



Treasury Financial Manual

Chapter 3000

LIQUIDATION PROCEDURES FOR FAILED DEPOSITARIES

This chapter prescribes procedures for failed depositaries.

Section 3010—Scope and Applicability

This chapter outlines procedures for Federal Reserve Banks (FRBs) and branches to follow when a financial institution falls within the definition of “failed depositary” in section 3020 below.

Note that this only applies to financial institutions that:

- Are designated as a depositary and financial agent of the U.S. Government;
- Participate in a Treasury investment program; or
- Hold deposits of funds in trust pursuant to any other statute or regulation.

Also note that these procedures apply only to those financial institutions that will not reopen.

Section 3015—Authority

12 U.S.C. §391

Section 3020—Definition of Terms

ATBC (Amount to be Collateralized)—The amount of funds that must be collateralized, as determined by the pledgee and communicated to the pledgor via the Treasury Collateral Management and Monitoring (TCMM) system or by any other means.

CUSIP (Committee on Uniform Security Identification Procedures) Number—A unique nine-character alphanumeric code often used with the standard security description to identify a specific securities issue. The CUSIP root is the first five or six digits of the number. The remaining numbers identify the specific issue of the security. CUSIP is part of the American Bankers Association (ABA).

Custodian—A neutral third party authorized to hold collateral. For 31 CFR Part 225 collateral, a Federal Reserve Bank acts as custodian.

Depositary—A financial institution that has been designated as a depositary and financial agent of the U.S. Government, or which holds public or trust funds per any other statute or regulation, including 31 CFR Part 225.

Failed Depository—A depository that State or Federal regulatory authorities have declared insolvent; a depository for which a receiver, conservator, liquidator, or other similar officer has been appointed to terminate operations; or a depository that voluntarily, or by action of regulatory authorities, has taken action to terminate its operations.

Letter of Indemnification—A letter signed by the receiver and furnished to Treasury to secure future or unforeseen claims due the Federal Government by the failed depository (see sample letter in Appendix 1).

Obligor—A debtor, such as a person, firm, corporation, or government entity obligated by contract or other legal requirement to perform such actions as payment of notes or bonds.

Receiver—A regulatory authority such as the Federal Deposit Insurance Corporation (FDIC), appointed to take custody of and preserve the assets of a failed depository for benefit of creditors according to Federal and/or State statutes.

Section 3025—General Approach

FRBs will follow Federal Reserve procedures for liquidating collateral. If the failed bank is holding public funds, Treasury investment funds, or funds held in trust for a Government program, the FRB will communicate the failure as well as the relevant information about the collateral pledged, ATBC, Government agencies affected, etc. The Federal Reserve will first work with the receiver to ensure full satisfaction of Government claims against the depository. If liquidation is necessary, the Federal Reserve will forward the proceeds from the sale of securities to the Treasury for proper accounting of the relevant Government agencies' funds at risk.

Section 3030—Announcement of a Depository Failure

Upon receipt of official notification from regulatory authorities that a depository covered under this chapter is being closed or has otherwise failed, the FRB must send an email indicating the name, location, and status of the failed depository to the Bureau of the Fiscal Service (Fiscal Service) at BMT@fiscal.treasury.gov.

In addition to identifying the failed depository, the email should include the date of failure, the disposition of the failed depository (acquired by another institution or placed into receivership, etc.), the collateral program for which the depository holds collateral, the ATBC, and the amount of collateral pledged.

Section 3035—Subsequent Communication

The FRB must inform the Fiscal Service of the following information as soon as it becomes known to the FRB and periodically until full satisfaction is attained:

1. A list of obligations pledged by the failed depository;
2. Collateral programs under which those obligations are pledged;
3. Descriptive information about the obligation (CUSIP, issue and maturity date, value, etc.);
4. Location of the securities (book entry, borrower-in-custody, FRB vault, third party, etc.);
5. Closing balances of all public money and Government deposit accounts at the failed depository, contacting the receiver or applicable Federal agencies as needed to make this determination;
6. Steps taken to obtain from the receiver the full settlement of the Government's claims against the failed depository, or steps taken to possess or liquidate the collateral by the FRB, including the amount of funds still at risk; and
7. Final disposition in the form of an FRB letter of certification (see Appendix 2 for a sample

letter).

Section 3040—Additional Protections of the Government’s Interests

The FRB must act to protect the Government’s interests, performing all tasks needed to prevent loss of funds at risk held by failed depositaries. Examples of such required FRB actions are listed below:

1. Serving notice to all obligors to remit payments of principal and interest to the FRB;
2. Holding payments of principal and interest in a suspense account;
3. Obtaining a letter of indemnity from the receiver (see sample letter in Appendix 1); and/or
4. Preventing third party custodians from releasing collateral.

Contacts

Direct inquiries concerning this chapter to:

Department of the Treasury
Bureau of the Fiscal Service
Bank Policy and Oversight Division
3201 Pennsy Drive, Building E
Landover, MD 20785
Email: BMT@fiscal.treasury.gov
Telephone: 202-874-8471

APPENDICES LISTING

Appendix No.	Title
1.	Sample Letter of Indemnification (Receiver’s Letterhead)
2.	FRB Letter of Certification (FRB Letterhead)

APPENDIX NO. 1

SAMPLE LETTER OF INDEMNIFICATION

(Receiver's Letterhead)

Department of the Treasury
Bureau of the Fiscal Service
Bank Policy and Oversight Division
3201 Pennsy Drive, Building E

Landover, MD 20785
Email: BMT@fiscal.treasury.gov
Telephone: 202-874-8471

Subject: (Bank Name)
(City, State, Zip)
(ABA Number)
(List of Securities)

Dear (Addressee):

This is in reference to the release of the above captioned securities, pledged as collateral by (Bank Name). Pursuant to recent discussions with (Bank Official) of your office, this letter provides the Department of the Treasury with a binding commitment by (Receiver Name), as receiver of (Bank Name), to preserve future claims of the Treasury in order to obtain releases of the subject securities. The (Receiver Name) agrees to preserve the rights to any claim or the payment thereof that the Department of the Treasury or any Government department or agency may have against (Bank Name) pursuant to the provisions of 31 CFR Parts 202 and 225 or caused by unforeseen or unknown circumstances. In addition, the (Receiver Name) agrees to make available an amount required to settle all claims by the Department of the Treasury. It is the desire of the Government that the above commitment by the (Receiver name), as receiver of (Bank Name), will enable you to authorize the release of the subject securities. Please contact (Name of Government Official listed) when the release is authorized. The point of contact for this matter can be reached at (phone number).

Sincerely,

(Name and Title of Receiver Official)

APPENDIX NO. 2

FRB LETTER OF CERTIFICATION

(FRB's Letterhead)

Department of the Treasury
Bureau of the Fiscal Service
Bank Policy and Oversight Division
3201 Pennsy Drive, Building E
Landover, MD 20785
Email: BMT@fiscal.treasury.gov
Telephone: 202-874-8471

Subject: (Bank Name)
(City, State, Zip)
(ABA Number)

Dear (Addressee):

This letter is to certify that the balances in all known public money as well as all other money due to Treasury from (Bank Name), which was closed by the (Receiver) on (Date), have been credited in full to Treasury's account. The following is a summary of all account activity.

(Example of a summary)

(Date) Total Public Money Account Balances \$

(Detail by Agency)

(Date) Deposits Processed Subsequent to Closing \$

(Date) Total Ending Balance \$

(Date) Settlement paid by (Receiver) \$

(Date) Balance Outstanding \$

Par Value of Pledged Collateral \$

(Any additional information pertinent to the final settlement of the Government's Claim.)

Contingent upon receipt of a letter of indemnification from the (Receiver), there is no longer a requirement for collateral to be pledged to secure the accounts detailed above.

Sincerely,

(FRB Officer)