO
THE BANKERS
ASSOCIATION

Public Deposit Protection



What's the Bottom Line?

- Tough times and unprecedented turmoil – touch each of us personally
- Abundant misinformation and fears
- Making progress against “financial panic”
- Banks (real banks) are solid and safe and are the safe haven – will explain why

Information for Custodians About the Public Deposit Protection Act

As events unfold in our financial system, many custodians of public funds have expressed concern about the safety of the money entrusted to them. With regard to deposits made in bank accounts, the Colorado Public Deposit Protection Act (PDPA) requires that eligible depository banks pledge assets to the Colorado Division of Banking for deposits that exceed the amount insured by the FDIC.

Banks must pledge collateral that equals or exceeds 102 percent of the uninsured deposits at all times – most hold higher levels of collateral.

The Division approves all pledges and releases of collateral, and the pledged items are maintained by an escrow institution or at the Division. An independent service provides monthly market values for securities. To ensure that items pledged under the PDPA are liquid and safe, some collateral is valued at a discount, or haircut, from the market or par value.



The items eligible for pledging are listed in PDPA Rule PDP3.

Only specified safe collateral is acceptable.

Rule PDP4 describes the valuation of the items.

Eligible public depository banks are examined by the Division of Banking and audited annually by an independent auditor. The bank's capital levels are monitored. Should conditions warrant, eligible banks may be required to pledge additional collateral or divest of public deposits.

Custodians may contact the Division of Banking to make sure their deposits are being reported.

Additional information on insurance is available at the FDIC web site, www.FDIC.gov.

Additional information on the PDPA is available on the Division of Banking web site <http://www.dora.state.co.us/banking/> at PDPA information or Custodian Identification Numbers. To contact the Division, please write, call, or e-mail to numbers/address listed below.

Colorado Division of Banking

1560 Broadway, Suite 975, Denver, CO 80202

(303) 894-7575 – phone

(303) 894-7570 – fax

e-mail: banking@dora.state.co.us



How Do I Know My Money is Safe in a Bank?

- ① Attitudes & skills
- ② Capital & reserves
- ③ Regulation & examination
- ④ FDIC insurance



① *Attitudes and Skills*

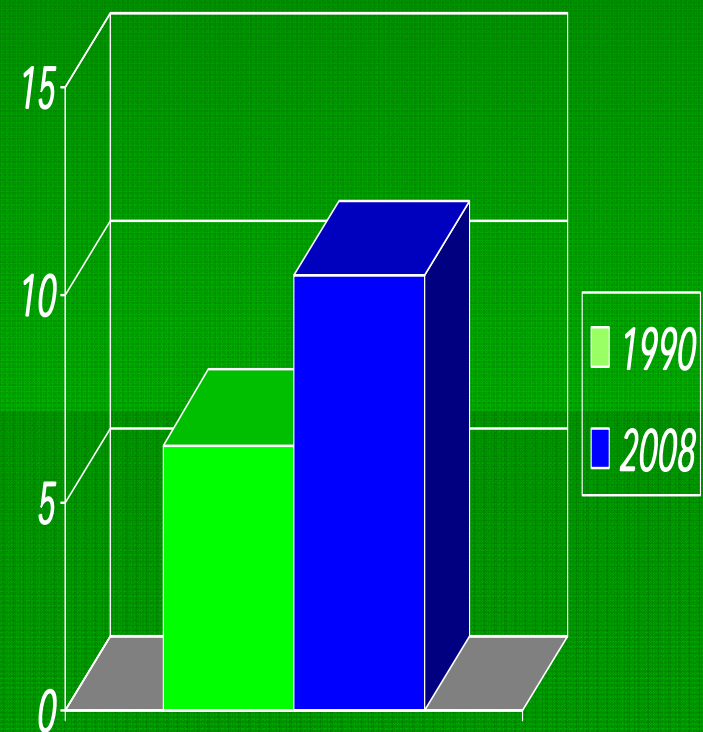
- Cautious, conservative by nature
- Managerial strengths
- Attention to detail – sometimes frustrating to borrowers: appraisals, tax returns...



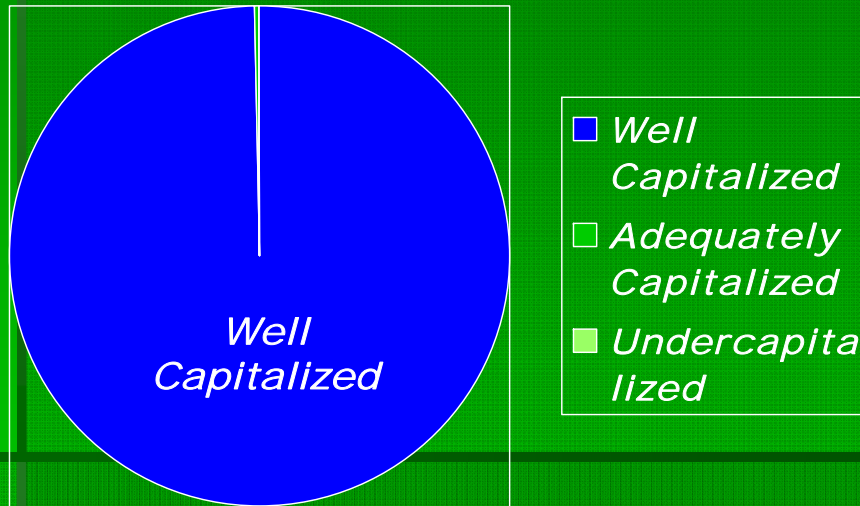
② *Capital and Reserves – Financial Stability*

- Nationally banks have \$1.3 trillion in capital – before government's Capital Purchase Program (unwanted by many)
 - Capital is owners' investment in the bank, lost by the owner if things go badly
 - 10.5% today, 6.4% in 1990
- Another \$144 billion in U.S. banks in reserves for potential loan losses

Bank Capital - % of assets



② *Capital and Reserves – Financial Stability (Continued...)*



- FDIC June 30 2008 (latest data):
 - 8,385 banks in the U.S. are well capitalized – 99.6% of all banking assets
 - Even after losses in Fannie Mae & Freddie Mac stock, estimated 91% of U.S. banks are well capitalized (highest possible rating)
 - 91 banks are adequately capitalized – 3/10 of 1% of assets
 - only 18 banks in the U.S. are undercapitalized – 1/10 of 1% of assets

③ *Government Regulation and Examination*

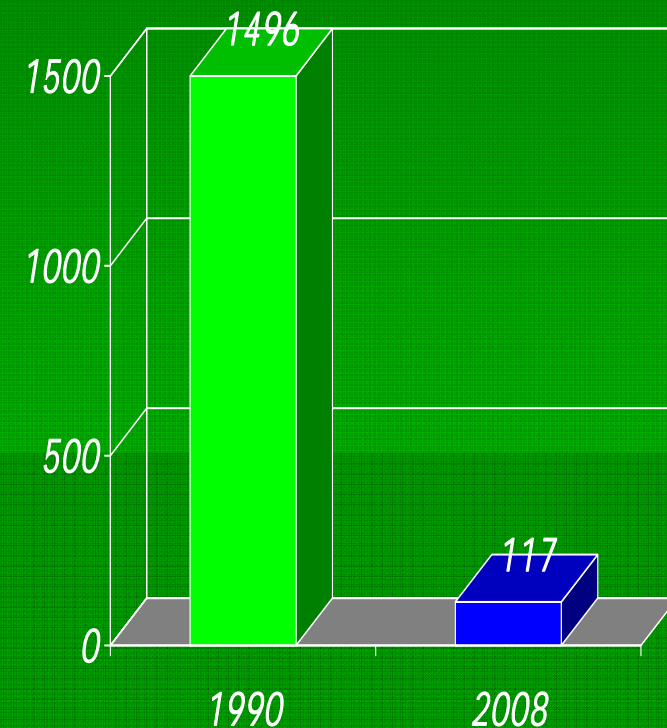
- Assures bank safety
- Only industry that must meet rigid standards of financial strength and stability
- Only industry routinely, frequently examined by government
- FDIC and other regulators scrutinize banks' operations to ensure safeguards are met
- Order corrective action as necessary

③ *Government Regulation and Examination* (Continued...)

- Troubled banks are the rare exception, not the rule
 - Now 117 banks nationwide considered troubled (out of 8,494 – 1.4%) – 1,496 on list in 1990
- Only FDIC/regulators know who is “troubled”

Troubled Banks

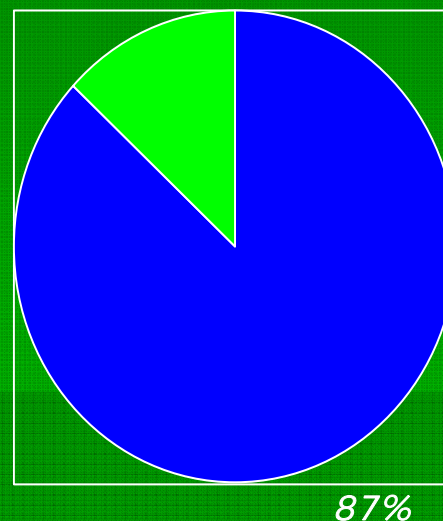
1990 v 2008



③ *Government Regulation and Examination* (Continued...)

- Since 1982, 87% of “troubled” banks worked their way back to health with extra attention
 - Like a patient gets in a hospital
 - Those 87% never failed
- Some banks admittedly have some issues to address in this tumultuous environment

*Troubled Banks
Return to Health*
13%

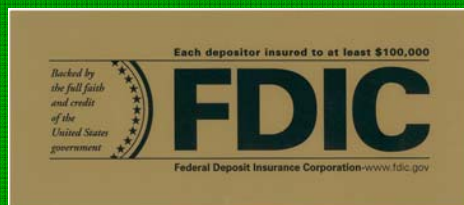


■ *Return to Health*

■ *Fail*

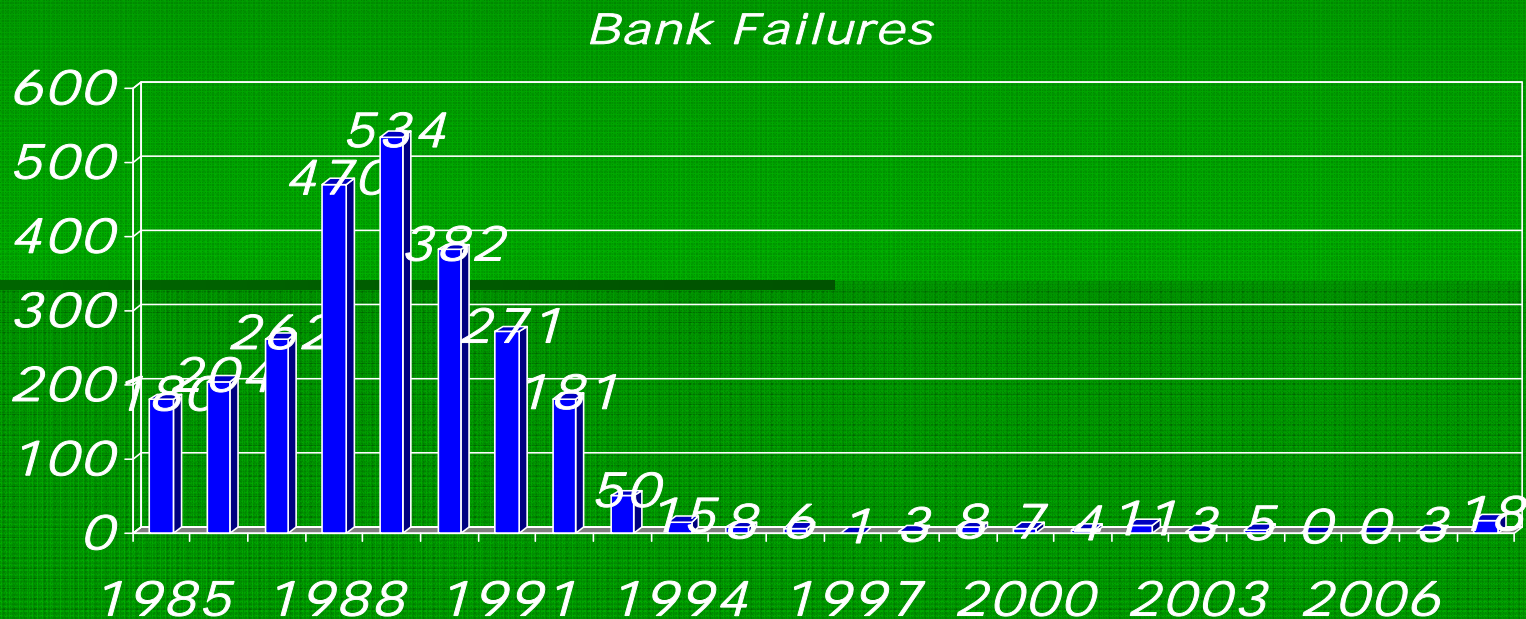
④ *FDIC Insurance*

- Paid for by banks to benefit customers
- FDIC protects depositors dollar for dollar including principle and interest up to the insurance limit – temporarily raised to \$250,000 until 12/31/2009
- Since FDIC was created in 1933 no depositor has ever lost a penny of insured deposits



What is the Status of Banks?

- Bank Failures:
 - 18 nationwide in 2008 – including WaMu (S&L – 8x larger than previous biggest failure) – still no depositor has ever lost a penny of insured deposits
 - 1,617 banks failed in the 1980s and early 1990s



What Does FDIC Insure?

- Depositors are insured up to \$250,000 per depositor per insured bank per account category
 - Temporary until 12/31/2009
- Depending on how deposit accounts are titled in different ownership categories the basic \$250,000 protection can be increased to much larger amounts
- Certain trust accounts are separately insured up to an additional \$250,000 if certain conditions are met
- Non-interest-bearing transaction accounts and unsecured debt insured 100% - until 12/31/2009
- Additional details are available from
 - Your local bank
 - www.myfdicinsurance.gov, 1-877-ASK-FDIC (1-800-925-4618 hearing impaired)

What's Government Policy?

(Continued...)

- FDIC
 - \$250,000 general coverage
 - Non-interest bearing transaction accounts 100%
 - FDIC's new senior unsecured debt 100%
- 2009 complete Congressional overhaul of regulatory system for financial services
- Consensus:
 - Banking is most stable/solid of financial services
 - Banking regulatory model is superior

Public Deposits in Excess of the FDIC amount?

As an abundance of caution banks are required to pledge (reserve) securities covering 102% of an uninsured public deposit.

Example: Public deposit of \$265,000

FDIC Insured amount \$250,000

Uninsured amount \$15,000

Bank pledged securities \$18,000

Public Deposit 100%+ safe and protected.



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Thank You

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www.coloradobankers.org



www.financialinfo.org
(consumer information)

