

Legislative Analysis



CDARS INVESTMENTS: INCLUDE CREDIT UNIONS

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Senate Bill 195

Sponsor: Sen. Tony Stamas

House Committee: Banking and Financial Services

Senate Committee: Banking and Financial Institutions

Complete to 4-1-09

A SUMMARY OF SENATE BILL 195 AS PASSED BY THE SENATE 2-17-09

Senate Bill 195 would amend Public Act 20 of 1943 (MCL 129.91) to allow public corporations to invest in certificates of deposit issued by insured credit unions that participate in programs such as the Certificate of Deposit Account Registry Service program, also known as CDARS. The term "public corporation" means a county, city, village, township, port district, drainage district, special assessment district, or metropolitan district, or a board, commission, or another statutorily-created authority or agency.

The bill is identical to House Bill 4398, which was passed recently by the House. Another bill, House Bill 4397, made similar amendments to the Revised School Code to allow school districts and intermediate school districts to make the same types of investments, and has been passed by the Senate.

Currently, school districts, intermediate school districts, and public corporations have authority to invest certain funds as specified in statute. One lawful investment option is to invest funds in certificates of deposits (CDs) issued by financial institutions that maintain a principal office or a branch office in Michigan. Public Acts 307 and 308 of 2008 allowed school districts, intermediate school districts, and public corporations to invest funds in certificates of deposit with financial institutions that participate in programs such as the Certificate of Deposit Account Registry Service program (CDARS).

[The CDARS system enables investors wishing to invest in CDs through a single bank and still have the total amount of the investment insured through the FDIC, even if the investment exceeded the \$250,000 cap. The program spreads an investor's funds among as many member institutions as necessary so that no more than \$250,000 is invested in any single institution -- thus allowing the investment to be fully covered by the FDIC insurance.]

House Bill 4397 and Senate Bill 195 would allow these entities to also invest in certificates of deposit issued by insured credit unions. For more information on CDARS and the types of investments the bills would allow, see the House Fiscal Agency's analysis of House Bills 4397 and 4398 dated 3-16-09.

FISCAL IMPACT:

The bill would have no fiscal impact on state revenue or expenditures. Additionally, the bills would have no immediate fiscal impact on local units of government, as credit unions currently are not participating members of the Certificate of Deposit Account Registry Service (CDARS) program sponsored by the Promontory Interfinancial Network. The CDARS program sponsored by Promontory is, apparently, the only such program currently operating, and membership is currently limited to FDIC-insured financial institutions (banks).

However, to the extent that CDARS is expanded in the future to include credit unions or a similar program involving credit unions is established, the bill could have a positive fiscal impact on local units of government. Allowing local governments to invest in a CDARS-like program involving credit unions (separately from, or together with, other federally-insured financial institutions) would increase their investment flexibility and avoid the potential administrative costs of splitting investments among multiple institutions, while still insuring their investment through the NCUA.

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