

Collateral Monitoring for the
Acceptance of Bonds Secured by
Government Obligations in Lieu of
Bonds with Sureties Under
31 CFR Part 225

Presented By

Department of the Treasury
–Financial Management Service
–Bureau of the Public Debt

The Federal Reserve Bank
of St. Louis

Roles and Responsibilities

**Bureau of the Public
Debt**

**Financial Management
Service**

◆ Acceptable Collateral
and Collateral
Valuation

◆ Collateral Policy

The Federal Reserve Bank of St. Louis

◆ Custodian

◆ Collateral Monitoring

Collateral Monitoring Under 31 CFR Part 225

Reasons For Changes To
Collateral Monitoring

Treasury's Fiscal Service Collateral Program
31 CFR Part 225
Collateral Issues and Guidance



Bureau of Public Debt Collateral Regulations

- 31 CFR Part 380 – Collateral Acceptability and Valuation

31 U.S.C. §9301

Eligibility for 31 CFR Part 225

Government obligation means a public debt obligation of the United States Government and an obligation whose principal and interest is unconditionally guaranteed by the Government.

31 U.S.C. §9303(a)(2)

Valuation for 31 CFR Part 225

The obligation shall be in an amount equal at par value to the amount of the required surety bond.

Eligible Collateral

31 CFR Part 225

- Treasury bills, notes, bonds, Inflation Indexed Notes, and Inflation Indexed Bonds.
- HUD Section 108 Government Guaranteed Notes and Section 108 Government Guaranteed Participation Certificates.
- Ginnie Mae GNMA I Mortgaged-Backed Securities, GNMA II Mortgaged Backed-Securities, Guaranteed Ginnie Mae Platinum Certificates, and Ginnie Mae Guaranteed REMIC Pass-Through Securities.

Eligible Collateral

31 CFR Part 225 continued

- FHA Debentures
- Small Business Administration SBIC Guaranteed Debenture Participation Certificates, U.S. Government Guaranteed Development Company Participation Certificates
- VA-Guaranteed REMIC Pass-Through Certificates.

The most up to date list is available at:

www.publicdebt.treas.gov



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- [Commercial Book-Entry System](#). Banks, brokers, and other

Savings Bonds Rates Through April 2003


EE Bonds 3.25%
I Bonds 4.08%

New rates will be posted May 1, 2003

T-Bill Investment Rate

Auction Results
28-day 1.161%
91-day 1.207%
182-day 1.265%

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Acceptance of Bonds Secured by Government Obligations in Lieu of Bonds with Sureties

31 CFR Part 225

- [Acceptable Collateral for 31 CFR Part 225 \(Circular 154\):](#) (download PDF format, file uploaded 8/10/00, file size 28 KB)
An updated list of collateral acceptable for pledging to programs governed by 31 CFR Part 225, including assigned values. Securities eligible for this program must be backed by an "unconditional guarantee" by the United States Government.
- [June 2001 Special Notice to Program Participants:](#) On June 14, 2001, Treasury issued this Special Notice as a reminder to 31 CFR Part 225 program participants that current federal statutes limit what is acceptable as collateral.

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SPECIAL NOTICE TO 31 CFR PART 225 PROGRAM PARTICIPANTS, INCLUDING FEDERAL AGENCIES AND BOND OFFICIALS June 2001

The Department of the Treasury is issuing this Special Notice regarding acceptable collateral held under 31 CFR Part 225 (formerly referred to as Treasury Circular 154) to secure obligations in lieu of a surety bond, or to secure deposits of bankrupt estates under the jurisdiction of the U.S. Trustees Office or a bankruptcy court or judge. Persons required by federal law to furnish an agency with a surety bond instead may provide Government obligations as collateral, as described in 31 CFR Part 225.

The purpose of this Special Notice is to remind program participants, including bond officials and federal agencies, that current Federal statutes limit what is acceptable as collateral. Currently, only securities that are public debt obligations of the United States Government whose principal and interest are unconditionally guaranteed by the United States Government are acceptable collateral for the Part 225 program. In effect, this statutory restriction limits collateral primarily to U.S. Treasury securities and a limited number of federal agency securities. Currently, zero-coupon securities such as U.S. Treasury STRIPS are not eligible. Program participants who have currently pledged ineligible securities under the Part 225 program must substitute them with eligible collateral.

For a more detailed list on what qualifies as acceptable collateral for the Part 225 program, please see Treasury's Bureau of the Public Debt website at <http://www.publicdebt.treas.gov/gsr/gsrctrl.htm>. Please reference this website periodically as it will always contain the most current lists of acceptable collateral for Treasury's Fiscal Service programs. A mailing list is available for automated e-mail updates.

Information on Treasury's collateral programs can be obtained from the Financial Management Service website at <http://www.fms.treas.gov/collateral> and also the Federal Reserve System's Financial Services website at <http://www.frb.services.org>. Inquiries may also be directed to the Federal Reserve System's TT&L National Customer Service Area at 1-888-568-7343 (press option 2 for Collateral Monitoring).

Treasury's Potential Legislative Changes for the Collateral Modernization Act

Contact Information

Government Securities Regulations Staff

Bureau of the Public Debt

U.S. Department of the Treasury

Phone: (202) 691-3632

Web Site: www.publicdebt.treas.gov

E-Mail: govsecreg@bpd.treas.gov



Collateral Monitoring for the
Acceptance of Bonds Secured by
Government Obligations in Lieu of
Bonds with Sureties Under
31 C.F.R. Part 225

National Customer Service Area (NCSA)

The Federal Reserve Bank of St. Louis

Collateral Monitoring 31CFR225

- Introduction
- Acceptable Collateral and Valuation
- FRB STL Treasury Relations Department
- Review Current Process
- TIP Overview
- Obligors Monitored
- Pledgor Security Accounts (PSA)

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Federal Reserve Bank of St. Louis*

Collateral Monitoring 31CFR225

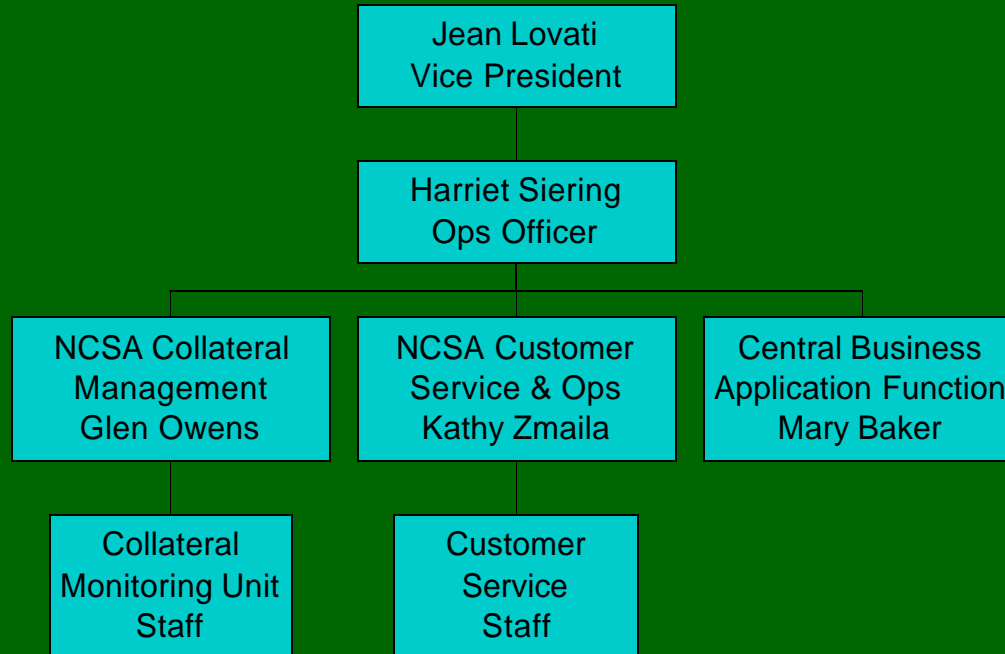
- Amounts To Be Collateralized (ATBC)
- Collateral Monitoring
- Collateral Deposits, Withdrawals, & Substitutions
- Maturing Collateral
- Implementation
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- Questions?

*National Customer Service Area
Federal Reserve Bank of St. Louis*

Collateral Monitoring 31CFR225

FRB STL Treasury Relations

Treasury Relations
Functional Organization Chart



Collateral Monitoring 31CFR225
NCSA Collateral Management Unit

Senior Manager Glen Owens 314-444-4772

Assistant Managers Karen Harper 314-444-8984
 Laura Groat 314-444-8797

Supervisors Leslie Green 314-444-4755
 Cynthia Hill 314-444-4754

Collateral Analyst Paul Voelker 314-444-4696
Analyst Natalie Taylor 314-444-8975

Collateral
Technicians 1-888-568-7343

Collateral Monitoring 31CFR225

NCSA Collateral Management Unit

- Provide Services to Treasury
 - Monitor collateral for Treasury accounts
 - Central contact for Treasury on TT&L and Federal agencies on other programs
 - Provide reporting to the Treasury and Federal Agencies
 - Perform eligibility analysis on Fedwire book-entry collateral deposits for Treasury collateral accounts

National Customer Service Area

Federal Reserve Bank of St. Louis

Collateral Monitoring 31CFR225

NCSA Collateral Management Unit

- Provide Services to Depositories
 - Notifications on collateral deficiencies and upcoming maturities
 - Treasury restricted security account set up
 - TT&L account maintenance
 - Merger Processing

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Review Current Process

- Two types of bond relationships
 - US Trustee/Bankruptcy Courts with depositaries
 - Other Government Agencies with non-depositaries
- Pledgor Security Account (PSA)
 - Combination of a FRB account (ABA) and a specific restricted security account
 - PSA relationships are established by the NCSA
 - Restricted Security Accounts are set up by the NCSA
- NCSA verifies eligibility of collateral deposits

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Review Current Process

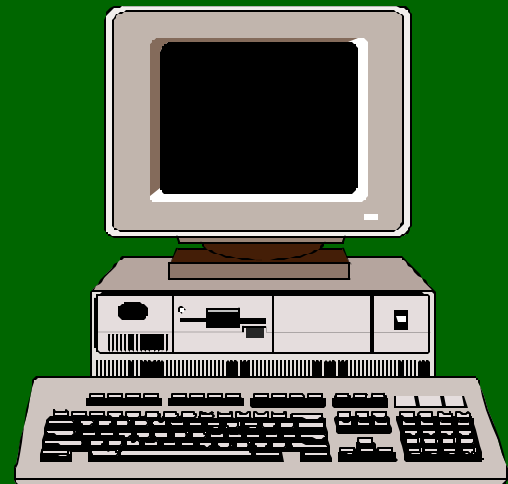
- Agency provides NCSA with written authorizations for collateral deposits, substitutions and withdrawals
- Agency monitors collateral levels in PSA
- Federal Reserve provides monthly Pledgee Holdings Statements to Agencies
- Agency works with Pledgor if PSA is undercollateralized.

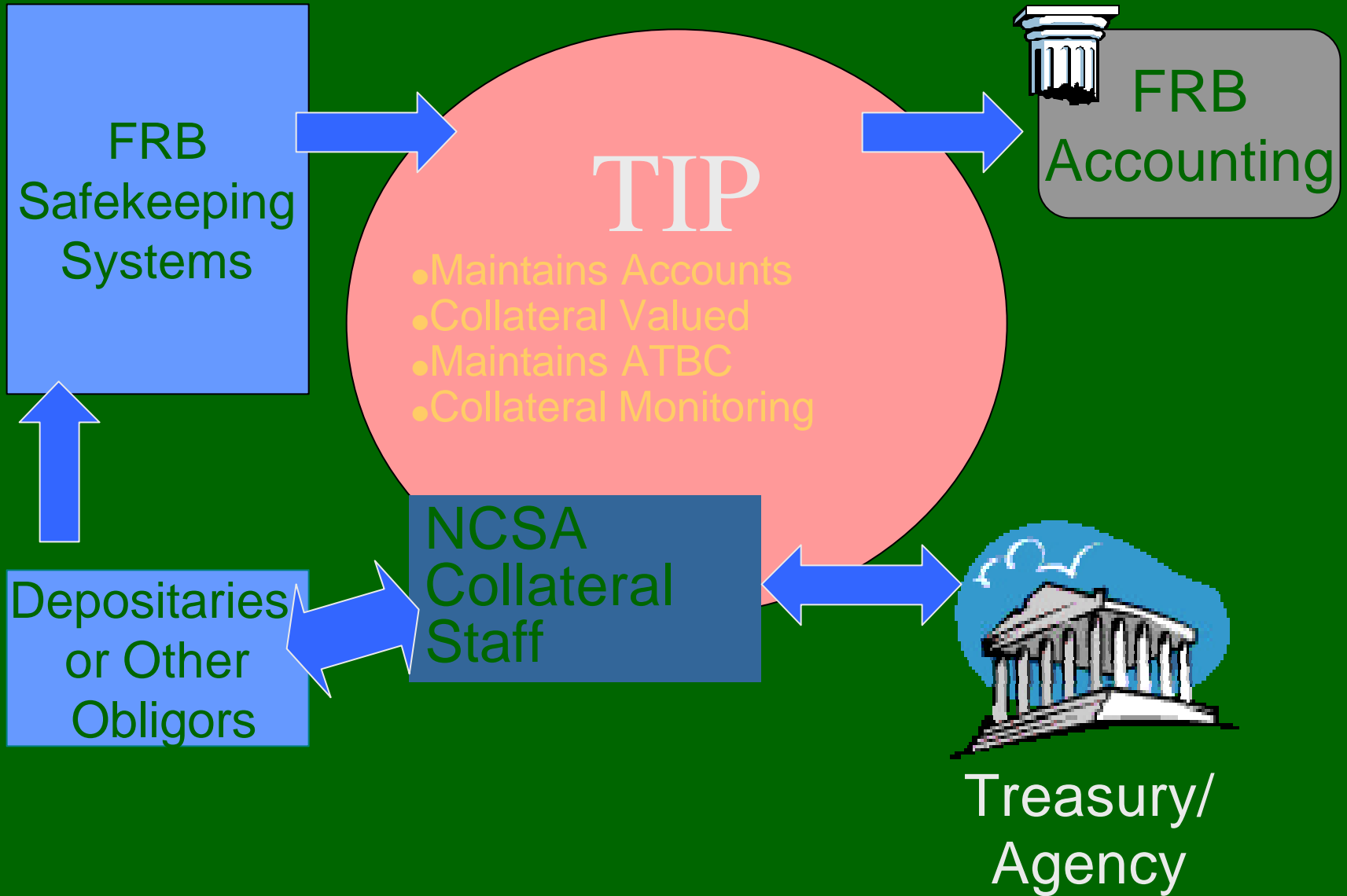
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Treasury Investment Program

TIP Application

- Federal Reserve developed and operated application for the Treasury
 - Processes Treasury Tax & Loan activity
 - Monitors collateral for Treasury collateral programs





Depositaries/Obligors Monitored

- Determination of bond requirements and supporting documentation maintained by the Government Agency.
- Any Obligor electing to utilize Government Obligations instead of surety bonds to secure a bond.

Pledgor Security Accounts

- TIP receives Pledgee name and address file updates from FRB Safekeeping Systems each morning
- NCSA may add or update a Pledgee's account in TIP
- NCSA will maintain a database containing names and contact phone numbers for all Depositories and Pledgees (Government Agencies)

Pledgee Security Accounts

- Government Agency Contacts
 - NCSA will work with Executive Office for US Trustees to maintain and periodically update the authorization lists for the US Trustees
 - Annually the NCSA will request updated authorization forms from other agencies
 - Agencies should supply any required updates to authorized individuals timely to NCSA
- Maintaining current Non-DI obligor contacts is the responsibility of the Agency

TIP 31CFR225 Accounts

Pledgee Security Accounts

- NCSA will continue to establish and set up restricted security accounts and pledgor account relationships.
- FRB Safekeeping Systems provide TIP with hourly aggregate par updates for each PSA
- TIP will monitor accounts based on the Amount to be Collateralized (ATBC) established for the account by the agency.

Amount To Be Collateralized

- Agency determines Amount To Be Collateralized (ATBC)
- Factors in determination of ATBC for a depository
 - Aggregate all accounts with FI
 - Determine applicable FDIC Insurance coverage
 - Net out any portion covered by surety bonds
 - Include any margin requirements

Amount To Be Collateralized

- Depositories/Obligors must pledge collateral with a **par value** equal to or greater than the ATBC
- Agency monitors bond requirements for depositaries/obligors and notifies NCSA of changes in the ATBC
 - Notification provided by submitting to the NCSA an executed **ATBC Change Form**

Collateral Monitoring

- TIP performs collateral monitoring;
 - Beginning of day, based on previous night's actual end of day FRB Safekeeping Systems update
 - Hourly, beginning at 10:50am ET based on FRB Safekeeping Systems update extracted on the hour
 - End of TIP collateral monitoring day, 5:50pm ET, based on FRB Safekeeping Systems update extracted at 5:00pm ET

Collateral Monitoring

- TIP will notify the NCSA of any detected deficiencies
- NCSA will perform inquiry in FRB Safekeeping Systems to verify current collateral value
- NCSA will contact the depository with a Collateral Deficiency and require deposit of additional collateral

Collateral Monitoring

- If ATBC is questioned by depositary, NCSA will contact Agency to confirm the requirement.
- For non-DI Obligors, NCSA will contact the Agency for instructions
- Pledgees will receive the TIP Monthly Collateral Monitoring Recap Report
- Activity Reports and Monthly Holdings Statements will continue to be provided

Collateral Deposits

- FRB Safekeeping Systems Deposit -
NCSA or the local FRB performs an eligibility review upon receipt of each security deposit transaction
 - If eligible, TIP will receive updated collateral value for PSA with next collateral update
 - If ineligible, depository/obligor will be contacted and required to pledge eligible collateral

Collateral Deposits

- Agency does not need to provide the NCSA with detailed written instructions for a deposit
 - Only submit **ATBC Change Form** with new requirement, if needed
 - For Non-DI obligors, additional information may be required to process deposit.
 - For Non-DI obligors, auction rollovers will still be offered

Collateral Withdrawals

- Each depositary withdrawal request must be approved by the NCSA
- If a withdrawal would cause a deficiency, the NCSA will
 - Inquire into FRB Safekeeping Systems to confirm that TIP has the latest collateral value
 - Contact the FI for a substitution or clarification
 - If needed, contact the Agency to confirm ATBC

Collateral Withdrawals

- Agency does not need to contact FRB with detailed withdrawal instructions, only provide ATBC Change Form, if needed
- NCSA will not release the collateral if a deficiency would occur
- If NCSA determines a deficiency will NOT occur, the withdrawal request will be released
- Agency is not contacted unless the NCSA requires verification of ATBC

Collateral Substitutions

- Agency does not need to provide the NCSA with detailed written instructions for a substitution.
- Substitutions will be permitted as long as par value is sufficient to cover ATBC
 - Except for substitutions involving Ginnie Maes

Collateral Substitutions

- Substitutions involving Ginnie Maes
 - Current principal value will be utilized by the Federal Reserve, acting as the custodian, for Ginnie Mae securities
 - Because par value may be different, the NCSA will contact the agency to request an adjustment to the ATBC
 - After NCSA receives the ATBC Form, the substitution will be processed

Maturing Collateral

- NCSA will contact depositaries (or Agency for non-DIs) with upcoming maturities to request a substitution
- On maturity date, NCSA approval is required for payment of proceeds
 - NCSA will perform inquiry to verify current collateral value
 - If there is no deficiency, NCSA will authorize release
 - If a deficiency would occur, the NCSA will contact the depositary about a substitution

Maturing Collateral

- If depositary questions ATBC, NCSA may contact Agency to confirm requirement
- Securities or Proceeds are NOT released until the projected deficiency is resolved

TIP 31CFR225 Accounts

Implementation

- Notification sent to depositories in early January
- Agencies will be contacted over the next two weeks by NCSA to confirm initial ATBC for all depositories/obligors
- Collateral Monitoring will be initiated on February 3, 2003

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TIP 31CFR225 Accounts

Summary

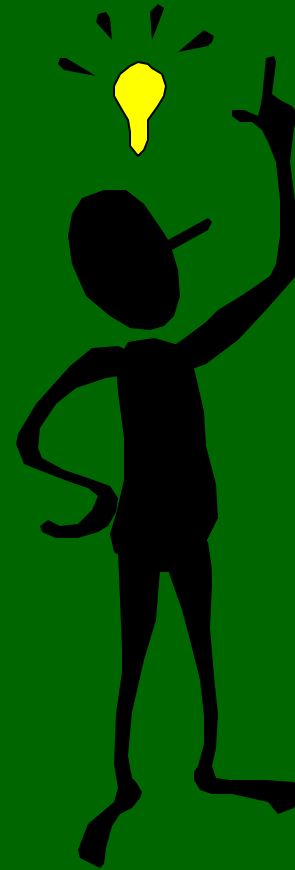
- TIP monitors accounts based on collateral valued at par compared to the ATBC provided by the Agency
- Collateral values are updated hourly throughout the TIP processing day
- NCSA will handle collateral transactions with the depositaries
- NCSA is central contact point for Agencies

*National Customer Service Area
Federal Reserve Bank of St. Louis*

TIP 31CFR225 Accounts

Summary

- Contact NCSA
1-888-568-7343
- FAX for ATBC Forms
1-314-444-8665
- Hours of Operation
8:00am to 6:00pm ET



Collateral Monitoring 31CFR225

Questions?



31 CFR Part 225 Program Contact Information

U.S Department of the Treasury

- Financial Management Service
www.fms.treas.gov/collateral
- Bureau of Public Debt
www.publicdebt.treas.gov

Federal Reserve System

- National Customer Service Area (NCSA)
www.frbservices.org
Phone: 1-888-568-7343