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APPENDIX CC

Approval of Changes to Collateralization Policy

MEMORANDUM

STATE OF ALASKA
DEPARTMENT OF REVENUE

To: Jerry Burnett
Acting Deputy Commissioner

Date: September 12, 2008

Thru: Gary Bader
Chief Investment Officer

From: Michelle Prebula
Cash Manager

Telephone: 465-3700
Subject: Collateralization Policy

The State's current policy on the collateralization of state deposits reads as follows:

The Cash Manager is responsible for establishing and monitoring the collateralization of the State's deposits. Collateralization is the process of pledging assets as collateral for State deposits to protect those deposits in the event of a bank failure. Acceptable collateral is currently defined as U.S. Treasury Bonds, Notes, Bills and agency guaranteed obligations approved by Portfolio Management. An eligible trustee holds the pledged assets for safekeeping. The State requires its depository banks to collateralize State deposits to the extent that they exceed insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Cash Manager must periodically reevaluate the deposit balances to ensure that collateral levels are not exceeded.

To date, the only collateral approved by Portfolio Management is U.S. Treasury bonds, notes and bills. U.S. agency guaranteed obligations have not been approved. As we have previously discussed, the majority of our banking relationships appear to be unable to meet our existing policy. Additionally, this issue has also come up more recently in response to the outstanding RFP we issued last month for ACH services. One of the vendors has recently asked for a clarification regarding the collateralization requirements, and we suspect that our answer may have a significant impact on how many entities will be able to respond to that RFP.

Review of the Illinois, Missouri, Ohio, Iowa, Oregon and Utah state policies for collateralization indicates that other states are currently using a mix of both U.S. Treasury and agency guaranteed obligation instruments as security for their deposits. This information, combined with the increasing difficulty of obtaining compliance with our existing banks indicates to me that our policy is significantly more stringent than that of the industry as a whole. As such, I recommend that we modify our existing collateral policy to the following:

The Cash Manager is responsible for establishing and monitoring the collateralization of the State's deposits. Collateralization is the process of pledging assets as collateral for State deposits to protect those deposits in the event of a bank failure. Acceptable collateral is currently defined as U.S. Treasury Bonds, Notes, Bills and debt securities guaranteed by the U.S. or its agencies or instrumentalities as follows:

a) Debt securities of the Federal Farm Credit System
b) Debt securities of the Federal Home Loan Banks
c) Debt securities of the Federal National Mortgage Association ("Fannie Mae")
d) Debt securities of the Government National Mortgage Association (Ginnie Mae")
e) Debt securities of the Federal home Loan Mortgage Corporation ("Freddie Mac")
These securities must be marked to market at least monthly, AAA rated senior debt that is non-callable. If mortgages are held, they must be TBA deliverable.

An eligible trustee holds the pledged assets for safekeeping. The State requires its depository banks to collateralize State deposits at a level of 110% of the amount that they exceed insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Cash Manager must periodically reevaluate the deposit balances to ensure that collateral levels are not exceeded.

Your approval of this policy change is required before we can implement it for our existing relationships or respond to the vendors that will bid for our outstanding RFP. Please let me know if you have any questions.

Approved:

Jerry Burnett

Gary Bader