

# Evaluating Banks, Bank RFP Overview



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# Topics

- Evaluating Banks
- Bank RFP Overview

# Financial relationships

Relationships with financial institutions – banks, depositories, broker-dealers, custodians, investment advisers – are amongst the most important for the finance director or treasurer:

- ✓ Access to information and advice/expertise
- ✓ Facilitate banking (collections, deposits, payments, investing, custody)

The selection, engagement and on-going maintenance of financial relationships, including banks, is key.

# Banks - Where Do You Start?

Good news - banks are thoroughly examined and highly regulated.

- ✓ examiners and regulators gather much information
  - ✓ national banks, state banks
    - ✓ differences operational
- ✓ available to the public
- ✓ found online

# Fragmented Regulation

- ❑ National bank regulators include:
  - ✓ Federal Deposit Insurance Corporation,  
<https://www.fdic.gov>
  - ✓ Office of the Controller of the Currency,  
<https://www.occ.treas.gov>
  - ✓ Federal Reserve Board,  
<https://www.federalreserve.gov/>
    - 12 Federal Reserve Banks
  
- ❑ State regulators
  - ✓ State of Illinois Department of Financial and Professional Regulation,  
<https://www.idfpr.com/DFI.asp>

# Where Do You Start?

- ❑ FDIC
- ❑ Federal Financial Institution Examination Council, FFIEC CDR
  - ✓ Call reports - Condition and Income
  - ✓ Uniform Bank Performance Reports (UBPRs) – performance, analytical, contextual
    - Executive Summary
    - Custom Peer Group
    - Peer Group Average
    - State Average
  - Specify date or review trend analysis

# Banks

- Capital Adequacy
- Asset Quality
- Management
- Earnings
- Liquidity
- Sensitivity to Risks

# Banks

- ❑ Capital Adequacy - level of capital a bank retains compared to its risk
  - ✓ supports bank operations
  - ✓ acts as cushion to absorb unanticipated losses, declines in asset values
  - ✓ protects uninsured depositors, debt holders
  - ✓ risk-weighted assets, liabilities
    - Tier 1 **capital ratio** of at **least 4%**,
    - combined Tier 1 and Tier 2 **capital ratio** of at **least 8%**,
    - leverage **ratio** of at **least 4%**, and
    - not be subject to a directive, order, or written agreement to meet



# Banks

- Asset Quality – measures potential risks in loans, investment/securities portfolios, real estate, other assets
  - ✓ Regulators look at all risks that may affect the value or marketability of an institution's assets, including operating, market, reputation, strategic, or compliance risks
  - ✓ evaluation of asset quality should consider the adequacy of the allowance for loan and lease losses

# Banks

## □ Management

- ✓ Margins are the best measurement of management. Margins represent the spreads between:
  - operating profit and net operating revenues
  - after-tax return on earning assets less after-tax cost of funding, and
  - return on equity (ROE) compared to estimated cost of equity capital (COE)

# Banks

## □ Earnings

### Components

- ✓ Interest-earning assets: loans, investments
- ✓ Non-interest sees
- ✓ Bank expenses
  - Interest expenses for a typical community bank are driven by the interest rates paid on deposits, borrowed money.
  - Noninterest expenses: salaries and overhead
- ✓ Provisions for loan losses

# Banks

## □ Earnings

Sustainability of good-quality earnings

- ✓ Poor asset quality may portend a large loan loss provision that will depress future earnings
- ✓ volatility in interest rates may jeopardize future earnings

# Banks

## □ Liquidity

Fundamental purpose of a bank is to redeploy deposits into loans; these may not mature at same time

### ✓ Sources of Funds: liabilities

- “core” deposits
- “noncore” or wholesale funds

### ✓ Uses of Funds: assets

- Loans
- Cash and similar balances
- investment securities portfolio

# Banks

## □ Liquidity

### The Liquidity Rating

- ✓ structure of a bank's assets and liabilities
- ✓ bank's liquidity policies, procedures and management information systems, including the efforts of bank management to test hypothetical deposit outflows under a variety of assumptions, like a changing interest rate environment.

# Banks

- ❑ **Sensitivity to Risks** - degree to which market changes (interest rates, foreign exchange rates, commodity prices or equity prices) can adversely affect bank's earnings and financial health.
- ❑ For many banks - and especially community banks - interest rate risk is the predominant market faced

# Banks

## □ Sensitivity to Risks

- ✓ Repricing risk
- ✓ Basis risk
- ✓ Prepayment or extension risk
- ✓ Yield curve risk

If a bank fails to manage these risks adequately, its earnings, capital and liquidity can be damaged.



# FDIC

FDIC.gov > Industry Analysis > Bank Data & Statistics > Banks > BankFind > BankFind Home

## BankFind

FDIC BankFind allows you to locate FDIC-insured banking institutions

**Bank Name**  **FDIC #**

**Address**

**City**  **State**  **ZIP Code**

**Bank URL**

[Details & Financials – ID](#)

## Summary Statistics

Note: Dollars in millions; Adjusted for mergers

### FDIC-Insured Institutions

Number as of	3/3/2020	5,146
Assets as of	12/31/2019	\$18,734,961
Deposits as of	12/31/2019	\$14,579,200


[View Key Statistics](#)


## Data Availability

Note: Quarterly updates made at the end of February, May, August, and November. Annual data through 1992 and quarterly data through 2002.

	Most Current	Updated
Demographics	3/3/2020	Weekly
Financial	12/31/2019	Quarterly



# FDIC

**Federal Deposit Insurance Corporation**  
Each depositor insured to at least \$250,000 per insured bank



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[FDIC.gov](#) > [Industry Analysis](#) > [Bank Data & Statistics](#) > [Banks](#) > [BankFind](#) > [Bank Information](#)

[Return to BankFind Results](#)  

## Happy State Bank (FDIC # 10359)

**Active** Insured Since January 1, 1934

Data as of: March 2, 2020

**Happy State Bank** is an active bank 

<b>FDIC Certificate#:</b>	10359	<b>Established:</b>	January 1, 1908	<b>Corporate Website:</b>	<a href="http://www.happybank.com">www.happybank.com</a>
<b>Headquarters:</b>	100 East Main Street Happy, TX 79042 Swisher County	<b>Insured:</b>	January 1, 1934	<b>Consumer Assistance:</b>	<a href="http://ask.fdic.gov/FDICCustomerAssistanceForm">ask.fdic.gov/FDICCustomerAssistanceForm</a>
<b>Locations:</b>	<b>43</b> domestic in <b>1</b> states, <b>0</b> in territories, and <b>0</b> in foreign locations	<b>Bank Charter Class:</b>	Non-member of the Federal Reserve System	<b>Contact the FDIC about:</b>	<a href="#">Happy State Bank</a>
		<b>Primary Federal Regulator:</b>	Federal Deposit Insurance Corporation		
		<b>Secondary Federal Regulator:</b>	N/A		

[Locations](#) [History](#) [Identifications](#) [Financials](#) [Other Names / Websites](#)

# FDIC

Secondary Federal Regulator: N/A

[Locations](#)

**History**

[Identifications](#)

[Financials](#)

[Other Names / Websites](#)

Show Acquisitions

Showing 1 to 7 of 7 entries (filtered from 10 total entries)

Show  entries

<<  of 1 >>

Date	Event
1/1/1908	Institution established: Original name:First State Bank (10359)
9/11/2002	Change trust powers from TRUST POWERS NOT GRANTED to FULL TRUST POWERS GRANTED
4/19/2004	Changed name to <b>Happy State Bank (10359)</b>
10/6/2014	Changed primary regulatory agency from FEDERAL DEPOSIT INSURANCE CORPORATION to FEDERAL RESERVE BOARD
10/6/2014	Changed institution class to INSURED COMMERCIAL OR SAVINGS BANKS, STATE, MEMBERS FRS
9/20/2019	Changed primary regulatory agency from FEDERAL RESERVE BOARD to FEDERAL DEPOSIT INSURANCE CORPORATION
9/20/2019	Changed institution class to INSURED COMMERCIAL BANKS, STATE, NOT MEMBERS OF THE FRS

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Information as of: March 3, 2020

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# FDIC

[Locations](#)

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**Financials**

[Other Names /  
Websites](#)

## Happy State Bank

### Financial Snapshot:

[... more Financials](#)

*as of December 31, 2019 Dollar figures in thousands (000's)*

<b>Total Assets:</b>	\$3,824,411
<b>Total Deposits:</b>	\$3,076,728
<b>Domestic Deposits:</b>	\$3,076,728
<b>Bank Equity Capital:</b>	\$593,073
<b>Year-To-Date:</b>	
<b>Net Income:</b>	\$47,618
<b>Return on Assets:</b>	1.33%
<b>Return on Equity:</b>	8.78%
<b>Pre-tax Return on Assets:</b>	1.58%
<b>Quarterly:</b>	
<b>Net Income:</b>	\$13,199
<b>Return on Assets:</b>	1.41%

# FDIC

BankFind

FDIC.gov > Industry Analysis > Bank Data & Statistics > Banks > Details and Financials - ID > Search Results - Banks

## Details and Financials - Institution Directory (ID)



### Confirmation & Report Selection

Demographic information as of February 24, 2020			
<b>Happy State Bank</b> 100 East Main Street Happy, TX 79042			
FDIC Certificate #:	10359	Date Established:	1/1/1908
<a href="#">Bank Charter Class:</a>	Federal Reserve Non-member	Date of Deposit Insurance:	1/1/1934
<a href="#">Primary Federal Regulator:</a>	<a href="#">Federal Deposit Insurance Corporation</a>	<a href="#">More Demographic Information</a> →	
<a href="#">Primary Internet Web Address:</a>	<a href="http://www.happybank.com">www.happybank.com</a>	<a href="#">Generate History</a> →	

### Information Gateway

#### ID Report Selections:

Assets and Liabilities

#### Report Date:

December 31, 2019

[Generate Report](#)

#### More Information

- |   |  |
|---|--|
| <a href="#">Current List of Offices</a>                           | <a href="#">Bank Holding Company Ownership and Affiliates</a>          |
| <a href="#">Compare to Peer Group(s)</a>                          | <a href="#">Consumer Assistance from Primary Federal Regulator</a>     |
| <a href="#">FFIEC Call/TFR Report 12/31/2019 Latest Available</a> | <a href="#">Organization Hierarchy from the Federal Reserve System</a> |
| <a href="#">FFIEC Uniform Bank Performance Report (UBPR)</a>      | <a href="#">FDIC CRA ratings</a>                                       |
| <a href="#">FDIC/OTS Summary of Deposits</a>                      |  |

Press for description

# FFIEC

## Council's (FFIEC) Web Site.

### FFIEC Council

The Council is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System ([FRB](#)), the Federal Deposit Insurance Corporation ([FDIC](#)), the National Credit Union Administration ([NCUA](#)), the Office of the Comptroller of the Currency ([OCC](#)), and the Consumer Financial Protection Bureau ([CFPB](#)), and to make recommendations to promote uniformity in the supervision of financial institutions. In 2006, the State Liaison Committee ([SLC](#)) was added to the Council as a voting member. The SLC includes representatives from the Conference of State Bank Supervisors ([CSBS](#)), the American Council of State Savings Supervisors ([ACSSS](#)), and the National Association of State Credit Union Supervisors ([NASCUS](#)).

### Consumer Compliance

### Reports

# FDIC - FFEIC

View -- Uniform Bank Performance Report - Mozilla Firefox

https://cdr.ffiec.gov/public/Reports/UbprReport.aspx?rptCycleIds=120%2c114%2c107%2c101%2c86&rptid=283&idrssd=466857&peerGroupType=&supplemental=

150%

## View -- Uniform Bank Performance Report

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Allowance & Loan Mix-b

Concentrations of Credit

PD, Nonacc & Rest Loans-a

PD, Nonacc & Rest Loans-b

FDIC Certificate # 10359

OCC Charter # 0

Public Report

FRB District/ID\_RSSD 11 / 466857

County: SWISHER

HAPPY STATE BANK; HAPPY, TX

December 31, 2019 Uniform Bank Performance Report

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2/25/2020

Information

Introduction

This uniform bank performance report covers the operations of a bank and that of a comparable group of peer banks. It is provided as a bank management tool by the Federal Financial Institutions Examination Council.

Detailed information concerning the content of this report is provided in the Users Guide for the Uniform Bank Performance Report found online at [www.ffiec.gov](http://www.ffiec.gov). This report has been produced for the use of the federal regulators of financial institutions in carrying out their supervisory responsibilities. All information contained herein was obtained from sources deemed reliable however no guarantee is given as to the accuracy of the data. The information contained in this report are not to be construed as a rating or other evaluation of a financial institution by a federal banking regulator. The quarterly report of condition and income is the principal source of information for this report. Please refer to that document for additional financial information and an explanation of the accounting standards that underlie data shown herein. For questions regarding content of reports contact:

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# FFEIC

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## Search

Search Clear

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The search function e  
be provided with a list  
specific, you may be r

**Please note Peer Group  
Group 1 (Insured com  
\$100 billion) and Peer C  
Peer Groups 4 through**



The search criteria

**Report\***

Select a Report Type >>

Call

**Executive Summary Report**

Uniform Bank Performance Report (UBPR)

Custom Peer Group Bank Report

Peer Group Average Report

Peer Group Average Distribution Report

State Average Report

State Average Distribution Report

List of Banks in Peer Group Report

Bank XBRL Instance Document

Executive Summary Report

entering one or more of the  
er your criteria and click the "  
information and help with this

**assets greater than \$3 billi  
\$100 billion), Peer Grou  
ng assets between \$3 bil  
and UBPR Peer Group C**

**508-Compliant**



# FFEIC

https://cdr.ffiec.gov/public/Reports/UbprReportES.aspx?rptCycleIds=120,119,114&rptid=367&idrssd=466857&peerGroup 120%

## View -- Executive Summary Report

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12/31/2019

09/30/2019

12/31/2018

Update Report

Table

Click Download to save CSV version of this report  
To view data for different reporting periods, select the desired dates and click the Update Report button.

FDIC Certificate # 10359  
OCC Charter # 0  
Public Report

FRB District/ID\_RSSD 11 / 466857  
County: SWISHER

HAPPY STATE BANK; HAPPY, TX  
Executive Summary Report

02/25/2020 03:23:39 PM

	5Q Trend	12/31/2019 QTR	09/30/2019 QTR	12/31/2019 YTD	12/31/2018 QTR
<b>Income Statement \$:</b>					
Net Interest Income		37,006	35,410	139,369	
Noninterest Income		8,389	8,160	32,516	
Noninterest Expense		27,155	29,031	112,784	
Provision: Loan & Lease Losses		2,550	2,200	8,650	
Net Income		13,199	13,723	47,618	
<b>Earnings and Profitability:</b>					
Percent of Average Assets:					
Net Interest Income		3.97	3.96	3.92	
Noninterest Income		0.90	0.91	0.91	
Noninterest Expense		2.92	3.25	3.17	
Provision: Loan & Lease Losses		0.27	0.25	0.24	
Net Income		1.42	1.54	1.34	
Return on Equity		9.21	10.05	9.75	
Net Int Inc to Avg Earn Assets		4.36	4.37	4.33	
<b>Loan and Lease Analysis:</b>					
Net Loss to Average Total LN&LS		0.13	0.20	0.30	

period 12/31/2019

# FDIC - FFEIC

## View -- Uniform Bank Performance Report

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# Let Others Do the Analysis for You

## ❑ VERIBANC<sup>©</sup>

- ✓ 8 categories: Color Codes - Green, Yellow, Red combined with Stars – 3, 2, 1 and 0

## ❑ Bauer Financial Publishing

- ✓ 6 categories: Superior, Excellent, Good, Adequate, Problematic, Troubled and Zero Stars (the lowest)

## ❑ IDC Financial Publishing Inc.

- ✓ **Bank safety ratings** range from 1 (the lowest) to 300 (the highest) and fall into one of six categories: Superior, Excellent, Average, Below Average, Lowest Ratios, and Rank of One

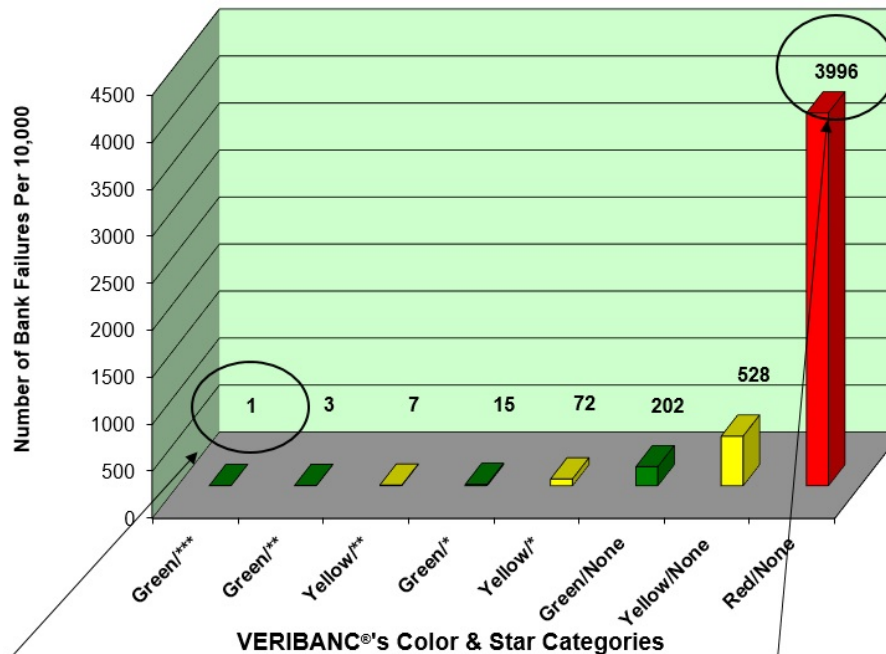
# VERIBANC ©

- ❑ VERIBANC© <https://www.veribanc.com/>  
Starting in 1981, VERIBANC© was the first company to provide ratings on all U.S. federally insured financial institutions in "plain English".

# VERIBANC<sup>©</sup>

Since 1991, most of the failures (811 bank failures) occurred among the Red, No Stars group which represented only 0.72% of the industry.

Annualized Bank Failure Rates (1991-2018)



There is a 1 in 10,000 chance that a Green/\*\*\* bank will fail each year.  
There is a 3,996 in 10,000 chance that a Red/None bank will fail each year.  
Ratings are through the quarter ending 12/31/2018.

# VERIBANC<sup>®</sup> Pricing

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Data Availability (Explanation Video)					
Institution Type	Current Quarter's Financial Data:	Monthly Ratings Updated On:	New Financial Data Expected		
Commercial and Savings Banks	Sep 30, 2019	Feb 5, 2020	Next new information is expected the first week of March.		
Credit Unions	Sep 30, 2019	Feb 5, 2020			
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<b>REPORTS FOR A LIST OF INSTITUTIONS</b>					

# Bauer Financial Publishing

<https://www.bauerfinancial.com/>

BauerFinancial is completely independent.

Active in analyzing and reporting on the banking industry since 1983.



# Bauer Financial Publishing

1) Select a State. An alphabetical list of all institutions in that state will display below.

2) Select by institution name. Begin typing and a list will appear with the institutions that match your input.

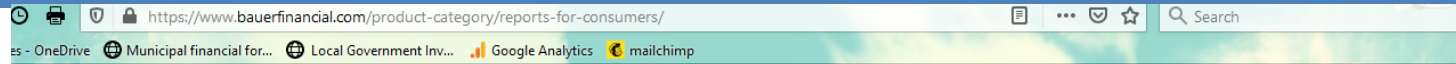
3) If you know the **FDIC** Certificate Number or **NCUA** Charter Number, enter the unique number.

STAR RATING DEFINITIONS:

<b>5 STARS</b>	<b>Superior</b> (These institutions are recommended by Bauer.)
<b>4 STARS</b>	<b>Excellent</b> (These institutions are recommended by Bauer.)
<b>3 1/2 STARS</b>	<b>Good</b>
<b>3 STARS</b>	<b>Adequate</b>
<b>2 STARS</b>	<b>Problematic</b>
<b>1 STAR</b>	<b>Troubled</b>
<b>ZERO STARS</b>	Our lowest rating
<b>S.U. START UP</b>	Start-up. Institutions that are too new to rate. (Obsolete beginning with June 30, 2018 financial data.)



# Bauer Financial Publishing Pricing



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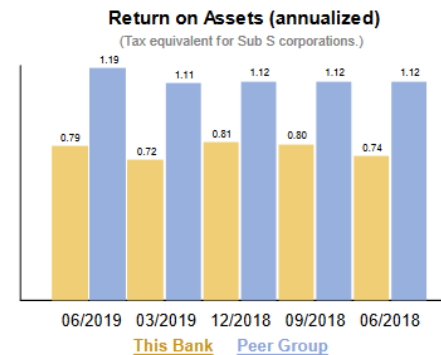
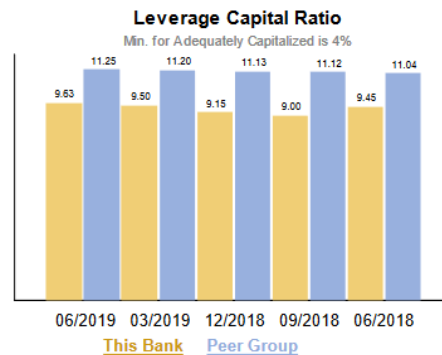
**Statewide Credit Union Report**  
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# Bauer Financial Publishing

**BauerFinancial, Inc.**  
**Bank Highlights Report**  
**First Bank - Ketchikan, AK (FDIC Cert.#14885)**  
 (907)228-4474  
[www.firstbankak.com](http://www.firstbankak.com)

First Bank was established in 1924 and has 9 branch(es).

Data as of:	06/30/2019	03/31/2019	12/31/2018	09/30/2018	06/30/2018
<b>Bauer's Star Rating:</b>	<b>5-Stars</b>	<b>5-Stars</b>	<b>5-Stars</b>	<b>5-Stars</b>	<b>5-Stars</b>
Recommended for 120 consecutive quarters	Sample Only: Downloaded report will include the most recent 5 quarters available				
Total Assets:	\$576.856	\$550.896	\$566.710	\$575.954	\$550.986
Current Quarter's Profit (Loss):	\$1.409	\$1.169	\$1.423	\$1.555	\$1.334
Year-to-date Profit (Loss):	\$2.578	\$1.169	\$5.279	\$3.856	\$2.301
Profit (Loss) Previous Calendar Year:	\$5.279				
Return on Assets (annualized): (Tax equivalent for Sub S corporations.)	0.79%	0.72%	0.81%	0.80%	0.74%
Return on Equity (annualized): (Tax equivalent for Sub S corporations.)	8.41%	7.98%	9.70%	9.58%	8.59%
Leverage Capital Ratio:	9.63%	9.50%	9.15%	9.00%	9.45%
Nonperforming Assets:	\$0.811	\$0.000	\$0.000	\$0.074	\$0.000



# IDC Financial Publishing

<https://www.idcfp.com/>



# IDC Financial Publishing

- ❑ Active rating the safety and soundness of banks, savings institutions, and credit unions since 1985.
- ❑ Every quarter, IDC calculates a one-number rank for over 11,000 financial institutions.
- ❑ IDC analyzes 24 financial ratios, resulting in a one-number summary rating, ranging from 1, the lowest, to 300, the top grade attainable.
  - ✓ A rank of 125 or higher has been determined by the users of IDC ranks as the investment grade benchmark.




# IDC Financial Publishing – Track Record

- ❑ Since 1989, over 1,400 bank and S&Ls have failed (excluding cases due to fraud, and banks under \$5M total assets).
  - ✓ Of these, 99% were ranked less than 75 by IDC up to 5 months prior to FDIC failure.
  - ✓ Additionally, 90% were ranked less than 125 (below average) up to 17 months prior to failure and
  - ✓ 73% were ranked less than 125 up to 29 months prior to failure.

# IDC Financial Publishing – Pricing

Pricing

Financial Institution Rankings at Your Fingertips

ALL-ACCESS, EVERYTHING PLAN		
<p>All-Access Plan</p>  <p><b>Banks</b></p> <p>Access to all Bank, Holding Company, and Savings Institution Risk Ratings</p> <p><b>\$1,390</b> per year</p> <p>Or available at: \$850 / 90-Day Access</p> <p>Buy Now</p>	<p>All-Access Plan</p>  <p><b>Banks &amp; Credit Unions</b></p> <p>The best plan you can get. Access to all Data for Banks and Credit Unions</p> <p><b>\$1,990</b> per year</p> <p>Or available at: \$1,200 / 90-Day Access</p> <p>Buy Now</p>	<p>All-Access Plan</p>  <p><b>Credit Unions</b></p> <p>Access to all Credit Union and Corporate Credit Union Risk Ratings</p> <p><b>\$695</b> per year</p> <p>Or available at: \$495 / 90-Day Access</p> <p>Buy Now</p>

# Protection

# FDIC Coverage

If my government has FDIC coverage, why should I care about evaluating my bank?

- ❑ Exceeding the deposit insurance limit could mean some loss in a bank failure; it is surprisingly easy to go over the insurance limit without realizing it due to interest payments.
- ❑ Additionally, an acquiring institution is not obligated to keep paying CD rates at the rate contracted with the defunct institution. Interest rates are subject (likely) to drop, especially if they are above the market averages.
- ❑ Disruptions in direct deposits if a bank is closed with no acquirer.
- ❑ Reputational trauma



# FDIC Coverage

## □ FDIC

- ✓ Federal deposit insurance is NOT determined on a per-account basis.
- ✓ All “time and savings deposits” and all “demand deposits” owned by a public entity in an insured in-state bank are added up together and insured up to \$250,000.
- ✓ \$250,000 applies to the face amount + accrued interest.



# Collateralization

- ❑ A key safeguard for public funds
  - ✓ through pledging
    - appropriate securities
    - other instruments
  - ✓ surety bonds
  - ✓ letters of credit – FHLB
- ❑ State statute
- ❑ Federal rules
  - ✓ is in writing
  - ✓ was approved by BOD or loan committee
  - ✓ an official record

# Collateralization



Government Finance Officers Association

BEST PRACTICE

## Collateralizing Public Deposits

### BACKGROUND:

Depending on applicable state or federal law, public unit deposits may be secured by collateral or assets of a bank or financial institution. In the event of the failure of the bank, the FDIC will honor the collateralization agreement if the agreement is valid and enforceable under applicable law. The FDIC does not guarantee, however, that the collateral will be sufficient to cover the amount of uninsured funds. As such, although it does not increase the insurance coverage of the public unit deposits, collateralization provides an avenue of recovery in the unlikely event of the failure of an insured bank. FDIC insurance covers deposits up to \$250,000 for each entity. Deposits above this FDIC limit must be collateralized to ensure the safety of public funds.

Collateralization of public deposits through the pledging of appropriate securities or other instruments (i.e. surety bonds or letters of credit) by depositories is an important safeguard for such deposits. The amount of pledged collateral is determined by a governmental entity's deposit level and the policy or legally required collateral margin. Some states have established programs for the pooling of collateral for deposit of public funds. All collateralization agreements between financial institutions and public entities must adhere to state and federal laws, including FDIC regulations.

# Collateralization

## RECOMMENDATION:

GFOA recommends the use of a written agreement with pledging requirements as protection for state or local government's deposits. GFOA further recommends that governmental entities establish adequate and efficient administrative systems to monitor such pledged collateral, including state or locally administered collateral pledging or collateral pools. To accomplish these goals, GFOA recommends the following:

1. Governmental entities should review applicable federal, state statutes and confirm compliance. The governmental entity should establish and follow procedures for on-going review of collateral. In addition, a periodic report of collateral holdings and compliance with state statute and local policy should be provided to the governing body or investment committee (or other committees as applicable).
2. In the absence of a state program for pooling collateral, public entities should establish and implement collateralization procedures, including procedures to monitor their collateral positions. Monitoring informs a public entity of under collateralization, which may threaten the safety of an entity's deposits, and overcollateralization, which may increase the cost of banking services. Governmental entities, however, should not accept the liability for maintaining collateral levels which is the responsibility of the financial institution.
3. Governmental entities/depositors should take all possible actions to ensure that their security interests in collateral pledged to secure deposits are enforceable against the receiver of a failed financial institution.
4. Governmental entities should have all pledged collateral held at an independent third-party institution (custodian) outside the holding company of their bank, and evidenced by a written agreement between the custodian and the government. Governmental entities should know and understand securities pledged as collateral.

# Collateralization

5. Governments should seek a margin level of at least 100%, or as dictated by state statute. The government should also indicate its desired margin level in its investment policy. The value of the pledged collateral should be marked to market and reported monthly, or more frequently depending on the volatility of the collateral pledged. Some state statutes dictate a minimum margin level for collateral based on deposit levels.
6. Margin levels and bank balances should be monitored daily as there may be a large influx of deposits for a short amount of time (e.g., semi-annual/annual tax payments within the span of a day or two).
7. Substitutions of collateral should meet the requirements of the collateral agreement, be approved by the governmental entity in writing prior to release, and the collateral should not be released until the replacement collateral has been received.
8. The public entity should require, at a minimum, monthly reporting directly from the custodian. The custodian should warrant and be signatory to the agreement.
9. Letters of credit may be pledged in lieu of securities. The governmental entity should perform a legal review of the terms and conditions of any letters of credit. Such letters of credit must be issued by a federal agency or government sponsored enterprise (e.g., Federal Home Loan Bank, etc.) and be irrevocable.

# Collateralization issues

- ✓ what is acceptable collateral?
  - define acceptable and authorized securities
  - include in policy, RFPs, and contracts
- ✓ is there enough of it?
  - margin of 102%\*
  - monthly market value reports
  - has it been called?
  - downgrade?
  - be approved in writing prior to release
  - not released until replacement collateral received

# Collateralization

- ✓ is the collateral mine?
  - safekeeping receipts and reports
  - calls? Substitutions?
  - held at 3<sup>rd</sup> party
- ✓ evidenced by written agreement
- ✓ reporting directly from custodian

# FHLB Letters of Credit

- ❑ FHLBs issue irrevocable letters of credit for their members banks to secure public deposits

## *What are **FHL Banks**?*

- ✓ Created by Congress in 1932 to support housing
- ✓ FHLBanks – cooperative of 11 banks, each responsible for its district
- ✓ A bank can only become member of district in which it is chartered
- ✓ Conduct rigorous due diligence for membership
- ✓ Require deposits of members
- ✓ Each bank and system as whole share Aaa/AA+ rating



# FHLB Letters of Credit

## ***Why you may prefer FHLB LofC ?***

- ✓ Relief from perfecting interest in collateral
- ✓ Relief of monitoring quality, adequacy and safe-keeping of collateral

# RFs....

- ❑ Governments use wide variety of banking services for deposits, disbursement, investing, safekeeping
- ❑ Continual technology changes, treasury management practices, and banking industry structure, evolving statutes give public funds managers reasons to reevaluate banking services/costs

# Banks – Competitive Procurement RFs...

## Competitive procurement

- ✓ timely manner
  - may be mandated by statute, policy
  - procurement 3-5 years – best practice
- ✓ defined process
- ❑ Competition promotes “fairness”
  - ✓ vendors more likely to participate, support government
  - ✓ citizens and interested parties appreciate government’s care of their monies
- ❑ Competition enhances government knowledge
  - ✓ technical
  - ✓ pricing



# Banks

- ❑ Relationship should be partnership that benefits both parties – you and the bank
- ❑ Prior to RFP – maintain open dialogue
  - ✓ unrealized needs
  - ✓ new products/services
  - ✓ responsiveness on day-to-day and long-term position
  - ✓ problem resolution
  - ✓ value and familiarity

# The Process

- Do full inventory, review current usage and consider needs
- Identify evaluation team
- Consider how you are going to structure/organize the search
- Create the RF - RFP/RFQ/RFI
- Develop scoring matrix
- Identify potential respondents and distribute RFP
- Field questions



# The process

- ❑ Review proposals
  - ✓ technical
  - ✓ pricing
    - Weigh costs
      - direct fees, compensating balances, blend
    - Undertake cost/benefit analysis
- ❑ Interview candidates
- ❑ Governing body approval process
- ❑ Ensure contract exemplifies GFOA best practice
- ❑ Identify primary relationship manager
- ❑ Assign project manager

# Starting with a sample

- ❑ Learn from your peers
- ❑ Remember your situation is unique
  - ✓ Cash-flows, risk tolerances and conditions vary
- ❑ Never use boilerplate – use sample as starting point, but customize

# The RFP

- ❑ Review RFPs of comparable governments for comparable services
  - ✓ Colleagues
  - ✓ GFOA
  - ✓ IGFOA
  - ✓ Internet – google searches
  - ✓ Engage consultant
- ❑ Understand your requirements - make sure your RFP is for services you need
- ❑ Include products/services you want to learn about
- ❑ Draft RFP, technical answer template and pricing template - word format



# GFOA Best Practice

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## Procurement of Banking Services

[Printer-friendly version](#)

**Type:** Best Practice

### Background:

State and local governments use a wide variety of banking services for the deposits, disbursement, and safekeeping of public funds. Prudent procurement practices require the reevaluation of banking services on a periodic basis. In addition, continual changes in technology, treasury management practices, and banking industry structure offer public funds managers opportunities to reevaluate banking services and costs.

### Recommendation:

GFOA recommends that state and local governments establish a procurement process and assure periodic reviews of banking services. Adhering to a defined due diligence in selecting banking services and establishing proper controls will help a government achieve its objectives of appropriate and cost-effective banking services while protecting its funds and reducing risk to its reputation. Governments should consider including the following practices in their procurement of banking services:

4. Periodically initiate a process of competitive procurement in accordance with the state and local laws and regulations.

# GFOA checklist

5. Evaluate the government's needs in comparison to the costs and benefits of specific banking services, including:

- ▶ Electronic
  - ▶ balance and transaction-reporting services (image access and usage)
  - ▶ stop payments
  - ▶ payment capabilities
  - ▶ deposit capabilities
  - ▶ transmitted analysis and statements
  - ▶ digitized storage of paid checks and statements
  - ▶ stale date check management
  - ▶ access to safekeeping/custodial information
  - ▶ access to investment performance reporting
- ▶ Accounts
  - ▶ controlled disbursement
  - ▶ collection account
  - ▶ zero-balance
  - ▶ interest-bearing
  - ▶ investment sweep account
- ▶ Security features
  - ▶ positive pay services including payee positive pay service (which is payee matching)
  - ▶ reconciliation services
  - ▶ Automated Clearing House (ACH) blocking/filtering services
  - ▶ check to ACH conversion
  - ▶ Non-sufficient funds (NSF)/ACH conversion for representation of NSF check (Represented Check Entries, RCK)
  - ▶ collateral requirements (reporting by the custodian required)
- ▶ Treasury management services
  - ▶ lock-box services
  - ▶ credit card receipt merchant services
  - ▶ safekeeping or custody arrangements (delivery versus payment, DVP)
  - ▶ procurement cards
  - ▶ stored value (payroll) cards
  - ▶ Web links for Internet payment for services

6. A treasury management review and comprehensive evaluation should be performed prior to the issuance of an RFP to ensure that the treasury manager asked for all required and optional banking services. Consider using a Request for Information (RFI) or meeting with several banks in advance of the RFP process to determine if there are any products/services available that your jurisdiction would be interested in adding. This preliminary work is necessary

# GFOA checklist

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# Checklist

- ✓ Wire Transfer Services
- ✓ ACH
- ✓ Availability of Funds
- ✓ Monthly Statements and Account Analysis
- ✓ Collection and Deposit Services
- ✓ Remote Deposit Services
- ✓ Collateralization of Deposits
- ✓ Lockbox (Wholesale and Retail)
- ✓ Online Banking Services
- ✓ Electronic Storage of Documents

# Checklist

- ✓ Vault Services
- ✓ Payment Card Services
- ✓ Interactive Voice Response
- ✓ Purchasing Card Services
- ✓ Stored Value Cards
- ✓ Overdraft Processing
- ✓ Controlled Disbursement Services
- ✓ Account Reconciliation Service
- ✓ Positive Pay or “Payee” Positive Pay Service
- ✓ Stop Payment Services
- ✓ Safekeeping Services

# Components

- Contact info
- Background
- Summary of RFP – why issuing? terms of engagement?
- Scope of services sought in RFP
- Timeline
- Identify evaluation process (criteria)
- List information respondents must provide
- Identify your governments procurement requirements
- Identify any other required attachments
- Questionnaire

# Components

- ❑ Define format for response
  - ✓ Specify order of response
  - ✓ Define maximum length
  - ✓ Define acceptable attachments
  - ✓ Consider including template
- ❑ Due date for proposals
- ❑ Timeline of selection events
- ❑ Contact person for questions

# Your questions

