

Memo to File
Clarification Regarding Custodial Credit Risk for Bank Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the District's exposure to custodial credit risk for deposits, except that the California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. All of the District's funds are held in two financial institutions, Santa Barbara Bank and Trust (Bank) and the State of California's Local Agency Investment Fund (LAIF). All of these funds are insured or collateralized. The Bank funds are collateralized by the Bank's trust department but not in the District's name. The District does not have a formal investment policy.

The underlined above specifies “an undivided collateral pool held by a depository” which is why there should not be concern that the trust department does not hold it in the District’s name. The comment in footnote 3 - Deposits and Investments “*The Bank funds are collateralized by the Bank's trust department but not in the District's name.*” is simply for clarification.