STATE OF CONNECTICUT
OFFICE OF STATE TREASURER DENISE L. NAPPIER

Connecticut's Community Bank and Credit Union Initiative

The Treasurer's Community Bank and Credit Union Initiative is established to support Connecticut's community banks and credit unions and to enhance their ability to promote the economic and social health of the communities they serve by investing funds in locally-originated loans to individuals and small-to-medium sized companies and providing locally-oriented banking services in underserved markets.

Under the initiative, community banks and credit unions, with assets not exceeding $500 million and domiciled in Connecticut, would compete for a targeted pool of investments. A subsequent phase will include banking service contracts with the Connecticut State Treasurer's Office.

The Treasurer's Office is pursuing this initiative in recognition of the valuable roles community banks play in their communities. For example, community banks:

- Focus attention on the needs of local families and businesses, including those in low and moderate income neighborhoods and in underserved markets in urban and rural areas of the state, and are a critical source of lending for those constituents;

- Channel loans to the neighborhoods where their depositors live and work;

- Support their communities through personal and financial involvement in local and charitable activities and by participating in community activities;

- Offer locally-based decision-making on business loans;

- Have boards of directors that are comprised of local citizens who advance the interests of the towns and cities where they live.

In addition, investments placed with Connecticut community financial institutions banks should increase overall state economic development and tax revenues.

Connecticut General Statute 3-24k allows the Treasurer to establish a program for the investment of up to $100 million with community banks and community credit unions. The program will be administered according to the following guidelines:

Eligibility

By statute, financial institutions must meet both of the following conditions to qualify for the program:

- Be a bank domiciled in Connecticut with assets of not more than $500 million, or be a community credit union, as defined in CGS 36a-37, with assets of not more than $500 million (CGS 3-24j);

- May not have a Community Reinvestment Act rating of "needs to improve" or "substantial non-compliance" on its most recent evaluation by federal or state authorities (CGS 36a-33).

Capital Standards

Banks participating in the program must meet at least one of the following standards:

- Categorized by the FDIC as "well-capitalized," with a leverage capital ratio of five percent or greater, a tier one risk-based capital ratio of six percent or greater, and a total risk-based capital ratio of 10 percent or greater;

- Categorized by the FDIC as "adequately capitalized," plus provision of insurance from a AAA-rated company for deposits and accrued interest in excess of $100,000; or

- Categorized by the FDIC as "adequately capitalized," plus provision of collateral equal to 100 percent of deposits and accrued interest in excess of $100,000. Haircuts (resulting in coverage ratios of 102 -130 percent) would be applied to different types of securities, consistent with current state collateralization standards contained in CGS 36a-333.

Credit unions participating in the program must meet at least one of the following standards:

- Categorized by the National Credit Union Administration (NCUA) as "well-capitalized," with a net worth ratio of seven percent or greater;

- Categorized by the NCUA as "adequately capitalized," plus provision of insurance from a AAA-rated company for deposits and accrued interest in excess of $100,000; or

- Categorized by the NCUA as "adequately capitalized," plus provision of collateral equal to 100 percent of deposits and accrued interest in excess of $100,000. Haircuts (resulting in coverage ratios of 102 -130 percent) would be applied to different types of securities, consistent with current state collateralization standards contained in

CGS 36a-333.

Higher standards would apply to credit unions in existence for four years or less pursuant to CGS 36a-441a(b).

If a financial institution's capital categorization were to fall during the term of the investment, it would need to pay off the investment or it would need to procure insurance or pledge collateral, as discussed under the second and third options.

Security Agreements

Financial institutions wishing to participate in the program will need to execute security agreements with the Treasurer's Office before they bid on any investments. These agreements are required by federal law to make the state's collateralization program enforceable. The Treasurer's Office also will execute a type of master investment agreement with financial institutions that would cover future investments so that investments can be executed and funds can be transferred in a timely fashion.

Investments

Investments generally will be made in certificates of deposit with six-month and 12-month maturities, with the possibility of longer maturities. Because of uncertainties associated with state budgets for future fiscal years that could require the Treasurer's Office to gain access to the funds, each CD of $5 million or more may require a "put" that could be exercised by the Treasurer's Office at the beginning of the next fiscal year.

Investment Schedules

The Treasurer's Office will accept bids for investments every two – four weeks. A bid schedule will be placed on the Treasurer's Office website at the beginning of each month specifying dates, dollar amounts, and maturities. The Treasurer's Office will reserve the right to revise the schedule. A sample bid schedule is shown below.

CD Amount	Bid Date	Settlement Date	Maturity Date
$500,000	May 30, 2006	May 31, 2006	November 27, 2006
$1 million	May 30, 2006	May 31, 2006	November 27, 2006
$5 million	May 30, 2006	May 31, 2006	November 27, 2006

$500,000	May 30, 2006	May 31, 2006	May 31, 2007
$1 million	May 30, 2006	May 31, 2006	May 31, 2007
$5 million	May 30, 2006	May 31, 2006	May 31, 2007

Investment Process

On the day of the specified investment, financial institutions may submit bids from 8:00 to 9:30 a.m. via e-mail or facsimile transmission. Bids must be submitted on standard forms that will specify the investment amount, investment term, and proposed amount of interest to be paid.

Rates for each investment will be calculated by the Treasurer's Office and compared to (a) a minimum acceptable rate of the previous day's Treasury bill rate for the same maturity, and (b) other bids by qualified banks or credit unions. The Treasurer's Office will then identify the highest acceptable bid for each investment amount, verify that the institution is eligible for the program, and determine that the necessary agreements are in place.

The Treasurer's Office will notify the appropriate bank or credit union by telephone and confirm the bid. The Treasurer's Office will then wire funds and the bank or credit union will fax a confirmation to the Treasurer's Office.

Program Diversification

No single institution will be eligible to hold investments totaling more than 20 percent of the program's outstanding investments, at the time of the investment, unless approved by the Treasurer. During the first three competitive investment processes, while the program is being phased in, higher concentration levels will be permitted. In addition, pursuant to CGS 4-33, investments in individual financial institutions, together with other state deposits, may not exceed 75 percent of the institution's total capital.