



Procurement of Banking Services

Determining Your Needs



- What do we do today?
 - ✓ Analysis – current services, systems and procedures
- What are our goals? (efficiency, modernization, lower costs)
- What is our typical number of annual collections?
 - ✓ Are there ebbs and flows that need to be addressed?
 - ✓ How many different types of points of service?
- What is our typical number of annual payments?
 - ✓ Are there ebbs and flows that need to be addressed?
 - ✓ How many checking accounts?
- What improvements are needed/services?
 - ✓ Do we want to outsource any functions?
 - ✓ Do we want to add services – internal or external?

Determining Your Needs



- What improvements are needed/processes?
 - ✓ Have there been changes to changes to internal policies and procedures (e.g., P-Cards?)
 - ✓ Have there been any breeches of conduct or systems that need to be addressed?
- What "new" products are banks offering?
- What new technologies should we consider?
- Am I clear on state/local laws that impact my government and banking services?
- Do I want to hire an outside advisor to help with the RFP/selection process?

Determining Your Needs



- Who is part of the Banking Services RFP team?
 - ✓ Team vs staffing the process (Conflicts of Interest)
- What other parties/departments should be included?
- What are your entity's procurement procedures?
- What is our time frame?
 - ✓ Developing RFP
 - ✓ Reviewing RFPs
 - ✓ Interviews
 - ✓ Implementation
- What is our approach to costs associated with banking services?
- Does your government have the wherewithal to change banks if that is determined necessary?

Importance of Banking Relationships



- Accounts/relationship with 5 banks
- 2 investment accounts
- Who do you call in an emergency?
- How fast can your bank act?
- How safe is your money?

Importance of Banking Relationships – Case Study



- What happened?
 - ✓ Friday afternoon – completing bank rec, fraud identified
 - ✓ Contacted bank to discuss – told positive pay and ACH block “to expensive”
 - ✓ Completed affidavit – bank will investigate fraud
- Now what?
 - ✓ Called another bank – inquired about new account – PP/PPP, ACH block, etc.
 - ✓ Paperwork – received, processed, and new account opened in 3 days
 - ✓ Check stock – ordered and received in one week
 - ✓ Original bank – confused why I moved that book of business
- Banking Services RFP issued two months later
 - ✓ Primary banking relationship was changed

GFOA BP: Procurement of Banking Services



- Establish a procurement process
 - ✓ Periodic review
 - ✓ Defined due diligence
- Know state and local laws and regulations for banking services
- Develop scope - Know what you want!
 - ✓ All services at the same bank
 - ✓ Best in class – possibly not all at the same bank
- Use an RFP process
 - ✓ Services
 - Fees
 - Earnings credit rates
 - Availability schedules of deposited funds
- Independently evaluate creditworthiness of bank

GFOA BP: Procurement of Banking Services



- Contractual relationship
 - ✓ Specify services
 - ✓ Fees (direct, compensating balances, or mixed)
 - Earnings credit rate
 - Reserve requirements
 - Insurance fees in deposits
 - ✓ Other compensation components
 - ✓ Tri-party depository contracts that require custodian to comply with collateral requirements
- Identify for your entity and the bank primary relationship managers who will be central point of contact

GFOA BP: Procurement of Banking Services



- Evaluate your entity's needs in comparison to costs and benefits
- Electronic services
 - ✓ Balance and transaction-reporting services
 - ✓ Stop payments
 - ✓ Payment capabilities
 - ✓ Deposit capabilities
 - ✓ Transmitted account analysis and statements
 - ✓ Digitized storage of paid checks and statements
 - ✓ Stale date check management
 - ✓ Access to safekeeping/custodial information
 - ✓ Access to investment performance reporting

GFOA BP: Procurement of Banking Services



- Accounts
 - ✓ Controlled disbursements
 - ✓ Collection account
 - ✓ Zero-balance
 - ✓ Interest-bearing
 - ✓ Investment sweep account
- Security features
 - ✓ Positive pay and payee positive pay
 - ✓ Reconciliation services
 - ✓ ACH blocking/filtering
 - ✓ Check to ACH conversion
 - ✓ Non-sufficient funds
 - ✓ Collateral requirements

GFOA BP: Procurement of Banking Services



- Treasury management services
 - ✓ Lockbox services
 - ✓ Credit card/Merchant services
 - ✓ Safekeeping or custodial arrangements (DVP) for investing
 - ✓ Procurement cards
 - ✓ Stored value (payroll) cards
 - ✓ Web links for internet payment services
- Other services
- Consider using RFI before RFP to help determine scope
- Work done prior to RFP is important
- Consult similar jurisdictions

Forms of Requests



- Request for Proposal (RFP) - formal request
 - ✓ Needs Determined
 - ✓ Costing for Services
- Request for Qualifications (RFQ) – informal request
 - ✓ Looking at Providers
 - ✓ Information Only
- Request for Information (RFI) – informal request
 - ✓ Gathering of Ideas
 - ✓ Looking for Suggestions

The Importance of an RFP Process



- Creates competition
- Brings objectivity to process
- May allow for negotiations with current provider
- Allows for an opportunity that may otherwise not exist

RFP For Banking Services



Summary of RFP

- State why the government is issuing an RFP (e.g., previous contract expired, new services needed, something has changed to create a need, etc.)
- Briefly list required and optional service areas
- State the government's intent, if applicable, to award full or partial services (bundled/unbundled)
- State anticipated start date and duration of banking services agreement (include initial contract periods with options for extension, if possible)

RFP For Banking Services



- Background information on the government
- Provide a short section with relevant background information on the government with a focus on the current banking situation, including:
 - ✓ Government structure and community background (including population)
 - ✓ Current accounts and average collected balances, noting types of accounts (ZBA, MMA, etc.)
 - ✓ Number of employees and percent paid by direct deposit or pay cards

RFP For Banking Services



- Timeline for the procurement process
- Provide a brief, specific timeline with key milestones, including:
 - ✓ Issue date of the RFP
 - ✓ Timeframe for questions about the RFP and the government's responses to the questions, with specifics on how to submit questions. (Some governments may also choose to hold a pre-bid conference.)
 - ✓ Answers to subsequent questions go to everyone
 - ✓ Date and method for submitting the bank's RFP response
 - ✓ Interview and/or demonstration dates (if required)
 - ✓ Contract approval
 - ✓ Implementation

RFP For Banking Services



Scope of Banking Services

- Indicate any specific needs or any unique qualities that the government might have.
- Specify any deadlines or time constraints the government might have.

RFP For Banking Services



Scope of Banking Services

- Provide historical usage data (or estimates) for all services currently being used
- Governments seeking a new service that lacks historical data may:
 - ✓ need to estimate usage numbers based on peer governments' experience (or other methodology) and/or
 - ✓ estimate a range of transactions per service. Governments should indicate that these are *estimates*, but not guarantees of service level requirements.
- Can use open-ended questions to identify differences between banks rather than setting specific requirements

RFP For Banking Services



Core and Optional Services

- Wire Transfer Services
- Automated Clearing House (ACH)
- Availability of Funds
- Monthly Statements and Account Analysis
- Collection and Deposit Services
- Remote Deposit Services
 - ✓ Check Truncation
 - ✓ Check Conversion

RFP For Banking Services



Core and Optional Services

- Collateralization of Deposits
- Lockbox
- Online Banking Services
- Electronic Storage of Documents
- Vault Services

RFP For Banking Services



Core and Optional Services

- Payment Card Services/Merchant Services
- Interactive Voice Response/Interactive Web Response Functionality
- 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
- Payables Services

RFP For Banking Services



Bidder Instructions

- Timeline for procurement process
- Information banks must submit
 - ✓ General banking information
 - ✓ Incentives offered by the bank for transition/retention
 - ✓ Account servicing
 - ✓ References
 - ✓ Fees/Pricing for required or optional services
 - ✓ Historical rate
 - ✓ Transition plan approach and timeline
- Government's standard procurement requirements
- Limit content

RFP For Banking Services



Proposal Evaluation

- Two approaches
 - ✓ Scoring system with precise weight to various criteria
 - Info is disclosed in RFP
 - Provides an objective process
 - ✓ No scoring system outlined
 - Allows for more flexibility for government
 - Provides a qualitative view of responses

RFP For Banking Services



Proposal Evaluation

- Describe the government's evaluation criteria, which may include:
 - ✓ Financial strength (may be an additional evaluation criterion, or it may be a minimum qualifying standard.)
 - ✓ Ability to meet the government's current and projected service requirements over the term of the banking agreement (any past experiences with the bank will be taken into consideration)
 - ✓ Best availability schedule for deposit items
 - ✓ Capacity to provide a wide range of electronic banking services
 - ✓ Cost per identified activity, aggregate banking services cost, and corresponding compensating balances (if applicable)
 - ECR – Earnings Credit Rate
 - ✓ Relationship team – experience with government banking
 - ✓ References

RFP For Banking Services



Other Attachments

- Include the following documents with the RFP (or provide website links):
 - ✓ Government's annual financial report
 - ✓ Government's investment policy, including collateral requirements and statutory certification
 - ✓ Standard contract documents (if applicable), including:
 - Banking services agreement
 - Wire transfer agreement
 - Collateral agreement

Discussion Questions



- Why are governments reluctant to engage in a banking services RFP process?
- What are the costs/concerns with 'we will just keep doing what we've been doing'?
- What are the challenges of changing banks?



Paying For Banking Services

Paying for Banking Services



- Compensating balances
- Direct fee payment
- Combination of balances and fees

Compensating Balances vs. Direct Fees



- In terms of what should be done: *direct fees*
- Private and public sector moving to fees
- Payments with direct fees are less expensive than payments with balances
- Monthly monitoring required
- Reality: Some fees and some balances

Compensating Balances



Compensating balances are popular because:

- “I don’t pay the banks anything”
- No budgeting impact
- “That’s the way we’ve always done it”
- With fees, direct investment program must beat the monthly average of the 91 day T-Bill rate
- If using balances, make sure any over payment reverts back to you on an annual basis
- Requires annual settlement process

Advantages of Using Fees



- Required bank reserves (10%) become earning assets
- Direct investment of balances normally exceeds bank earnings credit rate
- Lower balances mean lower FDIC assessment
- Lower balances mean reduced state collateral requirements
- Bank charges properly expensed, not “hidden”
- In some cases, fees can be charged against the investment income account as a cost of the overall investment program

Potential Problems Using Fees



- Requires appropriation to pay fees
 - ✓ Is this really a problem as it is contractual?
 - ✓ Transparency to the board, council, and public
- Requires additional monitoring of collected balances
- Requires active/passive investing

Decision Factors: Fees vs. Balances



- Time/resources
- Active investor
- Cash flow monitoring
 - ✓ Putting ideal cash to use faster
- Cost/yield of cash management techniques available
- In either case a pricing schedule should be used
 - ✓ Competitive bid process
 - ✓ Negotiation

Discussion Question



- How does your entity pay for banking services?
- Have you recently reconsidered how you pay?

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Due Diligence on Financial Services Providers

Due Diligence



- Know all banking/financial services providers entity is using and for what purposes (cash and cash assets)
- During RFP process and on an ongoing basis, check ratings, regulatory filings, and other criteria to ensure the provider is in a strong financial position
- May want to use external sources for review
- Also ensure entities have strong disaster recovery and data breach standards, and they are communicated to customers

Due Diligence



■ Metrics for evaluation

- ✓ Bauer Star Rating (rating developed by Bauer Financial, for banks/financial institutions)
- ✓ Credit Rating Agency Rating (e.g., Moody's Investors Service, S&P Global Ratings, Fitch Ratings, etc.)
- ✓ Results from most recent FDIC Bank Report and/or Federal Reserve Stress Test (available for larger institutions)
- ✓ Composition of the financial institution's holdings and exposures
- ✓ Asset level and liabilities of the financial institution
- ✓ Liquidity analysis
- ✓ Composition of products used for collateralization of funds
- ✓ Other variables as determined by the entity

Due Diligence



- If there is a concern flagged, consider -
 - ✓ Discussing the issue with your financial institution's relationship manager to see if concerns can be addressed
 - ✓ Developing appropriate – but not panicked - strategies, including consideration of removing funds from the institution
 - Look for a win/win solution
 - ✓ Having more than one banking relationship to more readily transfer funds
 - ✓ Discussing opportunities with other financial institutions, including considering an RFP or RFQ for these services.

Due Diligence



■ Do Your Research

- ✓ Google Financial Institution Name
- ✓ FDIC/NCUA Website
- ✓ Bank financial statements – 10-K and 10-Q
- ✓ Call Reports
- ✓ Check references
- ✓ Other partners
 - Are there other companies or groups that rate banks based on deposits, non-performing assets, loan portfolios, lines of credit, corresponding bank relationships, community impact, financial health, and other measures?

Due Diligence Tool



Period Ending		31 Dec 2023	31 Mar 2024	30 Jun 2024	30 Sep 2024
Period		1	2	3	4
Banks / Financial Institutions					
AnyBank USA					
<u>Rating Agency Information</u>					
<u>Credit Ratings</u>					
Fitch		AA+	AAA	AA	AA
Moody's		Aaa	Aa3	A3	A2
S&P		AA	AA	AA-	AA-
<u>Outlook</u>					
Fitch		Positive	Stable	Positive	Stable
Moody's		Stable	Stable	Positive	Stable
S&P		Negative	Positive	Positive	Negative
<u>Bauer Star Rating</u>					
Bauer		4	3.5	4	3.5
<u>Probability of Default</u>					
1 year		2.40 %	0.50 %	0.50 %	1.00 %
5 years		33.10 %	22.40 %	22.40 %	20.00 %
Call Report Statistics					
<u>Total Risk-Based Capital Ratio</u>					
<u>Tier 1 Risk-Based Capital Ratio</u>					
<u>Tier 1 Leverage Ratio</u>					
<u>Risk-Weighted Assets</u>					
	\$ millions	872	950	951	960
<u>Exposure to Bank</u>					
% Assets of Total Bank Assets		5.55 %	8.25 %	10.00 %	9.50 %

- Record quantitative information on periodic basis
- Identify relevant data points
- Links to definitions

Due Diligence Tool



Comparisons and Trends		
Period Ending	30 Jun 2023	31 Dec 2023
	Comparative Period	Current Period
AnyBank USA		
Rating Agency Information		
Ratings		
Fitch	AAA	AA
Moody's	Aa3	A2
S&P	AA	AA-
Outlook		
Fitch	Stable	Stable
Moody's	Stable	Stable
S&P	Positive	Negative
Bauer Star Rating		
Bauer	3.5	3.5
Federal Reserve Stress Test Analysis		
Total Risk-Based Capital Ratio	13.73 % 	14.50 %
Tier 1 Risk-Based Capital Ratio	11.39 % 	11.25 %
Tier 1 Leverage Ratio	9.05 % 	3.00 %
Risk-Weighted Assets	950	960
Exposure to Bank		
% Assets of Total Bank Assets	8.25 %	9.50 %

- Are metrics moving in the right direction?
- If not, due additional research or reach out to your representative.

For illustrative purposes only

Due Diligence Tool



Banks / Financial Institutions			
AnyBank USA			
Holdings Diversification			
Holdings Diversification Comments			
Source			
Level of Concern		Minor Concern	Minor Concern
Collateral Composition			
Collateral Composition Comments			
Source			
Level of Concern		Minor Concern	Minor Concern
Recent News			
News			
Source			
Level of Concern		No Concern	No Concern

- Record qualitative information and subjective assessment on periodic basis
- Provide comments and sources of information
- Links to definitions



Case Studies: Financial Services Providers

Banking Services RFP Case Studies



- Know what you have
- Know what you need
- Know about 'new' offerings
- Decide whether to have one service provider or separate
- Have established process

Bank Accounts: Wood Dale



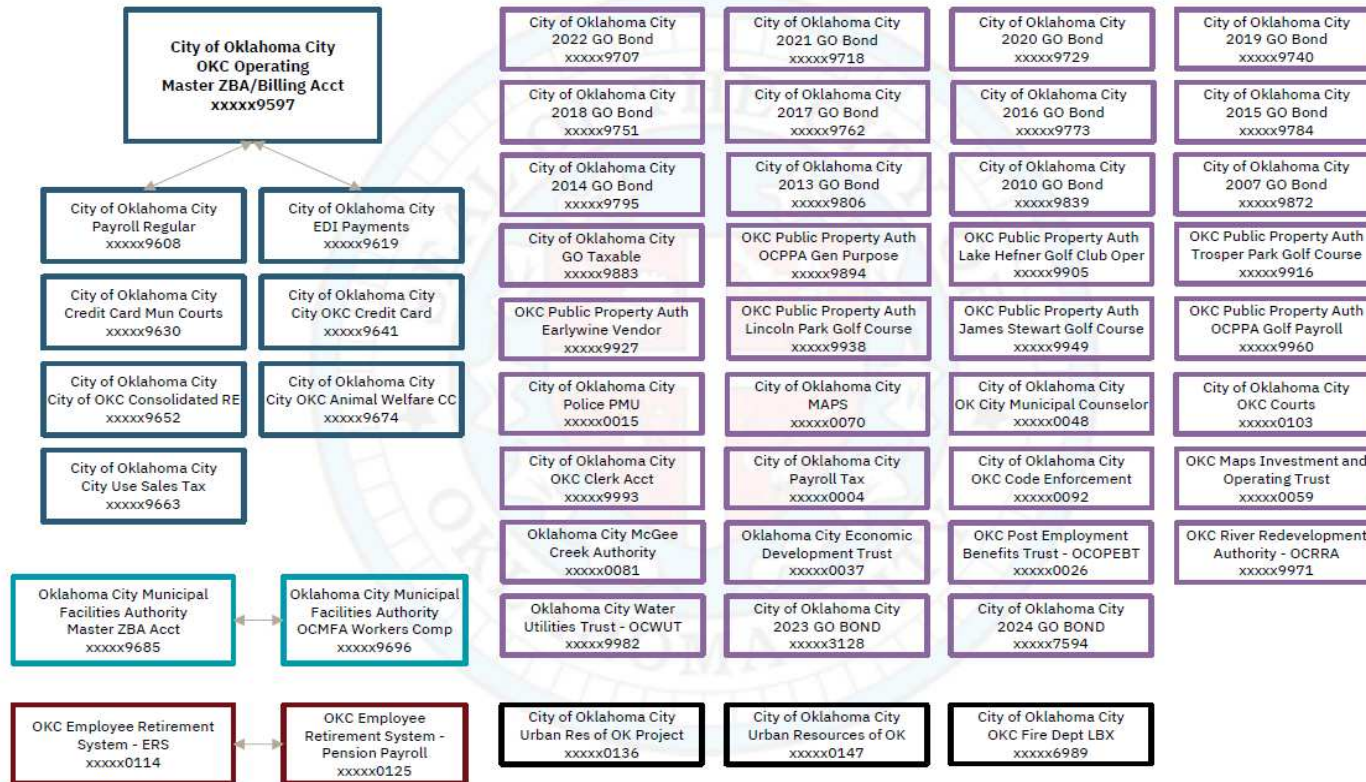
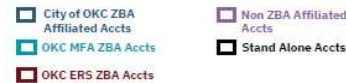
- Bank Accounts – Wood Dale
 - ✓ 20 current accounts across six different institutions
 - 9 required by statute
 - 2 investment
 - 3 stand-alone
 - Operating
 - Payables
 - Payroll
 - 3 sweep accounts

Bank Accounts: OKC



Account Structure

City of Oklahoma City



- 50 Demand Deposit Accounts
- 26 of those have associated Money Market Accounts
- Separate Legal Entities and Debt Issuances
- Revenue Bonds may have Master, Interest, Principal and Reserve Accounts

Discussion Questions



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