



Depository Contracts

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The Golden Rule

- He who has the gold makes the rules!
- Create an equal working relationship
- Start with your RFP
- You take control of the process!



Legal Requirements

- Cities and ISD: Local Government Code 105
 - Applications
 - Banks outside your jurisdiction require resolution
 - Notice
 - Designated officer name and address
 - Date and time of submission
 - Date and time of award
 - Publication 21 days prior to deadline (general newspaper)
 - Council may approve *one or more* applications
 - Transfer funds no later than 60 days after award

Set the Timeline

- Allow 3-4 weeks for RFA to be out
- Allow 2 weeks for evaluation
- Allow a minimum 1 month for transition
- Spring and school districts conflict and affect

Current Influences

- Bank regulations make public funds unattractive
- Regulatory balance fees cost 10-12 bps
- Rates are moving to give alternatives
- You want to look at sweeps
 - Reduce collateral
 - Eliminate regulatory fee – on banks charging it

Background: Before you start

- Account analysis volumes for past 12 months
- Needs analysis on services: old and new
- Do you need all your services?
(controlled disbursement, CD, paper)
- Do you need new services?
(payee PP, recon, safekeeping)

The All Important Account Analysis

ANALYSIS SUMMARY

BALANCES

Average Positive Collected Balance.....	\$	67,495,478.26
investable Balance Available for Services.....	=	67,495,478.26
Earnings Allowance..... @ 1.00%	\$	55,475.68
DDA Interest Paid.....	-	11,267.73
Net Earnings Allowance.....	=	44,207.95
Current Month Analyzed Charges.....	-	13,602.50
Current Month Position.....	=	30,605.45
Prior Position Carried Forward.....	+	245,232.09
Net Position Carried Forward.....	=	275,837.54
Total Amount Due.....	\$	0.00



Number of days this cycle:		30
Investable balance required to offset \$1.00 of analyzed charges:	\$	1,217
Balance required to cover all analyzed charges:	\$	30,258,810

BALANCE SUMMARY

<u>Account Number</u>	<u>Account Name</u>	<u>Average Ledger</u>	<u>Average Collected</u>	<u>Average Daily Negative Coll</u>	<u>Negative Coll Use of Fund Rate</u>	<u>Service Charge</u>
		5,141,034.34	5,040,773.04	0.00	0.00%	2,678.86
		200.00	200.00	0.00	0.00%	29.99
		0.00	0.00	0.00	0.00%	2.86

Service History

- Create a 12 month history

<u>Svc Code</u>	<u>AFP Code</u>	<u>Service Description</u>	<u>Unit Price</u>	<u>Volume</u>	<u>Service Charges</u>
IAMIB	00 0230	RECOUPMENT MONTHLY IB ←	0.12750	62,454.50	7,962.95
IAMTH	00 0230	RECOUPMENT MONTHLY	0.12750	5,141.23	655.51
		BALANCE & COMPENSATION INFORMATION			8,618.46
14110	01 0101	CONT DISB CREDITS POSTED	0.40000	49.00	19.60
22813	01 9999	NON ACCT HOLDER CHK CASHING-EXEMPT	0.00000	2.00	0.00
22814	01 9999	PAYEE VALID NON ACCT HLDER-CHK CASH	0.00000	13.00	0.00
15007	01 0101	DESKTOP DEPOSIT CREDIT POSTED ←	0.35000	178.00	61.60
34145	01 0300	CEO E-STMT SUBSCRIPTION - ACCOUNT	10.00000	8.00	80.00
34147	01 0300	CEO E-STMT SUBSCRIPTION - ITEM	0.10000	2,954.00	295.40
DS585	01 0021	SUBACCOUNT MAINTENANCE	1.00000	91.00	91.00
22051	01 0000	ACCOUNT MAINTENANCE-CHEXSTOR	6.00000	2.00	12.00
22404	01 0010	ACCT MAINTENANCE CHEXSTOR-PLUS	6.00000	4.00	24.00
CK021	01 0100	DEBITS POSTED	0.05000	111.00	5.55
46106	01 0102	CEO BASIC BANKING - TRANSFER	1.00000	9.00	9.00
		GENERAL ACCOUNT SERVICES			598.15
34235	10 0410	CEO RETN ITEM SUBSCRIPTION PER ACCT	5.00000	1.00	5.00
34237	10 0410	CEO RETN ITEM SUBSCRIPTION PER ITEM	0.01000	94.00	0.94
70025	10 9999	SMART DECISION ELEC CHK ACH TRANSIT	0.05000	428.00	21.40
70029	10 9999	SMART DECISION ELEC CHECK ACH ONUS	0.03000	97.00	2.91
08008	10 0110	VAULT DEPOSITED COIN - ROLLED ←	0.12000	28.00	3.35
08071	10 0111	CASH VAULT COIN DEP-PARTIAL/MIX BAG	12.00000	6.00	72.00
08132	10 0100	CASH VAULT MONTHLY BASE	4.81538	65.00	300.00

AA Trouble Spots

- There is no uniform numbering
- Banks refer to products differently
 - Use the generic term (ex: remote deposit)
- Deposits at branch and vault
 - Dollars versus straps and rolls
 - Use a sample deposit for an overview
- Use time to carefully review current use
- Understand the terms in your current analysis

Create your Fee Proposal Attachment

ATTACHMENT A		<p>Monthly detail on each line item is found on hidden columns in worksheet. Please price any fee that is required by your institution to provide the service regardless of whether a volume is noted. These prices should reflect the total costs which would be charged by your institution. If fees are detailed elsewhere, place the attachments behind this Attachment in proposal. An * indicates sporadic use. See monthly volumes for specific information.</p>			
2017 PROPOSED FEES		Aug. Mo Vol.	Proposed Fee	Extended Fee	Explanatory Bank Notes, if applicable
AFP	Average Collected Balances	4,377,457			
000230	FDIC Assessment Rate (% or basis points)				
	General Account Services				
010000	Account maintenance with Checkstor	1			
010020	Sweep Maintenance				
010021	ZBA Accounts				
010112	Sweep Transfer Fee				
010100	Debits Posted	8			
010101	Remote deposit CR posted				
100015	Miscellaneous Credits Posted	+			
150500	On-us check cashed for non-account holder	2			
010630	Bank confirmation audit request	*			
	Online Treasury Services				
400002	Online basic banking monthly Maint.	1			
400002	Online basic banking add'l acct monthly maint	3			
400000	Online prior day subscription monthly maint.	1			
400001	Online prior day - items loaded	1,160			
400003	Online intraday subscription monthly maintenance	1			
400224	Online intraday item viewed	305			
400224	Online controlled disbursement subscription - item				
4002ZZ	Online event messaging service - via email	25			
400340	Online wire inquiry detail per item				
151350	Paid Check Image Monthly Base (WellsImage)	1			
151353	Paid Check Image Check/CD (WellsImage)	1			
151399	Paid Check Image per Check (WellsImage)	734			
151352	Online Image View < 90 Days	3			

Your Fee Proposal Form

- Send it in Excel
 - Require paper submission but 1 electronic archive copy too
- Hide history columns your analysis history columns
 - Never release the real analysis
- Define services carefully
- Require all fees be included – may be on pro forma
 - Verify items on pro forma are included – *add to your sheet*
- Use generic terms for services
- Organize in an order that makes sense to you
 - Automated, stops pays, deposits (branch vs vault), straps
- Remember banks charge differently
 - Image vs. Image create, image review, image retain....

How you will use this

- Not apples to apples in several areas
- Different account structures may be required
- Links to other fees and extensions should be considered
- Require all fees on one sheet

AFP #	Service	Volume
010000	Account Maint.	6
000230	Regulatory Fee	bps.
010020	Sweep Maint	1
010021	ZBA Master	1
010022	ZBA Subsidiaries	5
010020	MMMF Sweep	1

Two very different approaches

Rates are as important

- Historical (1 year) and current rates
- Indexed, floors, caps, etc.
 - Check history and spreads on the indexes
- Key Rates:
 - ECR
 - Interest Bearing
 - Money Market Account
 - Sweeps

RFA/RFP Format

- The question makes all the difference
 - Get details for comparisons – get confirmations
- Submission Instructions
- Overview
- Financial Institution Qualifications
- Required Services
- Optional Services
- Alternative Services

- Bidding banking and merchant services...

Submission Instructions

- Ground rules
- Timeline
- Proposal format
- Pre-proposal conference or question submission
- Selection criteria
- Reserved rights
- Those pesky purchasing terms – are they applicable?

Entity Overview

- Short summary
- Deposit locations and funds movement
 - Primary bank activity in ---accounts
- Average payroll and direct deposit - frequency
- Bank accounts description and averages balances
- Account structure

Title	Avg Collected	Description	Type
General Account	\$ 4,000,000	General Dep/Checks	ZBA Master
Payroll	\$ 00	Payroll	ZBA Subsidiary
I&S	\$ 50,000		Interest Bearing

Financial Institution Qualifications

- Creditworthiness
 - Senior and subordinate ratings, bank rating services
- Customer Services and locations
 - How and how often
- References
- Depository Contract and Service Agreements
 - Get them UP FRONT
- Implementation Timeline
- Community Involvement
 - Key to many councils and boards
- Incentives
 - Identify and quantify (waivers, supplies, scanners, ongoing..)

Required Services

- Account structure
 - Optimal structure
 - Sweep structure – including funds and reporting
 - Regulatory fee collection
 - Additional accounts

Required Services

- Online services
 - Demo evaluation of portal
 - Searches and customized reports and screens
 - Experience with *your* system
 - Event messaging – how?
 - Retention and availability
 - Intraday updates
 - Security protocol (control)
- Mobile services – are they appropriate?

Required Services

- Depository Collection Services
 - Vault use?
 - Deposit images (check, slips and items)
 - Advices
 - Bag type and costs
 - Using a sample deposit for a real surprise!!
- Remote deposit
 - Cut-off times
 - Scanners

What does it cost OTC or Vault?

		Straps	Total \$		
Currency	\$100	7	\$ 700		
	\$ 50	14	\$ 1,400		
	\$20	20	\$ 2,000		
	\$10	5	\$ 500		
Mixed	--		\$ 27		
Coins	\$ 0.25		\$ 427		
	\$ 0.10		\$ 55		
	\$ 0.05		\$ 22		
Checks			\$ 140,222		
			\$ 147.353		

Required Services

- Disbursing
 - Image availability and retention
- Purchasing Cards
 - Information and restrictions (velocity, \$\$, MCC, trans)
 - Support
 - Issuance

Required Services

- Positive Pay and Payee Positive Pay
 - Review times
 - Type of notification
- Reconciliation
 - Very distinct methodologies
 - Full, partial and deposit
- RCK (Represented Checks)
 - Increases collection rates

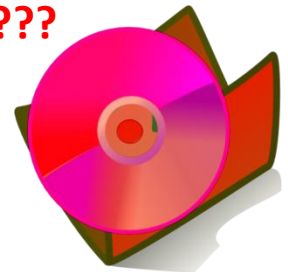
Required Services

- Funds Transfers and Wires
 - Templates and monitoring online
 - Future dating
 - Security protocols
- ACH
 - Origination (pre-funding) versus settlement debits
 - Filters and blocks
 - Addenda reporting (EDI or...)

Required Services

- Safekeeping
 - Correspondent and brokerage safekeeping
 - Online access (origination and reporting)
 - Clearing >> safekeeping >> income distribution
- Account Analysis
 - Timing on line and retention
- Statements
 - Timing on line and retention

**Do you really need
that CD???**



Required Services

- Collateral
 - Set the conditions and ask for any exceptions
 - 102%, independent party, FIRREA, *'liability', reports*
 - Custodian approval
 - Not a 3-way agreement
 - Online systems
 - Substitution
 - Additional collateral requests
 - Avoid them through pool use
 - Check requirements very carefully

Required Services

- Stop pays – renewing or voiding
- Overdrafts
- Company banking
- Non-accountholder check cashing

Optional Services

- Use these to compare against internal processing or alternatives
- Check printing
- Smart safes
- Commercial cards

Merchant Services - A Special Case

- Can be bid with banking or as dual bid
- Advantages and disadvantages to combining services
- Extensive questionnaires required although this is basically a commodity now
 - Knowledge of departmental processing is key
 - Types and size of transactions can differentiate

Getting the Word Out and Controlling the Process

- Legally you publish but
 - Going out of your jurisdiction (resolution required)
 - General circulation newspaper if you go outside
- Direct contact through email process
 - Get emails for proper contact at each local bank
 - Send notice of the upcoming RFA
 - Require a reply email to send RFA
 - Send on date certain – electronically

Bank Questions and Your Responses

- Date certain for emailed questions
- Date certain for answers to all known respondents

- Do not identify the bank asking
- Eliminate duplicate questions
- Do not give the account analysis
- Sometimes you just say no

Evaluation - Science Meet Art

- Fee component
- Earnings Potential Component
- Service Component
- Bringing it together

Service Evaluation

- Weight each question
- Score each question
- Objective scores are critical

Objectivity

SVC	Weight	Points	Score	Notes	Points	Score	Notes
ZBA	3	1	3	Internal	3	9	To MMMF
RDA Time	2	2	4	5:00	2	4	7:00
S/K Fees	3	1	3	Hard	3	9	AA
Security	3	0	0	Bank	2	6	City
Bag Type	2	2	4	Either	2	2	Polyseal
Reports	3	2	6	Set	3	9	Custom
Totals			20			39	

Fee Analysis - Use Caution

- Banks charge differently in different areas:
 - Deposits – straps vs dollars
 - Deposits at branch or vault (add in the armored car \$)
 - Images – one cost or create, view and retain
 - Online access – what is the standard?
 - Monthly Maintenance vs item cost only
 - ACH – batch release, transmission, subscriptions, transmission file or items,
 - Safekeeping – cusip, 3rd party, income

Incentives

- Some are one time – some continue
- Set rates versus negotiation on extensions
 - Why do extensions and not one contract?
- Waiving months of services
 - The first month won't equal a total month fees
- Supplies
 - Bag and slip costs – know beforehand
- Scanners
- Floors and caps – indexed rates – check history

Contracts and Service Agreements

- Get these all as part of the RFA and review them
- Execution agreement before award
- Overlapping terms of liability and fees
- Create one master agreement
 - Tie the RFA to it where conditions were set
 - Tie the Proposal to it where conditions were confirmed

The Newest Quandary Collateral

- Many banks will only collateralize with LOC
- Legal – is it authorized?
 - AG Opinion clarifies its status not its use
- You may have to add it to get a proposal
 - “preference will be given to pledged securities”

The Case for Sweeps Now

	W/Reg Fee	W/out Reg Fee		W/ Sweep
Monthly Fees	1,500	1,500		1,500
ECR %	0.40%	0.40%		0.40%
Required Bal	4,500,000	4,500,000		00
Regulation Fee	450	00		00
New Total Fee	1,550	1,500		1,500
New Req Bal	5,850,000	4,500,000		00
Sweep Amount			@0.30%	2,000,000
Outside Invt \$	4,150,000	5,500,000		8,000,000
Outside Rate	0.75%	0.75%		0.75%
Total City Earn	31,125	41,250		66,000
Net City				64,500

Additional Considerations

- Bank earnings rates on interest bearing and MMA
 - Do they compare to outside rates?
 - CDs are never part of calculation – bid separately
- Transition costs – staff time and supplies
- Political considerations

The Contract

- Master agreement structure
- Tie in all your work and their responses
- Terms set before award
- Use those waived months wisely



Good Luck!
