



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 583 (as introduced 5-19-09)
Sponsor: Senator Tony Stamas
Committee: Banking and Financial Institutions

Date Completed: 5-26-09

CONTENT

The bill would amend the Community College Act to allow the treasurer of a community college district to invest certain funds of the district in certificates of deposit (CDs) with a financial institution if that institution arranged for the funds to be invested in CDs in one or more insured depository institutions, the full amount of the principal and interest of each CD were insured by an agency of the United States, and other conditions were met.

The Act permits a community college district treasurer, with the authorization of the board of trustees, to invest debt retirement funds, building and site funds, building and site sinking funds, or general funds of the district. The investment of those funds is restricted to the following:

- Bonds, bills, or notes of the United States or obligations of this State.
- Negotiable certificates of deposit, savings accounts, or other interest-earning deposit accounts of a financial institution.
- Bankers' acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation (FDIC).
- Commercial paper supported by an irrevocable letter of credit issued by a bank that is a member of the FDIC.
- Commercial paper of corporations rated prime by at least one of the standard rating services.
- Mutual funds, trusts, or investment pools composed entirely of instruments that are eligible collateral.
- Repurchase agreements against eligible collateral, whose market value must be maintained during the life of the agreements at levels equal to or greater than the amounts advanced.
- Investment pools, as authorized by the Surplus Funds Investment Pool Act, composed entirely of instruments that are legal for direct investment by a community college.

The bill also would permit the treasurer of a community college district to invest those funds in certificates of deposit issued in accordance with the following conditions:

- The funds initially were invested through a financial institution that was not ineligible to be a depository of surplus funds belonging to the State under Section 6 of Public Act 105 of 1855 (described in **BACKGROUND**, below).

- The financial institution arranged for the investment of the funds in CDs in one or more insured depository institutions (i.e., a bank or savings institution whose deposits are insured by the FDIC), for the account of the community college.
- The full amount of the principal and any accrued interest of each CD was insured by an agency of the United States.
- The financial institution acted as custodian for the community college district with respect to each CD.
- At the time that the funds were deposited and the CDs were issued, the financial institution received an amount of deposits from customers of other insured depository institutions equal to or greater than the amount of the funds initially invested by the community college district through the financial institution.

MCL 389.142

BACKGROUND

Federal Deposit Insurance Corporation

The FDIC is an independent agency of the Federal government created to insure bank deposits against losses in case of a bank failure. The program is funded through premiums paid by participating financial institutions, and depositors are insured up to a maximum amount. On October 3, 2008, the FDIC increased the maximum insured amount to \$250,000 per depositor. The FDIC will reinstate the previous maximum of \$100,000 on January 1, 2014.

Surplus State Funds

Public Act 105 of 1855 governs the deposit of surplus State funds. Under Section 6 of the Act, if a financial institution is found to have engaged in an illegal discriminatory lending practice related to a mortgage loan or home improvement loan application, the Commissioner of Financial and Insurance Regulation may prohibit additional surplus funds belonging to the State from being deposited in that financial institution, based on the nature of the violation, the actions taken to prevent future violations, and the institutions record in complying with laws prohibiting such discriminatory practices.

Legislative Analyst: Curtis Walker

FISCAL IMPACT

The bill would result in additional FDIC coverage by allowing community college districts to use the certificate of deposit account registry service program as an investment tool.

Fiscal Analyst: Bill Bowerman

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.