

Middletown Area School District
Certificate of Deposit Guidelines

Rules Applicable to All Certificates of Deposit

1. Compliance with Investment Policy. All provisions of the school district investment policy shall apply to certificates of deposit.
2. Yield Quotes. The school district should obtain yield quotes in terms of bond equivalent yield (BEY) in addition to simple interest yield. The BEY is the industry standard for comparing yields and should be used when evaluating investment options.
3. Information Contained in Certificates Held by District. If the district holds either the original certificate of deposit or a safekeeping certificate, the Investment Officer should review the certificate carefully to verify that it includes: (1) The name and address of the issuing financial institution. (2) A statement that the institution is federally insured. (3) A statement that the certificate evidences a deposit. (4) The correct deposit terms. (5) A statement that the deposit is registered in the name of the district as “owner.” (6) The district tax identification number. (7) No unacceptable liability disclaimers.
4. Custody of Certificate. A custodian is required unless the district holds either the original certificate of deposit or a satisfactory safekeeping certificate. If there is a custodian, the custodian should hold either the original certificate or a safekeeping certificate.
5. Custodian. If there is a custodian, the district should obtain information about the custodian per the school district investment policy, in order to ensure the custodian meets the requirements of the policy.
6. Custodian Agreement. If there is a custodian, there should be a written custodian agreement. The custodian agreement should generally include the following and other normal and appropriate terms: (1) The custodian shall send written confirmation to the district of completion of each transaction, confirming receipt from the financial institution in which the deposit is made of the certificate of deposit or a safekeeping certificate, and monthly reports to the district listing certificates held for the district and other appropriate information. The custodian shall also, by copy of the written confirmation to the district or otherwise, in writing advise the financial institution in which the deposit is made of the district’s ownership of the deposit. (2) The deposit must be titled by the issuer in a manner which provides “pass-through” federal insurance coverage in accordance with federal regulations. For example: “_____ Bank, as custodian for _____ District” or “_____ Bank, as custodian for customers.” (3) Records of the custodian must designate that the custodian is holding the deposit as custodian and that the district is the owner. (4) The custodian is prohibited from granting a security interest or other lien in or on the certificate of deposit. (5) The custodian shall remain fully responsible to the district for delivery or transfer to the district of the certificate or proceeds of the deposit. (6) The district at any time may withdraw the deposit, the certificate, or other evidence of the deposit from custody of the custodian. In such event, the certificate or other evidence of ownership of the deposit shall be retitled, as directed by the district, in the name of, and all funds shall be transferred to, the district or another custodian designated by the district. The financial institution in which the deposit is made shall be authorized to rely on a written request from the district for such withdrawal, transfer, or retitling. (7) The custodian’s internal and external auditors shall audit the custodian’s custodial account as part of a regular audit process. (8) If the custodian agreement is a blanket custodian agreement (set up for application to multiple investors), there should be a clause indicating the right of the district to make direct requests to and claims against the custodian, and the custodian should acknowledge in writing the custodian’s direct obligations to the district.

7. Amount of Deposits. Prior to making any investment, the district should determine whether it will have deposits with a single institution over federal insurance limits. As provided in the investment policy, different criteria and screening procedures may apply depending whether deposits are insured or uninsured.
8. Disclosures. All depository institutions and brokers shall be required to disclose in writing fees and relationships per section 14(b) of the school district's investment policy.

Rules Applicable to Deposits of \$100,000 or Less

9. Screening Procedure. As provided in the investment policy, the district will either limit deposits of \$100,000 or less to institutions qualifying for uninsured deposits, or alternatively will establish less stringent minimum qualification criteria for depository institutions in which deposits of \$100,000 or less are made, and a screening method for ensuring compliance with the criteria. The district minimum qualification criteria apply whether or not deposits are brokered. For brokered certificates of deposit, the district may rely on the broker's screening procedure if the Investment Officer determines the procedure is adequate.
10. Federal Insurance Verification. If not arranged through a broker, the district shall verify that the financial institution in which any deposit is made is federally insured (information available on FDIC and other agency websites).

Rules Applicable to Deposits over \$100,000

11. Pennsylvania Bank. Investments over \$100,000 should generally be made only with financial institutions with offices located in Pennsylvania, because of the difficulty of obtaining appropriate pooled collateral with non-Pennsylvania financial institutions.
12. Screening Procedure. The district will obtain information about any financial institution in which deposits are made, per the school district investment policy, in order to ensure the financial institution meets the requirements of the policy.
13. Federal Insurance Verification. The district shall verify that the financial institution in which any deposit is made is federally insured (information available on FDIC and other agency websites).
14. Collateral. The district will obtain either pooled or specific collateral or an acceptable surety bond, in all cases per the school district investment policy.

Rules Applicable to Brokered Certificates of Deposit

15. Brokered Certificate of Deposit. A "brokered certificate of deposit" is a certificate of deposit purchased through an entity engaged in the business of either placing or listing for placement bank deposits. Special caution is required for investment in brokered deposits.
16. Review and Selection of Broker. Prior to engaging in business with any broker, the district should conduct a thorough investigation of the broker, including obtaining information about the broker per the school district investment policy, in order to ensure the broker meets the requirements of the policy. In addition to the information required for all brokers under the investment policy, the district should require the broker to submit:
 - (1) Information concerning the broker's internal and external audit procedures applicable to brokered certificate of deposits.
 - (2) Information on the broker's screening procedure for screening certificate of deposit issuers (including proof that the issuer's deposits are federally insured;

that the issuer is “well capitalized,” or “adequately capitalized” with an appropriate waiver within the meaning of the federal regulations on brokered deposits; and that the issuer meets any other minimum qualification criteria established by the broker or the district).

- (3) a statement that the broker has read, understands and agrees to comply with the school district investment policy, and with the district’s minimum qualification criteria for depository institutions.
17. Custodian Required. For brokered certificates of deposit, a custodian will generally be required. The custodian requirement may be waived if the district holds either the original certificate of deposit or a satisfactory safekeeping certificate.
18. Exchange of Money. The school district will generally wire money to the financial institution providing the certificate of deposit, or to the custodian to wire to the financial institution providing the certificate of deposit. Money will generally not be wired to a brokerage firm.
19. Confirmations. The school district will generally require written documentation of each transaction in the form of confirmations from the broker, and also from the custodian or the financial institution in which the deposit is made. In addition, the district should establish a procedure by which the district (or its auditor) independently calls or writes a selected number of issuers according to an established sampling method to verify the issuance of certificates.
20. Broker Compensation. A broker will be required to state at the time of each proposed transaction all fees or other compensation to be paid by the school district or the financial institution in which the deposit is made, and the manner of payment of the fees or other compensation. A broker will be required to confirm the fees in writing as part of the transaction confirmation.
21. Federal Insurance Verification. If certificates of deposit are purchased through a broker, the district shall require the broker to confirm in writing with each purchase confirmation that the institution in which the deposit is made is federally insured (including identifying insurance number), and in addition the district shall establish a procedure by which the district (or its auditor) independently verifies insurance of all financial institutions or of a substantial number of financial institutions according to an established sampling method (information available on FDIC and other agency websites).

Legal Counsel Review

22. Legal Counsel. District legal counsel should be requested to review the procedures applicable and documents establishing relationships with each broker; custodian agreements; arrangements and agreements as to collateral for deposits over \$100,000; and any other information the investment officer deems appropriate. The above rules relating to certificates of deposit may be modified or waived with approval by district legal counsel.