Office of the Treasurer

State of Connecticut

Connecticut's Community Bank and Credit Union Initiative Guidelines

October 31, 2024

The Treasurer's Community Bank and Credit Union Initiative was 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. The program is designed to make an investment in a financial institution which engages in originating 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 the Maximum Total Asset Amount and domiciled in Connecticut, would compete for a targeted pool of investments. Beginning September 30, 2024, the maximum total asset amount is $2 billion adjusted annually to reflect any increase in total loans of eligible entities ("Maximum Total Asset Amount").

The Treasurer's Office is pursuing this initiative in recognition of the valuable role 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 help to increase overall state economic development and tax revenues.

Connecticut General Statute 3-24k(a) allows the Treasurer to establish a program for the investment of up to $300 million with community banks and community credit unions. The program will be administered according to the following guidelines:

Eligibility

1) By statute, financial institutions must meet both of the following conditions to qualify for the program:
   - Be a bank domiciled in Connecticut with assets not exceeding the Maximum Total Asset Amount or be a community credit union, as defined in CGS 36a-37, with assets not exceeding the Maximum Total Asset Amount;

- 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).

2) Each bank participating in the program must be categorized as “Well Capitalized” or “Adequately Capitalized” by such bank’s primary federal regulator.

3) Each State chartered credit union participating in the program must be categorized as “Well Capitalized” or “Adequately Capitalized” by applicable state and federal law.

If a financial institution’s capital categorization were to fall during the term of the investment, it would be required to fully redeem the investment, or it would need to procure insurance or provide collateral, in each case subject to approval by the State, and as governed by the requirements of State law.

Security Agreements

Financial institutions wishing to participate in the program will need to execute a security agreement with the Treasurer’s Office before they bid on any investments. The Security Agreement contains two options with respect to the custodian for the Eligible Collateral. The first option in the Security Agreement is for the Federal Reserve Bank/Federal Home Loan Bank to act as the custodian of the Eligible Collateral. The second option is for the bank or credit union to use a designated party acting as custodian of the Eligible Collateral. These agreements are required by federal law to make the state’s collateralization program enforceable. The Treasurer’s Office and the bank or credit union will also execute an Investment Agreement, which sets for the terms and conditions for investment.

Banks participating in the Community Banking Initiative program have the same Collateral Requirements as all other public deposits with banks:

> Pursuant to Part III of Chapter 665a of the Connecticut General Statutes and in order to secure the Public Depositor's Public Deposits, the Bank hereby pledges, assigns, transfers and grants to the Commissioner and the Public Depositor a perfected first priority security interest in such amounts of the Eligible Collateral described in Exhibit A to the Security Agreement, as is necessary for the Eligible Collateral pledged hereunder to have a minimum market value in relation to the Public Depositor's Public Deposits, plus accrued interest, to meet the collateral ratios and other requirements described in Conn. Gen. Stat. § 36a-333(a). If at any time the ratio of the market value of the Eligible Collateral to the Public Depositor's Public Deposits, plus accrued interest, is less than required by Conn. Gen. Stat. § 36a-333(a), the Bank shall immediately make such additions to the Eligible Collateral in such amounts such that the ratio of the market value of the Eligible Collateral to the Public Depositor's Public Deposits, plus accrued interest, shall be at least equal to that required by Conn. Gen. Stat. § 36a-333(a). Further, if at any time either the Commissioner or Public Depositor, each in its sole discretion, determines that the Eligible Collateral is insufficient to secure the Public Depositor’s

Public Deposits, then the Commissioner or Public Depositor, as applicable, may require the Bank to pledge additional Eligible Collateral as permitted by Conn. Gen. Stat. 36a-333(a). Such additions to the Eligible Collateral shall constitute an assignment, transfer, pledge and grant to the Commissioner and the Public Depositor of a security interest in such additional Eligible Collateral pursuant to the Act. The execution by the Bank of the Trust Agreement shall in no way relieve it of any of its duties or obligations hereunder or under the Act.

The pledge of Eligible Collateral by the Bank shall be in addition to, and shall in no way eliminate or diminish any insurance coverage to which the State Public Depositor may be entitled under the rules and regulations of the Federal Deposit Insurance Corporation or any private insurance carried by the Bank for the purpose of protecting the claims and rights of its depositors.; provided that, pursuant to Conn. Gen. Stat. § 36a-337, in lieu of furnishing Eligible Collateral required by Section 1 of this Agreement, the principal amount of the Public Deposits plus accrued interest may be secured by (i) a private insurance policy issued by a AAA-rated insurance company to the extent permitted by Conn. Gen. Stat. § 36a-337(b) and/or (ii) an irrevocable letter of credit issued by a federal home loan bank meeting the requirements of § 36a-337(c), in each case subject to the approval of the Public Depositor.

Investments

Investments will be made in certificates of deposit with maturities ranging from three months to one year with the possibility of longer maturity with the approval of the Treasurer, or his designee. This deposit will be evidenced by confirmation email on the day of the auction, as well as by monthly statements confirming deposit details.

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. Such a put will be specified in advance of the execution of the deposit and will be included in details of the auction before bids are taken.

Investment Schedules

The Treasurer's Office will accept bids for investments once a month, typically on the first or second Thursday. The bid schedule will be placed on the Treasurer's website no later than 2 weeks before an auction, specifying the maximum bid amount for each time period, the auction date, the settle date, and the maturity dates. The Treasurer's Office will reserve the right to revise the schedule.

A sample bid schedule is shown below.

Maximum CD Amount	Bid Date	Settlement Date	Maturity Date

$5,000,000	August 3, 2023	August 4, 2023	November 3, 2023
$5,000,000	August 3, 2023	August 4, 2023	February 9, 2024
$5,000,000	August 3, 2023	August 4, 2023	May 3, 2024
$5,000,000	August 3, 2023	August 4, 2023	August 4, 2024

Investment Process

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

Rates for each investment received will be calculated by the Treasurer's Office and compared to a minimum acceptable rate, the previous day's Treasury bill yield for the same time period. Financial Institutions with the largest spread above the Treasury Bill yield are allocated/offered funds first, with allocations limited to maximum set by the Treasury for each time period and/or financial institution. The minimum acceptable rate will be the current market rate for a similar maturity U.S. Treasury bill. The Treasury will reject any bid below the minimum acceptable rate.

The Treasurer's Office will notify the appropriate bank or credit union by email regarding the bids that have been awarded. The bank or credit union will then reply as soon as possible, but no later than 1:00 pm, eastern time, on day of bid, with an emailed confirmation of CD trade. On the following day, the Treasurer's Office will wire funds to the bank or credit union.

Program Diversification

Using a risk-based approach to diversification, no single institution will be eligible to hold investments totaling more than $30 million, which is 10% of the current maximum program size of $300 million, after accounting for any investments scheduled to mature before delivery of new investments with that institution.

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.

Disclaimer

These guidelines have been prepared for guidance on Connecticut's Community Banking and Credit Union Initiative. Nothing in this document should be deemed to constitute investment, legal, tax, financial, or professional advice, and a participating bank will rely on its own experts in evaluating the program and program requirements.