

## TO BE RESCINDED

113-40-05

**Bank monitoring and economic monitoring.**

- (A) All financial institutions approved for a reduced collateral floor will be subject to ongoing monitoring of various individual financial criteria. If the financial standing of the financial institution changes, and no longer meets the required reduced collateral floor eligibility criteria as defined in rule 113-40-04 of the Administrative Code, the treasurer of state may impose a bank monitoring collateral requirement. The treasurer of state will use three descriptors within OPCS to identify a financial institution's reduced collateral monitoring status:
- (1) Non-active: The financial institution has not applied, or has not been approved, for a reduced collateral floor.
  - (2) Active: The financial institution has been approved for a reduced collateral floor.
  - (3) Bank monitoring: The SCALE model has indicated that the financial institution has an emerging individual financial concern or a deposit business concern.
    - (a) The treasurer of state will notify a financial institution when its reduced collateral monitoring status changes from active to bank monitoring within OPCS, which will notify the affected public unit(s).
    - (b) A financial institution subject to a bank monitoring collateral requirement may be subject to an up to fifty-two per cent increase in its reduced collateral floor requirement, to a maximum of one hundred two per cent. Any increase will be reflected in the bank monitoring field in OPCS, as determined at the sole discretion of the treasurer of state.
    - (c) A financial institution subject to an increase in its reduced collateral floor due to bank monitoring status may be required to pledge additional collateral through one or more calls as follows:
      - (i) First collateral call will require a financial institution to secure all uninsured public deposits at least equal to the sum of the reduced collateral floor requirement plus up to ten per cent, within ninety calendar days.
      - (ii) Second collateral call will require a financial institution to secure all uninsured public deposits at least equal to the sum of the reduced collateral floor requirement plus up to twenty-five per cent, within sixty calendar days.

- (iii) Third collateral call will require a financial institution to secure all uninsured public deposits at up to one hundred two per cent, within thirty calendar days.
  - (d) The treasurer of state may decide to engage a financial institution prior to changing its status from active to bank monitoring in order to identify any extenuating considerations. This decision will be made at the sole discretion of the treasurer of state.
  - (e) The treasurer of state may reduce a financial institution's collateral floor upon a change in its bank monitoring status from bank monitoring to active, as determined at the sole discretion of the treasurer of state.
- (B) All financial institutions approved for a reduced collateral floor will be subject to economic monitoring protocols to identify potential macroeconomic or regional economic concerns.
  - (1) The treasurer of state will use two publicly available macroeconomic indicators to identify a potential concerning economic trend:
    - (a) The "Sahm Rule Recession Indicator" as published by the federal reserve bank, in which a negative trend is defined as a single instance of when the three-month moving average of the national unemployment rate rises by one half of a percentage point or more relative to its low during the previous twelve months; and
    - (b) The ten-year treasury constant maturity minus two-year treasury constant maturity, in which a negative trend is defined as five instances of the two-year treasury constant maturity exceeding the ten-year treasury constant maturity using the daily treasury yield curve rates as published by the U.S. department of the treasury, federal reserve bank, or other industry recognized market data source within a rolling thirty calendar day period.
  - (2) The treasurer of state will monitor a regional economic indicator, the leading index for Ohio as produced by the federal reserve bank, in which a negative trend is defined as a negative percentage observation instance occurring in three consecutive months. If the leading index for Ohio is not available, then the treasurer of state will analyze the Ohio bank nonperforming total loans to total loans as produced by the federal reserve bank, in which a negative trend for the indicator is defined as a single five per cent rate increase which is to be calculated by subtracting the indicator's average prior four quarters from the indicator's current quarter and then dividing by the indicator's average prior four quarters.

- (3) If the treasurer of state identifies a potential macroeconomic or regional economic concern, then the treasurer of state may implement an economic monitoring collateral requirement for a specific financial institution, a specific peer group, or an OPCS-wide collateral call, at the sole discretion of the treasurer of state. A financial institution subject to an economic monitoring collateral requirement may be required to pledge additional collateral through one or more calls as follows:
- (a) First collateral call will require a financial institution to secure all uninsured public deposits at least equal to the sum of the reduced collateral floor requirement plus up to ten per cent, within ninety calendar days.
  - (b) Second collateral call will require a financial institution to secure all uninsured public deposits at least equal to the sum of the reduced collateral floor requirement plus up to twenty-five per cent, within sixty calendar days.
  - (c) Third collateral call will require a financial institution to secure all uninsured public deposits at up to one hundred two per cent, within thirty calendar days.
- (4) The treasurer of state may remove an economic monitoring collateral requirement from any financial institution at the treasurer of state's sole discretion.

Effective:

Five Year Review (FYR) Dates: 2/2/2023

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Certification

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Date

Promulgated Under: 119.03  
Statutory Authority: R.C. 135.182  
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