

STATE OF TENNESSEE



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TREASURER

TREASURY DEPARTMENT
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0225

August 9, 2011

MEMORANDUM

To: Financial Institutions, Public Depositors, Interested Taxpayers

From: David H. Lillard, Jr.
State Treasurer

Subject: Impact of Recent U.S. Credit Downgrade on Collateral

Tennessee Code Annotated 9-4-103 lists the acceptable collateral to secure all public deposits in Tennessee. The recent action taken by Standard and Poor's to downgrade the credit rating of the United States and certain government agencies from AAA to AA+ does not have any impact on the securities that are acceptable collateral. The only types of collateral that have specific credit restrictions are Industrial Revenue Bonds which must have an A rating, and Letters of Credit that are issued by one of the branches of the Federal Home Loan Bank. The statutes require that the issuing branch of the Federal Home Loan Bank must be rated AAA by at least two ratings agencies. While Standard and Poor's did lower the rating to AA+, Moody's and Fitch still gives the Federal Home Loan Banks a top tier rating.

I would also like to take this opportunity to list some of the other safeguards that are utilized by the Treasury Department to protect public deposits in Tennessee. All of the pledged collateral meets the statutory requirements, all deposits are either insured through FDIC (up to \$250,000) or collateralized at no less than 100%, collateral is valued daily to account for market fluctuations, and banks that take part in the Tennessee Bank Collateral Pool Program offer additional protection by guaranteeing any losses that may occur beyond the value of pledged collateral.

The Treasury Department will do our best to keep you updated of any changes that impact bank deposits or collateral. If you have any questions related to this program, feel free to contact Roger Henry (615-532-8722) or Tim McClure (615-532-1166).