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Local Finance Notice

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Amendments to the Government Unit Depository Protection Act (GUDPA)

This Local Finance Notice is one of several that reviews laws passed during the last legislative session. The law reviewed below affects all local units and boards of education, as it concerns amendments to the Government Unit Depository Protection Act (GUDPA).

One effect of the recession of 2009 was the recognition of potential deficiencies in the State's statutory scheme for protecting local government banking deposits; the Governmental Unit Deposit Protection Act (GUDPA). In response, the Legislature passed A-3998/S-2859, which was signed into law as Chapter 326 of the Laws of P.L.2009 ([A-3998, P.L. 2009, c.326](#)). The foregoing link is to the final version of the bill passed by the legislature; the advance and pamphlet laws were not available when this Notice was prepared.

Local government agencies have relied on GUDPA since its enactment over 40 years ago and there have been no losses of public funds under it. In recent years, however, the banking environment has changed and effects of the recession on banks have highlighted certain weaknesses in the system. This was understandable, given that the law was created in a different banking environment and the system was designed to regulate New Jersey based banks.

Governmental unit deposits subject to GUDPA include any "county, municipality, school district or any public body corporate and politic created or established under any law of this State by or on behalf of any one or more counties or municipalities, or any board, commission, department or agency of any of the foregoing having custody of funds." (N.J.S.A. 17:9-41)

Over the last year, a working group met to develop a new, risk-focused approach that would provide a level of protection appropriate to contemporary banking conditions. The group included staff and representatives from the Department of Banking and Insurance (Department), the Division of Local Government Services, the Legislature, banks and banking associations, the N.J. State League of Municipalities, and the N.J. Association of Counties.

Chapter 326 was the result of a successful government/industry/legislative collaboration to develop modifications that supported the key principles that have been and continue to be the cornerstone of GUDPA; to maintain a risk sharing pool that engaged all participating banks and provide a higher level of protection against possible losses of public funds.

The revised GUDPA:

- Ensures a common level of deposit risk is borne by each bank that chooses to accept local government deposits. This is accomplished by the bank posting approved collateral to offset the deposits and spreading the limited risk of loss by any bank among banks accepting government deposits;
- Requires that banks with the largest amount of GUDPA deposits protect their governmental unit deposits by fully collateralizing deposits over \$200 million;
- Implements a revised enforcement protocol to help the Department respond promptly when a bank shows signs of stress and provides for corresponding risk-based collateral requirements to protect government deposits;
- Provides for enhanced oversight by the Department, with the costs covered through fees paid by the participating banks;
- Continues the GUDPA bank certificate, the document that government units rely on as evidence that their bank deposits are covered by the program, and permits the certificates to be provided through an online system.

The result is a new and improved system that provides a higher level of security and oversight that will be effectively transparent to government agencies. The Department of Banking and Insurance will provide additional information as program changes are implemented in anticipation of the July 1, 2010 effective date.

Approved: Susan Jacobucci, Director

Table of Web Links

Page	Shortcut text	Internet Address
1	A-3998, P.L. 2009, c.326	http://www.njleg.state.nj.us/2008/Bills/A4000/3998_R2.PDF