

A photograph of a stone building with a 'BANK' sign and a set of stairs leading up to a window.

Government Finance Officers'  
Association of Texas  
2014 Fall Conference

**Selecting a Primary Depository Bank**

*Presenter:  
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# Session Objectives:

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- Broaden Perspective
- Heighten Awareness
- Suggest Best Practices & Tips
- Provide a Process Outline

# Primary Depository Bank Selection?

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- Complicated and time consuming
- Comes up at the most inconvenient time
- Takes longer than expected

# Bank Contract Types

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- Primary Bank Depository Services
- Financial Institution Deposits (greater than FDIC insurance protection)
- Other
  - Event risk planning consideration (Secondary Depository)
  - Special financial services and products

# Primary Depository Bank Selection

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- Governed by statutes
  - Local and State
  - Other compliance considerations
    - Charters
    - Code of Ordinances
    - Financial Policies



# Main Objectives

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- Protect taxpayer funds
- Create competitive environment (best value)
- Establish fees, rates, terms, and conditions

# Frequency

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- Maximum term requirements
  - Consider structure with initial term, extension options
- Other term limitations & extension options
- No limitation – “reasonable period”

# Getting Started

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- Create a project time-line & calendar of events
- Review existing structure, bank services, & operating environment



# “Easy” Timeline

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- Month One – Research, Preparation, Approval
- Distribute RFP/RFA
- Month Two – Banks Respond
- Month Three – Analyze and Recommend
- Month Four – Formal Approval and Execution
- Months Five and Six – Transition

# Understand the Rules

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- Review considerations:
  - Public Funds Depository Legislation
  - Public Funds Investment & Collateral Legislation
  - Purchasing & Contract Legislation
  - Purchasing Policy & Purchasing Procedures
  - Charter/Code of Ordinances
  - Investment Policy/Collateral Policy
  - Financial Policies
  - FIRREA
  - Other

# Know Your Needs

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- Review Bank Account Analysis & Bank Statements
  - Use of Services
  - Volumes & Activity
- Identify Required & Considered Services
  - Fraud Protection Tools
  - Efficiency Enhancement
  - Cost Savings
  - What Services to Include/Exclude

# Selection Criteria

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- Develop Evaluation Basis
- Determine Distribution
  - Area/Boundaries (non-local)
    - Non-local Permitted/Not Permitted
    - Competitiveness Issue
    - Protectionism Considerations
    - Convenience Factor
    - Advertisement Requirement

# “Best Value”

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- Ability to perform and provide the required and requested services
- Retention/Transition Incentives
- Reputation of applicant and quality of services
- Cost of services
- Funds availability
- Interest paid on interest bearing accounts and deposits
- Earnings credit calculation on compensating account balances
- Completeness of application and agreement to points outlined in the RFP
- Convenience of locations
- Previous service relationship
- Financial strength and stability of institution

“The \_\_\_\_\_ reserves the right, at its sole discretion, to accept the proposal which it considers most favorable to the \_\_\_\_\_'s interest.”

# Who's On The List?

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- Create List of Financial Institutions
  - Purchasing
  - Bank Officer Calls & Prior Proposals
  - On-line Search

# Make Sure They Get It!

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- Contact Banks
  - Obtain Name, Complete Contact Information of Designated RFA/RFP Recipient
  - Discuss the Process & Timeline with Designated Recipient

# How Do They Get It?

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- Verifiable Delivery Service to Recipient
- Website
- Email
- Bid Posting Services
- Hand Delivery



# Develop RFP

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- Cover Page
- Table of Contents
- Response Requirements
- RFA/RFP Contact Person
- Criteria for Evaluation
- Account Activities
- Required Services
- Services That May Be Considered

# Develop RFP (cont'd)

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- Collateral Requirements
- Investment Activities
- Overdraft Provisions
- Other Stipulations
- Miscellaneous
- Exhibits
- Fee Schedule
- List of Response's Required Attachments

# Put It On The Street

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- Attorney Review (if policy or practice)
- Publish Advertisement
  - 1<sup>st</sup>
  - 2<sup>nd</sup>
- Distribute RFP
  - Transmittal Letter
  - RFA/RFP Document
  - Investment/Collateral Policy
  - CD ROM or Flash Drive with RFA/RFP (Word) & Fee Schedule (Excel)

# Encourage Responses

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- Confirm RFA/RFP Receipt
- Conduct a Pre-proposal Conference
- Provide Period for Additional Questions
- At Receipt of Proposals
  - Open, Read the names of the respondents, Check for Completeness, & Log In
  - Store Bid Bond Checks

# Financial Considerations

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- Proposed Fees
  - No Fees (may not be the best option)
    - All (or some) Fees Waived
    - Minimum Balance Requirement?
    - Hard-Dollar Interest Options
  - Service Fees
    - Compensating Balance
    - Earnings Credit Rate
    - Reserve Requirement
    - Settlement Cycle
    - Deposit Balances as an Investment?

# Financial Considerations (cont'd)

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- FDIC Insurance – Charged or Waived
- Reserve Requirement – Included or Waived
- Transition/Retention Incentives
- Projected Cost of Transition
- Best and Final Offer?

# Analyze Responses - Fees

	<u>Incumbent</u>	<u>Bank B</u>	<u>Bank C</u>
<b><u>Proposed Fees</u></b>			
Monthly Fee Estimate	(3,291)	(7,175)	(5,238)
Fees for Two Year Term	(78,994)	(172,198)	(125,709)
Fees for Five Year Term	(197,486)	(430,496)	(314,273)
<b><u>Contract Incentives</u></b>			
Waived Fees			15,000
Conversion Costs (Cash Payment)		15,000	
Initial Order of Checks & Deposit Slips (Credit)			
Other			
Total Fees for Two Year Term less Incentives	(78,994)	(157,198)	(110,709)
Total Fees for Five Year Term less Incentives	(197,486)	(415,496)	(299,273)

# Analyze Responses – Earnings Credit

	<u>Incumbent</u>	<u>Bank B</u>	<u>Bank C</u>
<b><u>Earnings Credit</u></b>	Managed rate. Subject to change.	Current Std rate of 0.25% + 0.15%	Avg Fed Funds Rate - 0.25%. Floor 0.70%
Earnings Credit Rate	0.70%	0.40%	0.70%
Target Balance Allocated To Offset Fees	6,265,000	21,825,000	7,900,000
Monthly Earnings Credit less Reserve	3,289	6,548	4,608
Earnings Credit for Two Year Term	78,939	157,140	110,600
Earnings Credit for Five Year Term	197,348	392,850	276,500
Reserve Requirement	Yes (10%)	Yes (10%)	NO
Net Fees for Two Year Term	(55)	(58)	(109)
Net Fees for Five Year Term	(138)	(22,646)	(22,773)



# Analyze Responses – Interest

	<u>Incumbent</u>	<u>Bank B</u>	<u>Bank C</u>
<b><u>Interest Income</u></b>			
Investment Option	NOW Account. Floor 0.40%	Public Funds Savings	Public Funds MMA. Floor 0.45%
Interest Rate	0.40%	0.15%	0.45%
Investment Balance	38,735,000	23,175,000	37,100,000
Monthly Investment Income	12,912	2,897	13,913
Two Year Investment Income	309,880	69,525	333,900
Five Year Investment Income	774,700	173,813	834,750
Two Year Income/(Cost)	309,825	69,467	333,791
Five Year Income/(Cost)	774,562	151,167	811,977

# Compare Other Requirements

		<u>Incumbent</u>	<u>Bank B</u>	<u>Bank C</u>
	<b><u>RFP Responses</u></b>			
1	On-Line Banking Services (R)	Yes	Yes	Yes
2	Positive Pay & Account Recon (R)	Yes, but payee name?	Yes	Yes, but payee name only checked if exception
3	ACH Direct Debit (R)	Yes	Yes	Yes
4	Electronic Data Interchange (R)	Yes	Yes	Yes
5	Consumer Bill Pay Processing (R)	Yes	Yes	Yes
6	ACH Debit Blocking (R)	Yes	Yes	Yes
7	Funds Availability	Yes	Yes	Yes
8	Employee Check Cashing (R)	Yes	Yes	Yes
9	Returned Check Reprocessing (R)	Yes	Yes	Yes
10	Account Analysis (R)	Yes	Yes	Yes
11	Bank Statements (R)	Yes	Yes	Yes
12	Payment for Services	Yes	Yes	Yes
13	Account Settlement	Yes	Yes	Yes

...and so on through all RFP requirements and components.

# Make A Selection

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- Perform Analysis of Proposals in Accordance with Evaluation Criteria
- Presentation/Demonstration & Reference Checks (if not incumbent)
- Prepare Recommendation to Committee & Governing Body
- Organize/Amend Potential Contracts & Agreements

# Depository Bank Services Agreement

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- Names By and Between Parties
- Designation of Depository
- Establishes Intent to Provide Services
- Incorporates Response to RFP (By Reference)
- Duties & Obligations
  - Bank
  - Entity
- Designation of Custodian, Duties & Responsibilities

# Depository Bank Services Agreement (cont'd)

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- Default Definition & Provisions (Including Sale of Collateral)
- Successors
- Governing Law
- Venue
- Notices
- Severability
- FIRREA Representations
  - Board/Committee Acknowledgement of Contract
  - Authorization of Pledged Collateral

# Bank Depository Services Agreement (cont'd)

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- Supersedes All Other Documents
- States Contract Term, From Date
- Termination Provisions
- Signatures of Execution

# Custodial Agreement

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- Tri-Party or Bi-party Relationship
- Collateral Requirements
- Custody Provisions
- Control of Collateral in Event of Default
- Representations & Warranties
- Direct Reporting to Entity
- Termination

# Final Approval

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- Selection /Recommendation:
  - Prepare Agenda Briefing
  - Notification to Proposed Bank
- Governing Body Approval
  - Authorize Execution (Not Actual Documents)



# After Award By Governing Body

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- Execute Agreements
- Notify Other Respondents - Bid Bond Return
- Develop Transition Plan \*
- Notification To All Affected Parties
- FIRREA Compliance Documentation
  - Need to be Vigilant to Retain Documents

\* Not Required if Incumbent Bank is Selected

# Financial Institution Reform Recovery & Enforcement Act

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## **e) AGREEMENTS AGAINST INTERESTS OF CORPORATION.--**

(1) IN GENERAL.--No agreement which tends to diminish or defeat the interest of the Corporation in any asset acquired by it under this section or section 11, either as security for a loan or by purchase or as receiver of any insured depository institution, shall be valid against the Corporation unless such agreement--

(A) is in writing,

(B) was executed by the depository institution and any person claiming an adverse interest thereunder, including the obligor, contemporaneously with the acquisition of the asset by the depository institution,

(C) was approved by the board of directors of the depository institution or its loan committee, which approval shall be reflected in the minutes of said board or committee, and

(D) has been, continuously, from the time of its execution, an official record of the depository institution.

# Tips & Suggestions

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- Allow Minimum of Six Months for Full Process
- Get the RFA/RFP to the Right Person!
- Allow at Least a Month for Response
- Minimize Copies (Request Response PDF)
- Provide Word RFA/RFP & Excel Fee Schedule
- Accept Links to Financial and Other Information
- Maximize/Optimize Fraud Protection

# Tips & Suggestions (cont'd)

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- Require a Bid Bond Check
- Consider as a Maximum Term
  - Structure it with a 2-Year Initial Term
  - 1-Year Extension Options (with written execution)
  - Under Same Terms and Conditions.
- Require Monthly Account Analysis Statements
  - But Quarterly Fee Settlement
- Include Component Units?

# Final Thoughts

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- Changing Environment
  - Attractive Interest Rates on Balances
  - Favorable Earnings Credit Rates
  - Fees Stable/Item, but More Services Charged
  - Increased Bank Regulations and Requirements
  - Imperative that All Documents Are Appropriate and Adequate
  - Monitor Account Analysis and Reconcile!

# Questions?

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