

Collateralization Guidelines

Board Policy 305.1, adopted by the Board of Trustees in 1976 and revised in 1990, states that, “The University administration is directed to require any banks holding University funds on deposit to furnish collateral for any deposits exceeding \$100,000.” 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 securities of the government of the United States, U.S. Government agency paper, general obligation bonds of political subdivisions of the State of Arkansas or indebtedness of the University of Arkansas. 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. Securities, bonds or indebtedness as defined in paragraph 2 must be posted as collateral for the University of Arkansas, Fayetteville in an amount equal to the rate on the following schedule times the amount deposited in excess of the FDIC insured balance. At least 70% of the collateral must be in U.S. Government direct obligations or guaranteed by the U.S. Government. Such collateral must be held by a third party custodian prior to the deposit of the funds.

COLLATERAL WEIGHTING SCALE

<u>Security</u>	<u>Rating (Moody's or S&P)</u>	<u>% of Market Value Credited</u>
U.S. Treasuries	AAA	97%
U.S. Government Agencies	AAA	97%
Arkansas Municipal Bonds		80%
U of A Bonds		97%

5. The current market value of the collateral will be the basis for determining value, except in the case of University of Arkansas indebtedness, which will be on the basis of face value.

6. Third party custodians 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.
7. 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 has the right of refusal. The custodian institution must be known to be financially sound.
8. Any exceptions to this policy must be submitted in writing for review by the Vice Chancellor for Finance and Administration in advance of the account establishment.

Revised July, 2002

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Revised June, 1997

Revised August 1, 1996

January 2, 1990