

Collateralization Guidelines

Board Policy 305.1, adopted by the Board of Trustees in 1976 and revised in 2011, states that, “Any banks holding University funds on deposit shall furnish collateral for any deposits exceeding the maximum FDIC Insurance amount and applicable campus policies shall insure compliance with this requirement.” These procedures provide guidelines for implementing Board Policy 305.1 by the University of Arkansas, Fayetteville. The Office of Cash Management is responsible for insuring compliance with this policy.

1. This procedure applies to all cash funds, unrestricted or restricted, held under the authority of the Chief Fiscal Officer of the University of Arkansas, Fayetteville.
2. The total of all deposits in any financial institution by the University of Arkansas, Fayetteville in excess of the FDIC insured amount must be collateralized by:
 - a) Direct obligations of the United States Government;
 - b) Obligations of agencies and instrumentalities created by act of Congress and authorized thereby to issue securities or evidences of indebtedness;
 - c) General obligations of the states of the United States and of the political subdivision, municipalities, commonwealths, territories, or insular possessions thereof;
 - d) Prerefunded municipal bonds, the principal and interest of which are fully secured by the principal and interest of a direct obligation of the United States Government;

In the event of failure of a financial institution, the University shall have the right to offset any deposit losses against securities posted as collateral.

3. Any petty cash or revolving fund in excess of \$100,000 must be placed with the University of Arkansas, Fayetteville’s lead depository bank.
4. The total fair market value of the pledged securities must be at least 105% of the amount of cash fund deposits at the depository bank or financial institution that exceed FDIC coverage. The current market value of the collateral will be the basis for determining value.
5. All securities pledged must have a rating (by Moody’s or S&P) of Baa, or equivalent, or higher.
6. The securities must be held by a Federal Reserve Bank, a Federal Home Loan Bank or a banker’s bank that does not have common ownership with the pledging bank or financial institution. The University of Arkansas, Fayetteville would prefer the use of the Federal Reserve as custodian. If the depository bank selects another custodian, the University of

Arkansas, Fayetteville must be given 30 days notice and has the right of refusal. The custodian institution must be financially sound and not be under any material public enforcement action.

7. The custodian(s) of collateral pledged for the deposits of the University of Arkansas, Fayetteville must provide monthly reports showing the current market value of the collateral to the Chief Fiscal Officer of the University of Arkansas, Fayetteville, or their authorized designee.

The financial institution may substitute collateral only if the new collateral is of the same classification and risk rating of the collateral to be replaced. The new collateral must be of equal or greater value than the collateral being replaced. Collateral may only be released according to the terms of the custodial agreement, which shall include language that requires written authorization by the University of Arkansas, Fayetteville, and verification by the third party custodian.

8. Any proposed exceptions to this policy must be submitted in writing for review and approval by the Vice Chancellor for Finance and Administration.

Revised June 6, 2014

Revised July, 2002

Revised November 1, 2000

Revised June, 1997

Revised August 1, 1996

January 2, 1990