

Report on the

**Security for Alabama Funds
Enhancement (SAFE) Program
Office of the State Treasurer
State of Alabama
Montgomery, Alabama**

October 1, 2016 through September 30, 2019

Filed: March 20, 2020



**Department of
Examiners of Public Accounts**

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Rachel Laurie Riddle, Chief Examiner



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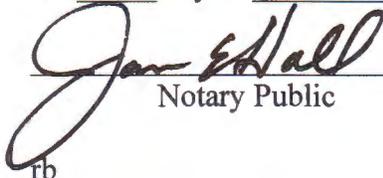
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Honorable Rachel Laurie Riddle
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Dear Madam:

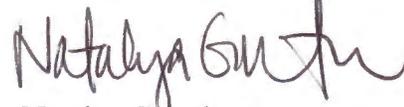
An examination was conducted on the Security for Alabama Funds Enhancement (SAFE) Program, Office of the State Treasurer, Montgomery, Alabama, for the period October 1, 2016 through September 30, 2019. Under the authority of the *Code of Alabama 1975*, Section 41-5A-19, I submit this report to you on the results of the examination.

Sworn to and subscribed before me this
the 5th day of March, 2020.



Notary Public
rb

Respectfully submitted,



Natalya Grantham
Examiner of Public Accounts

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SUMMARY

**Security for Alabama Funds Enhancement (SAFE) Program
Office of the State Treasurer
October 1, 2016 through September 30, 2019**

Act Number 2000-748, Acts of Alabama, effective January 1, 2001, created the Security for Alabama Funds Enhancement Program (the “SAFE Program”). This act was codified as Title 41, Chapter 14A of the *Code of Alabama 1975*, as amended, and established a unified collateral pool and program for deposits of public funds in the state by public officials. The *Code of Alabama 1975*, Section 41-14A-4, provides for the SAFE Program to be administered by the State Treasurer and the facilities and resources of the State Treasurer’s Office to be used and employed in the administration of the SAFE Program, including the record keeping and the management of funds and accounts. Personnel performing the record keeping and the management of funds and accounts of the SAFE Program are employees of the State Treasurer’s Office. The SAFE Program does not own any nonconsumable personal property.

This report presents the results of an examination of the SAFE Program and a review of compliance by the SAFE Program with applicable laws and regulations of the State of Alabama. This examination was conducted in accordance with the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5A-12. Our examination was performed for the purpose of determining whether the public officers, and agents, of the SAFE Program properly and lawfully accounted for all money and other public assets or resources received, disbursed, or in the custody of the SAFE Program. Our examination included determining compliance by the SAFE Program with state laws and regulations that pertain to financial transactions; safeguarding of state-owned assets and resources; information dissemination, processing, and retention; and official actions, rulemaking procedures, and meetings. As a part of our examination, we also reviewed internal control policies and procedures relating to the areas listed above. Our examination did not encompass managerial and operational matters, such as whether the SAFE Program accomplished its mission or its regulatory, enforcement, investigative, or other oversight activities in an efficient, fair, timely, or legal manner.

Tests performed during the examination did not disclose any significant instances of noncompliance with applicable laws and regulations.

John McMillan, State Treasurer; Daria Story, Assistant State Treasurer; and Pam Stevenson, SAFE Director, were invited to an exit conference held on February 5, 2020. Individuals in attendance were Mr. McMillan, Mrs. Story, and Mrs. Stevenson, along with Natalya Grantham and Brad Grier from the Department of Examiners of Public Accounts.

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COMMENTS

**Security for Alabama Funds Enhancement (SAFE) Program
Office of the State Treasurer
October 1, 2016 through September 30, 2019**

Act Number 2000-748, Acts of Alabama, effective January 1, 2001, created the Security for Alabama Funds Enhancement Program (the “SAFE Program”). This act was codified as Title 41, Chapter 14A of the *Code of Alabama 1975*, as amended, and established a unified collateral pool and program for deposits of public funds in the state by public officials. The *Code of Alabama 1975*, Section 41-14A-4, provides that the SAFE Program be administered by the State Treasurer and the facilities and resources of the State Treasurer’s Office be used and employed in the administration of the SAFE Program, including the record keeping and the management of funds and accounts. Personnel performing the record keeping and the management of funds and accounts of the SAFE Program are employees of the State Treasurer’s Office. The SAFE Program does not own any nonconsumable personal property.

The *Code of Alabama 1975*, Section 41-14A-6, establishes the Board of Directors of the SAFE Program. The Board is charged with the responsibility and authority to assess and manage the sufficiency of the collateral pool and the SAFE Program to provide adequate protection from losses to public depositors. The Board consists of eight members. The State Treasurer is a permanent, standing, voting member of the Board and serves as its chair. The Superintendent of Banks is a permanent, standing, non-voting member of the Board. The remaining six members shall each possess knowledge, skill, and experience in one or more of the following areas:

- Financial analysis
- Trend analysis
- Accounting
- Banking
- Risk management
- Investment management

Of these six, there will be four members that are representatives of an active qualified public depository, which is not in the process of withdrawing from the SAFE Program and is in compliance with all applicable rules, regulations and reporting requirements of the SAFE Program. Of these four members, one will be selected and approved by the State Treasurer, and three will be selected and approved by the State Treasurer from nominations submitted to the State Treasurer by the Alabama Bankers Association. One member will be a representative of a municipality within the state and will be selected and approved by the State Treasurer from nominations submitted to the State Treasurer by the League of Municipalities of Alabama. One member will be a representative of a county within the state and will be selected and approved by the State Treasurer from nominations submitted to the State Treasurer by the Association of County Commissions of Alabama.

The terms of the members of the Board of Directors, other than the State Treasurer and the Superintendent of Banks, shall be four years, except that, with respect to the initial appointments, as determined by the State Treasurer, one member will serve one year, one member will serve two years, two members will serve three years, and two members will serve four years. Any person appointed to fill a vacancy on the Board may serve only for the remainder of the unexpired term. Any member is eligible for reappointment and shall serve until a successor is selected.

Two-thirds of the voting members shall constitute a quorum. The Board of Directors may not take official action in the absence of a quorum. The Board is required to meet at least quarterly. The minutes of the board meetings were reviewed and appeared to reflect all actions taken by the Board.

The *Code of Alabama 1975*, Section 41-14A-3(a), establishes that on and after January 1, 2001, all public deposits of all covered public entities and covered public officials shall be governed by the policies and procedures set by the SAFE Program. This section also provides that all public depositors shall, notwithstanding any other laws to the contrary, place their public deposits with one or more qualified public depositories (QPDs), and that the financial institutions shall file the reports required by this section, or by rule, regulation, or order of the Board of Directors of the SAFE Program. Act Number 2009-471, Acts of Alabama, effective August 1, 2009, amended the *Code of Alabama 1975*, Section 41-14A-3, and provides an exception to requiring all public depositors to place their public deposits with one or more QPDs. This exception does not apply to funds or moneys of the state that are deposited or invested by the State Treasurer.

In order to facilitate the administration of the SAFE Program, Act Number 2000-748, Acts of Alabama, provided for the creation of three funds, all of which shall be held and administered by the State Treasurer. The *Code of Alabama 1975*, Section 41-14A-10, provides that the SAFE Loss Payment Fund (Special Revenue Fund 1044), is used for the deposit of the proceeds from the sale of securities pledged as collateral or from any assessment pursuant to the *Code of Alabama 1975*, Section 41-14A-9. The amounts on deposit in this fund shall be disbursed as necessary in accordance with the provisions of the SAFE Program in order to pay losses to public depositors. Any amounts in this fund estimated not to be needed for immediate cash requirements shall be invested in any securities or other investments selected by the State Treasurer that are permitted under the *Code of Alabama 1975*, Section 41-14-30. All interest and other earnings from the investments of assets of the fund shall accrue to the fund. There was no activity in this fund during the period under examination.

The SAFE Program Administration Fund (Special Revenue Fund 1045), was created by Act Number 2000-748, Acts of Alabama, to be used by the State Treasurer to pay the costs and expenses of establishing and implementing the SAFE Program, to pay the ordinary costs and expenses of administering the SAFE Program, and to pay the members of the SAFE Board of Directors the per diem and travel rates as permitted by the *Code of Alabama 1975*, Section 41-14A-6(g). Act Number 2013-092, Acts of Alabama, effective October 1, 2013, created in the state treasury a special fund to be known as the State Treasury Operations Fund (Special Revenue Fund 1632). The State Treasury Operations Fund is to be used exclusively for the operations of the Office of the State Treasurer. All costs and expenses of administering the Office of the State Treasurer shall be paid from the State Treasury Operations Fund, including the administration of the Unclaimed Property Program and the SAFE Program, and to pay the SAFE Board of Directors the per diem and travel rates. This fund may receive general fund appropriations, amounts from the Unclaimed Property Reserve Fund, and any other receipts. All unobligated amounts remaining in the State Treasury Operations Fund at the end of any fiscal year shall remain in this fund and be available for use for the operations of the Office of the State Treasurer. Fund 1045 is no longer used and SAFE financial activity previously recorded in Fund 1045 is now recorded in Fund 1632.

The SAFE Program Enforcement Fund (Special Revenue Fund 1046), created by Act Number 2000-748, Acts of Alabama, is used for the deposit of all administrative penalties collected under the provisions of the SAFE Program. The amounts in this fund shall be used to pay the costs and expenses of enforcing the requirements and provisions of the SAFE Program, including the costs of foreclosing on pledged collateral, of making and collecting assessments from QPDs, and of enforcing the obligations of QPDs under contingent liability agreements. Any amounts in this fund estimated not to be needed for immediate cash requirements shall be invested in any securities or other investments selected by the State Treasurer that are permitted under the *Code of Alabama 1975*, Section 41-14-30. All interest and other earnings from the investments of assets of the fund shall accrue to the fund. There was no activity in this fund during the period under examination.

As of September 30, 2019, there were 140 QPDs participating in the SAFE Program. These QPDs held a total of \$12.6 billion in public deposits with applicable Federal Deposit Insurance Corporation (FDIC) coverage of \$953 million resulting in net public deposits of \$11.698 billion. Total public deposits held in all QPDs, along with a listing of all QPDs, is maintained on the State Treasurer's website at www.treasury.alabama.gov.

The SAFE Board of Directors has determined that to become and continue to participate as a QPD, a bank or savings institution must comply with all of the following requirements:

- Be organized and existing under the laws of the State of Alabama, any other state of the United States, or the United States.
- Be authorized pursuant to the laws of the State of Alabama or the United States to conduct, and is conducting, the business of making loans and taking deposits in this State.
- Have deposit insurance under the provisions of the Federal Deposit Insurance Act, as amended, 12 U.S.C. Section 1811 et seq.
- Execute a Contingent Liability Agreement, Authorized Representative and Signature Certification, Collateral Agreement(s), and other necessary forms prescribed by the SAFE Board of Directors.
- Submit, with the documents from above, confirmation that minimum required collateral of eligible securities with a market value of either \$100,000 or required pledging level (whichever is greater) has been pledged to the State Treasurer.
- Have received a certification as a QPD from the Treasurer.
- Administer internal and external audit review for compliance with the SAFE Program rules and statutes to ensure that applicable accounts maintained for public entities and public officials are adequately identified as public deposits on its record by name, address, and federal employer identification number.
- Annually, prior to November 1, provide a report as of the last business day of September to each public depositor that summarizes their deposit account relationship. The report shall be deemed correct unless the public depositor notifies the depository to the contrary within sixty calendar days of receipt of the statement.
- Submit to SAFE via the SAFE WEB internet reporting system a monthly report in the format prescribed by the Treasurer and by the date specified.
- Upon request, submit to the Treasurer financial or regulatory reports or public deposit verifications in a manner required by the Treasurer.
- Upon request, provide a quarterly listing of ratings for securities pledged to SAFE from an acceptable third-party source in the manner prescribed by the Treasurer.
- Permit, during office hours, the State Treasurer to inspect, verify, and review all documents, reports, records and all other financial information deemed necessary by the State Treasurer to verify compliance with the SAFE Program.

The financial condition of each QPD shall be reviewed to determine Collateral Pledging Levels for entry and continued participation in the SAFE Program. Each QPD shall pledge to the State Treasurer eligible collateral equal to or in excess of its required collateral. One of the following collateral pledging levels established by the SAFE Board of Directors shall be used in determining required collateral:

1. 70 percent of the net average daily ledger balance of public deposits if the QPD maintains an independent financial evaluation of 70 or more.
2. 80 percent of the net average daily ledger balance of public deposits if the QPD maintains an independent financial evaluation of 40-69.
3. 90 percent of the net average daily ledger balance of public deposits if the QPD maintains an independent financial evaluation of 20-39.
4. 100 percent of the net average daily ledger balance of public deposits if the QPD maintains an independent financial evaluation below 10-19.
5. 115 percent of the net average daily ledger balance of public deposits if the QPD maintains an independent financial evaluation below 10.
6. 150 percent of an established maximum amount of public deposits may be required if a QPD experiences significant financial deterioration or at Board discretion.
7. 100 percent of the net average daily ledger balance of public deposits in the case of a newly established bank. This pledging level will be updated upon receipt of first financial evaluation.
8. 5 percentage points will be added to any of the above levels if the QPD exhibits one or both of the following conditions:
 - a. Net average daily ledger balance of public deposits exceeds Tier I capital;
 - b. Net average monthly ledger balance of public deposits comprises 20 percent or more of total public deposits held in all QPDs.
9. A QPD may be required to pledge at a higher level for repeated violations of the SAFE Program provisions and rules upon discretion of the Board.
10. Minimum required collateral of \$100,000.

As discussed above for continued participation in the SAFE Program, each QPD is required to submit via the SAFE WEB internet reporting system to the State Treasurer, a QPD Monthly Report. This report includes the depository name and location, the pledge percentage, the adjusted pledge percentage, the minimum required collateral, the total original par, the total current par, and market value of total pledged collateral. The report compares the reported month, prior month, and variance between the two for the following: deposit amounts, deposit insurance, net total deposits, tier 1 capital, month end deposits, number of public entities, original par, current par, and market. The QPD Monthly Report form is used to calculate the net average daily ledger balance which is referred to as the "Net Total Deposits," the percentage change in the net average daily ledger balance from the previous month, and the required collateral amount. The QPD Monthly Report is submitted and approved by authorized representative(s) of the QPD as a certification that the information in the report is true and accurate and is required to be submitted to the Office of the State Treasurer, SAFE Division, by the fifteenth day of each month following the report month.

The QPD Monthly Report is the most significant tool used by the Office of the State Treasurer to monitor the QPDs' compliance with the SAFE Program requirements. The SAFE WEB system performs real-time monitoring of the report for mathematical accuracy, the correct pledging level, and the correct pledged original par total. The market value of the collateral pledged is then verified to be sufficient to meet the required collateral value. The QPD authorized representative submitting the report is required to correct any mathematical error or omission in the report form before submission of the monthly report. The system also checks the reported pledged original par total for any material variance before the system will accept the report. If the reported market value is not sufficient to cover the required collateral value, the authorized representative is guided by the system into an under-pledged position comment screen. The authorized representative is required to provide a brief explanation of action taken to correct the under-pledged position. This explanation is then e-mailed by SAFE WEB to SAFE staff notifying them of the under-pledged position and the action taken by the QPD to correct the position. This e-mail notice is matched by SAFE staff with correspondence from the QPD and/or custodian. The total market value of the pledged collateral reported by the QPD is compared to SAFE's pricing table generated monthly from market values provided through SAFE's interagency agreement with the State of Alabama's Banking Department. This comparison generates a pricing exceptions report on a per QPD basis. The SAFE administrator contacts the QPDs in order to resolve any exceptions.

QPDs can be involuntarily withdrawn, suspended, or have an administrative penalty imposed for any one of the following reasons:

- Violation of any of the provisions of the SAFE Program or any rule adopted by the SAFE Board of Directors.
- Submission of reports containing inaccurate or incomplete information or filed past the reporting deadline date.
- Failure to pledge Required Collateral at the appropriate pledging level or at the appropriate time (such as, prior to accepting deposits, if applicable) or immediately upon notification of under pledged position or ineligible collateral.
- Pledging unacceptable collateral.
- Releasing or transferring a pledged security without approval by the State Treasurer.
- Applying for the amendment or replacement of any Letter of Credit for a decrease without the prior written approval of the State Treasurer.
- Failure to pay an administrative penalty or an assessment.
- Failure to allow inspection and verification of any information that the State Treasurer determines necessary to verify compliance with the SAFE Program.
- Failure to furnish any agreement, report, form, or other information required to be filed under the SAFE Program, or when requested by the State Treasurer.
- Failure to execute, or have the custodian execute, a collateral agreement prior to using the custodian.
- Failure to give notification to the State Treasurer of mergers, consolidations, sales of assets, and similar matters.

If a QPD has been required to withdraw from the SAFE Program for any of the reasons listed above, then an order of withdrawal is mailed from the State Treasurer to the QPD by registered or certified mail designating the effective date of withdrawal. In this order, the State Treasurer will specify the time and manner in which the QPD will provide the State Treasurer a written report listing the names, account numbers, account balances, and maturity dates, if applicable, of any public depositors. The State Treasurer shall provide prompt notification to each public depositor identified in the written report described above of the withdrawal of the depository from the SAFE Program. Any public deposits will cease to be protected after the effective date of withdrawal. After all public deposit accounts have been closed, the withdrawing depository will provide to the State Treasurer a written certification adopted by the Board of Directors that the institution no longer holds any public deposits and will not receive or retain any public deposits until it again becomes a QPD. The contingent liability of the withdrawing depository shall remain in effect for a period of twelve months after the certification described above has been received by the State Treasurer. At this time the State Treasurer shall, upon request, release pledged collateral. The depository may reapply for qualification one year from the date of the order of withdrawal.

A QPD may voluntarily withdraw from the SAFE Program by giving written notice to the State Treasurer at least thirty calendar days before the effective date of withdrawal. Written notice shall be by resolution of the withdrawing depository's Board of Directors and shall designate the effective date of withdrawal. The contingent liability of the withdrawing depository shall continue for twelve months after the certification described above has been received by the State Treasurer, unless the withdrawal is made within 90 days of an institution acquiring a failed institution. The withdrawing QPD is responsible for notifying all its public depositors that it is withdrawing from the SAFE Program. When all public deposit accounts have been closed, a written certification adopted by the withdrawing depository's Chairman of the Board, Chief Executive Officer or President shall be provided to the State Treasurer stating that the institution no longer holds any public deposits and will not receive or retain any public deposits until it again becomes a QPD. Upon receipt of this certification, and at the request of the depository, the State Treasurer shall release pledged collateral after the effective date of withdrawal.

When a non-qualified depository acquires, merges, consolidates, or undertakes other similar transactions with a QPD, the resulting institution automatically becomes a QPD for ninety calendar days and assumes the contingent liability, collateral agreement, required collateral, and reporting requirements of the approved QPD. Should the resulting institution desire to become a QPD, it must meet the same requirements as described above for becoming a QPD in the SAFE Program within ninety calendar days. If the resulting institution chooses not to become a QPD, the same procedures as those described above for voluntary withdrawal shall be followed.

A QPD may maintain active status in the SAFE Program without holding public deposits. This will allow the depository to have the necessary paperwork in good order to accept public deposits upon request. The contingent liability, collateral agreement, and reporting requirements shall remain in effect. Also, the QPD must continue to maintain the minimum amount of \$100,000 of eligible securities pledged as collateral.

A collateral agreement is a written certified agreement executed between a QPD, its designated custodian, and the State Treasurer, wherein a QPD agrees to deliver securities qualified as eligible collateral to a custodian that agrees to safe keep such securities for the primary benefit of the State Treasurer.

A custodian is any bank, savings association, or trust company that meets the following requirements:

- Is organized and existing under the laws of the State of Alabama, any other state of the United States, or the United States.
- Has executed a Collateral Agreement in the format prescribed by the SAFE Board of Directors.
- Agrees to be subject to the jurisdiction of the courts of the State of Alabama, or of courts of the United States that are located within this State, for the purpose of any litigation arising.
- Has been approved by the State Treasurer to act as a custodian.
- Upon request from the State Treasurer, provides a confirmation of securities pledged to the State Treasurer by each Qualified Public Depository that includes the following information:
 - a) Full name and location of Qualified Public Depository.
 - b) Full description of securities pledged to the State Treasurer.
 - c) The signature, printed name, title, address, and telephone number of the person authorized on behalf of the custodian to prepare and validate the confirmation.
- Agrees to provide financial information to the State Treasurer upon request.
- Provides immediate notification to SAFE when any pledged mortgage backed security, CMO, or similar security is paid off.
- If a trust company, agrees to the following:
 - a) Provide a notice of good standing from its charter authority;
 - b) Hold and maintain \$1 million in tangible capital;
 - c) Submit regulatory financial reports on a quarterly basis;
 - d) Submit its annual Service Auditor's Report, and the results be acceptable to SAFE;
 - e) Notify Treasurer of any and all public enforcement actions immediately.

Financial institutions, which exercise trust powers, may hold collateral (other than Letters of Credit and the proceeds from any draws on any Letters of Credit) as security for deposits situated in that financial institution through its trust division.

A QPD-designated custodian or State Treasurer-designated custodian may be assessed an administrative penalty or disqualified if the custodian does one or more of the following:

- Fails to execute a Collateral Agreement.
- Releases pledged collateral without the State Treasurer's approval.
- Fails to provide complete confirmations of pledged collateral within seven business days.
- Fails to honor a request for reports or an examination of funds or securities.
- Fails to pay an administrative penalty.

Securities designated as eligible collateral for the SAFE Program are defined by the *Code of Alabama 1975*, Section 41-14A-2(9), as any of the types of securities or other investment instruments designated as being eligible collateral for state depositories in the *Code of Alabama 1975*, Section 41-14-35. Eligible collateral includes the following:

- Direct obligations of the State of Alabama or any other state of the United States.
- Direct obligations of the United States government.
- Obligations that are fully guaranteed as to payment of principal and interest by the United States.
- Obligations issued or guaranteed by any agency or instrumentality of the United States, including without limitation:
 - Government National Mortgage Association
 - Federal Farm Credit Bank
 - Federal Housing Finance Board
 - Federal Home Loan Bank
- Debt obligations, including, without limitation, participation certificates, of Federal Home Loan Mortgage Corporation or of Federal National Mortgage Corporation.
- Irrevocable, unconditional, letters of credit issued by any Federal Home Loan Bank.
- Direct obligations of any agency, political subdivision, or instrumentality of the State of Alabama, including, without limitation, any direct obligation of any county or municipality, which carries the full faith and credit of the issuing entity.
- General obligations of any county, municipality, agency, political subdivision, or instrumentality of any of the various other states of the United States with a rating of “A2” or better by Moody’s or a rating of “A” or better by Standard and Poor’s or Fitch Ratings.
- Any revenue obligation issued by the State of Alabama or any agency, political subdivision, instrumentality, county, municipality, or district thereof, or by any authority, board, or public corporation of the State of Alabama, or any such agency, political subdivision, instrumentality, county, municipality, or district, payable from designated taxes or from revenues or other limited or special sources of funds derived from any public facility or project which either (1) has a current rating of “A2” or better by Moody’s or “A” or better by Standard and Poor’s or Fitch Ratings or (2) has an average annual debt service coverage of at least two times.
- Mortgage-Backed Securities (MBSs), Collateralized-Mortgage Obligations (CMOs), Asset-Backed Securities (ABSs) (excluding MBSs, CMOs, and ABSs constituting inverse floaters, interest-only strips, principal-only strips or similar leveraged derivative instruments) issued by any public entity or organization, quasi-public entity or organization or private entity or organization, provided that, except in the case of MBSs, CMOs, and ABSs issued by an agency or instrumentality of the United States or any federally chartered or sponsored quasi-public entity or organization (including the Federal National Mortgage Corporation or Federal Home Loan Mortgage Corporation) such securities or obligations shall have a current rating of “Aaa” by Moody’s or “AAA” by Standard and Poor’s or Fitch Ratings.

Letters of Credit may be pledged as eligible collateral to cover public deposits. The procedures for using this as collateral are as follows:

- 1) The use of LOC by a QPD will be subject to the provisions and requirements of the SAFE Program Act, Rules and any additional requirements, conditions and limitations prescribed by the Treasurer.
- 2) Each LOC issued and delivered to the Treasurer shall;
 - a) Be irrevocable and unconditional;
 - b) Provide that the issuer of the letter of credit shall notify the Treasurer in writing not less than 60 calendar days prior to the final maturity date that the issuer has elected not to extend the expiration date for an additional period;
 - c) Permit multiple and partial drawings; and
 - d) Shall otherwise be in a standard FHLB form approved by the Treasurer.
 - e) The Treasurer may obtain certificates of incumbency from each LOC issuer periodically to verify the signature authority of officers who execute LOC.
- 3) Changes in the terms of a current LOC shall be made in the form of an amendment. All amendment decreases to the LOC amount shall be subject to the prior written approval or disapproval of the Treasurer. No amendment decrease shall be effective until written approval by the Treasurer has been obtained. The QPD shall be responsible to make appropriate application to the LOC issuer for any amendment approved by the Treasurer. Amendments will be effective once received from LOC issuer and attached to the original LOC.
- 4) The Treasurer shall have the unconditional right, without further proceedings and without notice of any kind to the QPD or any other person (other than the LOC issuer) to draw, in whole or in part, and in either single or multiple drafts, on any or all LOC held by the Treasurer at any time prior to the expiration of the LOC if the Treasurer, in his or her discretion, determines that it is necessary to draw on the LOC, including by way of example but not limited to, upon any of the following:
 - a) Any Default or Insolvency, as defined in Section 41-14A-2(7) of the *Code of Alabama 1975*, shall occur with respect to the QPD;
 - b) The QPD violates or fails to comply with the QPD's Contingent Liability Agreement, the Collateral Agreement or any other agreement or instrument executed by the QPD in connection with the SAFE Program;
 - c) There shall occur any event or circumstance which constitutes grounds for any involuntary withdrawal or suspension of the QPD from the SAFE Program or for the imposition of administrative penalties against the QPD;
 - d) The QPD fails to have on deposit with the Treasurer Required Collateral;
 - e) The Treasurer receives notification from the LOC issuer that it will not extend the expiration date for an additional term as provided in the initial LOC; or
 - f) The QPD fails to provide to the Treasurer, not less than 30 days prior to the final expiration date, (a) an amendment to the existing Letter of Credit extending its expiration date, (b) notification of application for a new LOC or (c) other Eligible Collateral.

- 5) No substitution of any LOC for other Eligible Collateral shall be effective until the Treasurer has received the properly executed LOC or approved amendment to an existing LOC. No substitution of any Eligible Collateral for any LOC shall be effective until Custodian has acknowledged to the Treasurer in writing the Custodian's receipt of the substitute collateral.

The eligible collateral pledged, other than Letters of Credit and cash proceeds from any drawing on a Letter of Credit, should be valued by the QPD by using a nationally recognized source and by using the market price, quality ratings, and pay-down factors on or after the 25th calendar day in the reported month and before the 1st calendar day of the following month.

It is the public depositor's responsibility to ensure that their deposits meet the definition of a public deposit and that their deposits are placed in a QPD. The public depositor is also responsible for verifying deposit account information as of the last business day of September from each QPD with which the public depositor maintains public deposit accounts.

As discussed above, one requirement for becoming a QPD is the execution of a contingent liability agreement that has been approved by the QPD's Board of Directors or other governing body. Based on this agreement, every QPD that is solvent shall guarantee public depositors against loss caused by the default or insolvency of other QPDs. In the event the State Treasurer becomes aware that a default or insolvency has occurred, the State Treasurer will implement the procedures described in the following paragraphs.

The State Treasurer will first determine known public depositors from the QPD's records. Then, the State Treasurer will obtain information from the Superintendent of Banks of the State Banking Department or the receiver of the QPD in default, in order to ascertain the amount of funds of each public depositor on deposit at such depository and the amount of deposit insurance applicable to such deposits. The State Treasurer shall then provide notice of the default or insolvency to the identified public depositors. This first notice will be provided by certified or registered mail to the last address for each public depositor and will specify that public depositors having claims or demands against the funds occasioned by the default or insolvency must file their claims with the State Treasurer within 120 days after the date of the notice. If the known public depositor has not filed a claim with the State Treasurer within 45 days of the first notice, then a second notice is mailed by certified or registered mail. This second notice will be mailed by the State Treasurer not more than 55 days after the date of the first notice. Contemporaneously with the mailing of the first and second notices, the State Treasurer will provide to the judge of probate of each county of the state and publish in a newspaper of general circulation a notice, identifying the defaulted or insolvent QPD, the date before which public depositors must file claims with the State Treasurer, and requesting that the judge of probate provide copies of such notices to each covered public entity within the judge of probate's county. The judge of probate shall endeavor to provide such copies, but in no event shall the judge of probate be liable for the failure of any covered entity to receive said copies.

The potential loss to public depositors will be calculated by compiling claims received from public depositors. These claims will be confirmed by information received from the Superintendent of Banks or the receiver of the QPD in default.

The loss to public depositors will be satisfied, insofar as possible, first through any applicable deposit insurance and then through the sale of securities pledged by the defaulting QPD. If the loss to public depositors is not covered by these two means, coverage of the remaining loss will be provided by assessment against the other QPDs following the expiration of the 120-day period for the filing of claims by public depositors. However, if the sale of securities cannot be accomplished within seven days following the expiration of the 120-day period for the filing of claims by public depositors, the State Treasurer may proceed with the assessment of QPDs.

The assessment for each QPD will be determined by multiplying the total amount of any remaining loss to all public depositors by a percentage which represents the average monthly balance of public deposits held by each QPD during the previous twelve months or, in the event a QPD has participated in the program for less than twelve months, the QPD's average monthly balance for the month or months during which the QPD held any public deposits, divided by the total average monthly balances of public deposits held by all QPDs, excluding those of the defaulting or insolvent depository, during the same period.

Each QPD will pay its assessment to the State Treasurer for deposit to the Loss Payment Fund within seven business days after it receives notice of the assessment. If a QPD fails to pay its assessment when due, then the State Treasurer will satisfy the assessment by selling securities pledged by that QPD.

For the purposes of the SAFE Program, the term "losses" includes losses of interest or other accumulations to the public depositor as a result of penalties for early withdrawal required by applicable federal laws or regulations because of suspension or disqualification of a QPD by the State Treasurer under the authority granted in Title 41, Chapter 14A of the *Code of Alabama 1975*, or because of withdrawal from the SAFE Program in accordance with rules or regulations adopted by the SAFE Board of Directors pursuant to Chapter 14A. In that event, the State Treasurer is authorized to assess against the suspended, disqualified, or withdrawing public depository, in addition to any amount authorized by any other provisions of the SAFE Program, an administrative penalty equal to the amount of the early withdrawal penalty and to pay that amount over to the public depositor as reimbursement for such loss.

Public depositors receiving payment under the provisions of the SAFE Program must assign to the Loss Payment Fund any interest they may have in funds that may subsequently be made available to the QPD in default. If the QPD in default or its receiver provides the funds to the State Treasurer for the account of the Loss Payment Fund, then the State Treasurer will distribute the funds, plus all accrued interest which has accumulated from the investment of the funds, if any, to the depositories which paid assessments on the same pro rata basis as the assessments were paid. No bank failures occurred during our examination period.

Board Members and Officials
October 1, 2016 through September 30, 2019

Board Members		Term Expires
Hon. John McMillan (1)	Chairman	2023
Hon. Young Boozer (1)	Chairman	2019
Hon. Mike Hill (2)	Ex-Officio	Indefinite
Hon. Mark Snead	Member	2023
Hon. John Riley	Member	2022
Hon Michael Morgan	Member	2021
Hon. Rod Morgan	Member	2021
Hon. John Ramage	Member	2020
Hon. Penny Smith	Member	2020
Hon. Kimberlea Wilson	Member	2019
Hon. Ken Givens	Member	2018
Hon. Lucinda Cockrell	Member	2017

Officials

Hon. John McMillan, State Treasurer	Office of State Treasurer State Capitol 600 Dexter Avenue, S-106 Montgomery, AL 36104 (334) 242-7500 www.treasury.alabama.gov	
Hon. Young Boozer, State Treasurer		2019

(1) Ex-Officio
(2) Non-Voting Member