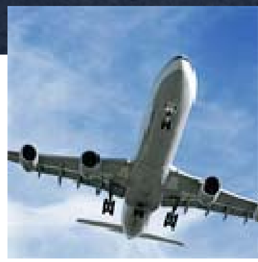


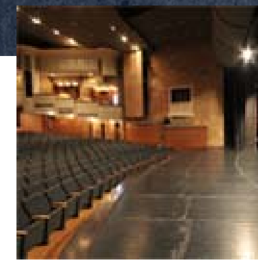

Banking Services Preparation, Evaluation

MoASBO Spring Conference 2015

The PFM Group
Financial & Investment Advisors

Presented by:
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Presenters

Maria Altomare
Managing Director

Maria Altomare joined PFM in January 2006 and has 29 years of investment and financial management experience. Ms. Altomare is responsible for the administration of PFM Asset Management LLC investment advisory and treasury management services throughout the Midwest. With extensive experience across a broad range of investment options she currently provides investment advisory services for operating funds, bond funds, pension, OPEB, endowments, and foundations, for a variety of PFM clients, including colleges and universities, school districts, cities, counties, authorities, hospitals, airports, and not-for-profit organizations.

Prior to joining PFM, Maria was Vice President of U.S. Bank, Government Banking Division, providing Investment and Treasury Management services to a broad range of public sector clients as well as the Missouri Securities Investment Program (MOSIP). She served as Head of Corporate Cash Management for Allied Irish Bank (AIB) to prepare, convert and roll out the Euro in 2002 to all Corporate clients across Ireland followed by implementing and rolling out iBusiness Banking, providing internet cash management services to all Corporate clients in Ireland and England. Maria also spent 15 years with Canadian Imperial Bank of Commerce (CIBC) where she was involved in two start-up organizations for CIBC as Business Development Executive for Client Relationship and Development. She was instrumental in growing CIBC Wood Gundy Ireland Inc., a Corporate and Investment Banking arm of CIBC World Markets Inc. providing investment products and large syndicated transactions to clients. She also helped implement the first virtual bank in Canada, building and presenting new cost saving strategies for bank clients, achieving $3.4 million in savings, and providing ideas for and providing ideas for three new products to provide an additional $1 million in savings annually. Ms. Altomare attended York University, and holds a Series 6 and 63 designation from FINRA.

Table of Contents

I. Introduction to PFMAM

The PFM Group

- **A Leading Provider of Independent Financial and Investment Advisory Services**
  - Founded in 1975 - The PFM Group is a leading financial services firm providing advisory services to government entities and non-profits in the United States

The PFM Group

PFM Asset Management LLC

- Investment Management
- Specialized Fixed-Income Portfolio Management
- Bond Proceeds Management
- Multi-Asset Class Management ("MACM")
- Treasury Management
- Post-Issuance Compliance

Manages $53.0 billion in assets as of 12/31/14 for

- ✓ Foundations
- ✓ Endowments
- ✓ Counties
- ✓ States
- ✓ Universities
- ✓ Schools
- ✓ Authorities
- ✓ Hospitals

- Consults on $50.4 billion of non-discretionary assets as of 12/31/2014

Public Financial Management Inc.

- Financial Advisor
- Debt Management
- Capital Structure Consulting
- Bond Pricing Optimization
- Risk Management Advisory Services
- Rating Agency/Credit Enhancement Advisory

- Number 1 ranked Advisor to Governments for the past 16 years.*
- Advised on over $48 billion of debt issuance in 2014.
- Provide budget and operations advice to troubled state and local governments and nonprofits

*Source: Thomson-Reuters

PFM Asset Management LLC

- **Company Profile**
  - PFMAM is registered with the SEC under the Investment Advisors Act of 1940
  - Over $53.0 billion of public assets under management nationwide[1]

- **National perspective**
  - 34 offices nationwide
  - Over 500 financial professionals working with the public sector
  - Regional office in St. Louis, Missouri

- **Treasury Consulting Services**
  - Providing banking and treasury consulting services since 1989
  - Independent; not affiliated with any bank or trust company
  - Our objective is to seek that clients get the best banking service at the best cost
  - Consulting fees are nominal

1. *As of December 31, 2014*

II. The RFP Process

RFP Process Introduction

- The right bank relationship can make a world of difference in day-to-day treasury operations, and traditionally, a Request for Proposal (RFP) has been the method to confidently and objectively select a banking partner.

A 5 Step Approach to Finding the Right Bank

1. Document the Current Environment
   - "Where are we now?"
2. Develop the RFP
   - "What services do we want our bank to provide?"
3. Evaluate the Bank Responses
   - "How do the banks say they measure up to your requirements?"
4. Bank Presentations and Visits
   - "Can the banks really deliver what you require?"
5. Selection & Implementation Plan
   - "What are the specific next steps?"

Step 1. Document Current Environment

- Ask your banks for an Account Analysis statement for each account and document;
  - What services you currently use
  - What are your volumes
  - How much do you pay
  - How does the money move

- Design a checklist determining necessary information to gather from each internal department and the services they may require

- Identify areas of improvement through use of technology

Tip: Understand what you are paying in Deposit Insurance Coverage/FDIC Insurance (Ex: 0.10%-0.16%). This needs to be deducted from the interest rate the bank may offer you on your account.

5 Step Approach to Finding the Right Bank

1. Document the Current Environment
   - "Where are we now?"
2. Develop the RFP
   - "What services do we want our bank to provide?"
3. Evaluate the Bank Responses
   - "How do the banks say they measure up to your requirements?"
4. Bank Presentations and Visits
   - "Can the banks really deliver what you require?"
5. Selection & Implementation Plan
   - "What are the specific next steps?"

Step 2. Develop the RFP

Prepare the RFP based on your entity's needs.

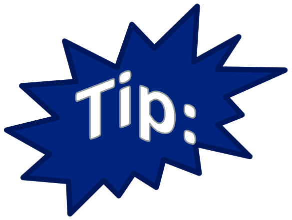
- Content of RFP:
  A. General Information about your entity
  B. Calendar of Events
  C. Minimum Proposal Requirements
  D. Scope of Services
  E. Questions and Requested Information
  F. Special Contract Provisions
  G. Q&A

- Email RFP in a Microsoft Word® document to potential banks bidding

Tip: Through new innovative ideas allow potential banks the opportunity to show how and why they should be your partner.

A. General Information About Your Entity

- Description of your entity
- Contact name
- Submission instructions
  - Sealed Proposal
  - Mailing Information
  - Number of Copies
  - Request addendums, reports, contracts etc.
- Any special requests (should be reasonable)



Describing who you are is just as important as identifying what services you need. If the banks don't realize the scope of your potential business you won't get a reasonable response.

B. Calendar of Events

- Issue date
- Deadline for written questions
- Pre-proposal conference (for larger entities)
- Proposal due date
- Interviews
- Contract approval
- Contract implementation

Tip: Allow adequate response time (generally 4-6 weeks).

C. Minimum Proposer Requirements

- Size
- Location
- Experience
- Organizational structure
- Community Reinvestment Act (CRA)
- Community involvement
- Credit rating of the bank
- Request the index rate you want the banks to bid (91 day t-bill, fed funds, etc.)
- If banks bid different rate than requested, ask for 2 years of history comparison to what has been requested

D. Scope of Services

- Term of agreement
- Account structure
- Collateral requirements (perfected)
- Average monthly balances
- Required and optional services
- Pricing excel sheet with monthly or annual volumes

Tip:

- Be sure to state that investments may be bid outside of the banking contract
- Collateral must follow Missouri State Statute 30.270

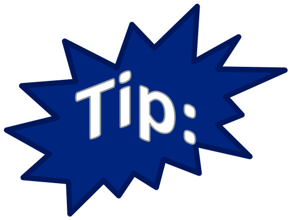
E. Questions and Requested Information

- Keep questions short and concise to drive easy answers for your review.
- Request a sample Account Analysis Statement
- Request different Availability schedules
- List any other documents you may want to review such as;
  - Contracts
  - Account open forms
  - Treasury Management Agreements
  - Individual service agreements (wires, ACH)
  - Let the banks know if only the finalists will need to submit these documents

Tip: If you use an RFP that another entity used be sure to review all the questions to ensure they match the banking services that your entity needs.

F. Special Contract Provisions

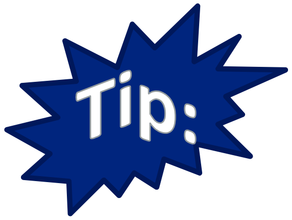
- Timely contract negotiations
- Failure to comply with provisions
- Proof of insurance
- Dispute resolution
- Data privacy
- Affirmative action
- Termination



Be sure to state that the RFP Proposal submitted is considered the final contract and must be signed by an authorized signor of the bank.

G. Q & A

- Require questions in writing
- Set submission deadline
- Provide written answers
- No need to answer all questions submitted



Break services into sections, Banking, Procurement Card, Merchant Services. State whether they can bid on one service only or if they must bid on all services.

5 Step Approach to Finding the Right Bank

1. Document the Current Environment
    - “Where are we now?”
2. Develop the RFP
    - “What services do we want our bank to provide?”
3. Evaluate the Bank Responses
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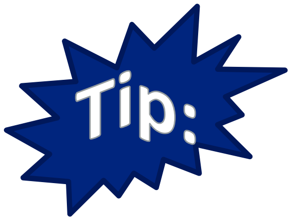
4. Bank Presentations and Visits
    - “Can the banks really deliver what you require?”
5. Selection & Implementation Plan
    - “What are the specific next steps?”

Step 3. Evaluate the Bank Responses

- Evaluate responses in terms of:
  - Operational capabilities
  - Experience and Staff
  - Financial strength
  - Financial controls
  - Location
  - Quality of Proposal
  - Creative or new approaches
  - Evaluate Fees and Earnings



Be open minded to new ideas on how to automate your banking and protect your entity from fraud.

Evaluation Criteria

- Operational capabilities
  - Existing services
  - New services
  - Available platforms
  - Cut-off times
  - Availability schedule

- Experience and Staff
  - Customer service structure
  - People
  - Community involvement

Evaluation Criteria

- Financial strength
  - Financial statements
  - Ratings
- Financial controls
  - Disaster recovery
  - Online systems and data security
- Location
  - Number of branches
  - Proximity to operations
  - Lockbox address

Evaluation Criteria

- Quality of Proposal
  - Understand your business
  - Attention to detail
  - Seeking your business

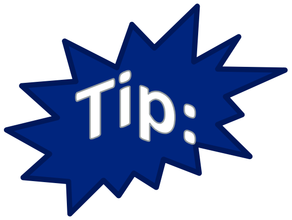
- Creative or new approaches
  - New payment and collection devices
  - Automated reporting
  - Employee benefits
  - “Other” services

Evaluation - Fees

- Fee Proposal
  - Bundled or unbundled
  - Volume levels
  - Maintenance and usage
- AFP (TMA) Service Codes
- FDIC Charges / Deposit Insurance
- Collateral Charges
- Trust & Custody Fees
- Fee Waivers
- Other fees?

Evaluation - Earnings

- Investment earnings
  - Account type
  - Historic rates
  - Sweep fees
- Earnings Credit Rate
  - Index based?
  - Excess earnings (carried forward or not?)
- Reserve Requirement



- Repurchase agreements are included in balances for FDIC Insurance costs.
- Is ECR paid on 100% of balances?

Evaluation Form

Evaluation of Banking Services Proposals

Bank ______________________________

Evaluator ______________________________

	Total	1: General Banking Services	2: Merchant Card Processing	3: Security Safekeeping and Custody	4: Lockbox Processing	5. Purchasing Card Program	
Operational Requirements	**25**						
Understanding of the needs and operational requirements.		5	10	10	5	10	
Location (e.g. branches, operations center, account officers).		10	0	0	5	0	
Scope of services offered including degree of automation.		10	15	15	15	15	
Firm Experience	**15**						
Experience, resources, and qualifications of institution and assigned staff.		10	10	10	10	10	
Relevant experience managing similar account relationships with public institutions and agency clients.		5	5	5	5	5	
Financial Strength	**10**						
Financial strength of proposing institution.		5	5	5	5	5	
Adequacy of financial controls and protection against loss.		5	5	5	5	5	
Scope of employee banking services offered	**5**	5	5	5	5	5	
Transition	**10**						
Quality and scope of conversion plan.		5	5	5	5	5	
The value of any new product or service suggestions or other new ideas and enhancements.		5	5	5	5	5	
Compliance with the requirements of the RFP, completeness and quality of proposal.	**10**	10	10	10	10	10	
Total before fees	**75**	75	75	75	75	75	
Proposed fees and compensation	**25**	25	25	25	0	25	
TOTAL SCORE	**100**	100	100	100	75	100	

5 Step Approach to Finding the Right Bank

1. Document the Current Environment
- "Where are we now?"

2. Develop the RFP
- "What services do we want our bank to provide?"

3. Evaluate the Bank Responses
- "How do the banks say they measure up to your requirements?"

4. Bank Presentations and Visits
- "Can the banks really deliver what you require?"

5. Selection & Implementation Plan
- "What are the specific next steps?"

Step 4. Bank Presentations and Visits

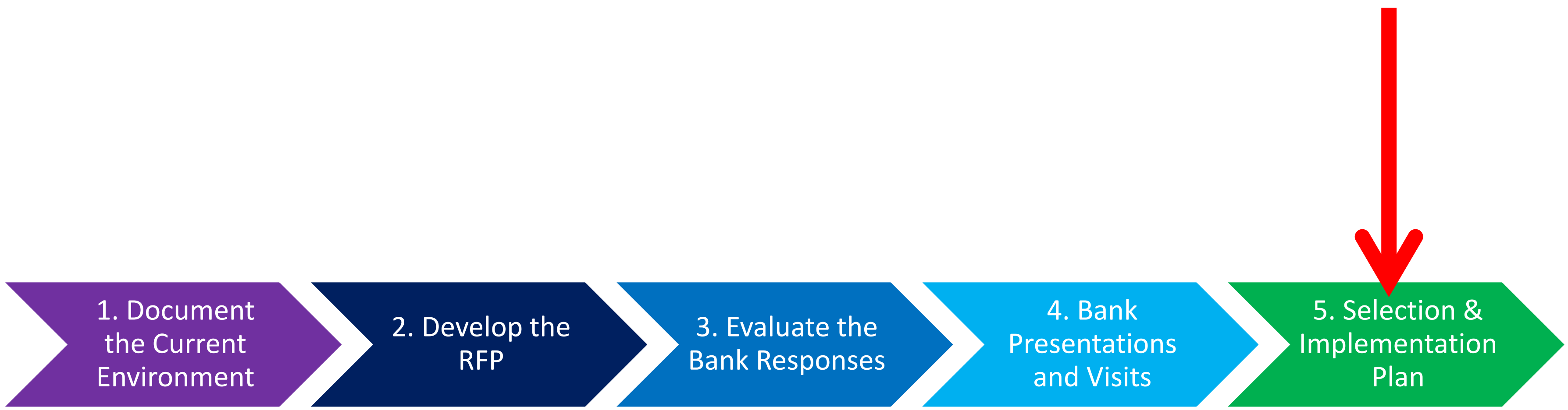
- Shortlist by eliminating bidders
  - Must meet minimum requirements
  - Must offer necessary services
  - Must demonstrate service capability
  - Attention to detail

- Interview real contenders
  - Request key staff
  - Define presentation content
  - Discuss all major service needs
  - Understand fee proposal
  - Allow enough time

Everything is Negotiable

- Fees
- Earnings rates
- Deposit availability
- Account coverage
- Contract terms

5 Step Approach to Finding the Right Bank



- "Where are we now?"
- "What services do we want our bank to provide?"
- "How do the banks say they measure up to your requirements?"
- "Can the banks really deliver what you require?"
- "What are the specific next steps?"

Step 5. Selection & Implementation Plan

- Select the preferred bank(s)

- Develop overall implementation plan which includes:
  - Key project tasks and dependencies
  - Staffing and skill set requirements
  - Timeframes
  - Key deliverables

Don’t Forget…

- Incorporate RFP and the bank’s proposal
- Get copies of all referenced documents
- Document collateral requirements and any investment limitations
- Include the term and termination provisions
- Have lawyers check compliance with statutory requirements
- Confirm signed by authorized signer
- Confirm in writing the proposal is the final bid
- Maintain an open dialogue with your banking partners
- Monitor: Service, Error Rate, and Correct Billing

Tip: Watch out for small print on account open forms.

Lock in the Fees and Rates

WATCH OUT FOR: ***"We reserve the right to amend from time to time the Account Fees for the Service without notice to you."***

- Tie earnings credit rate (ECR) and interest rate to index or have a floor
- Document ECR carry forward
- Require written authorization for new services and charges

WATCH OUT FOR: ***"fees disclosed are based on info provided within this RFP and are not intended to be all inclusive," or "at this time no charge."***

- Require that all fees in the RFP must be inclusive of all services offered by the bank.

WATCH OUT FOR: ***If bank quotes a sweep account, understand what they are sweeping your funds into.***

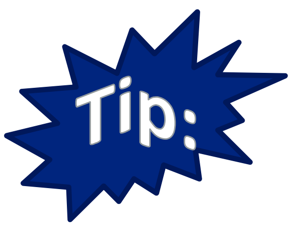
- Ask Questions:
  - Is it a mutual fund?
  - Is it collateralized?

WATCH OUT FOR: ***"paper deposit statement mailed"***

- Is the service needed and is the fee reasonable?

WATCH OUT FOR: ***"AUTO MUTL FND INVEST MKT SHRS"***

- Sweep fee mutual fund is not a permitted sweep vehicle/investment in Missouri



Interest rates are potentially due to increase in 2015.

- Ask for a quote on years 2, 3, 4, and 5 if rates increase

Know Your Rights

WATCH OUT FOR: ***"Client is required to notify Bank of any errors within 10 days of the receipt of the Statement of Confirmation or the Bank is relieved of all liability related to the error."***

- The Uniform Commercial Code gives you certain legal rights
- Standard bank agreements often waive those rights
- Example
  - UCC requires notice of error be made to the bank within a reasonable time, not to exceed 90 days.

Who's Responsible for Security?

WATCH OUT FOR: ***"Client agrees that Bank's security procedures for use of Service are reasonable based on Client's circumstances."***

"The Bank shall during the term of this Agreement provide commercially reasonable security procedures considering the type of files processed and security procedures used by customers and banks similarly situated. The Client accepts the current security procedures offered by the Bank as commercially reasonable, but this shall not relieve the Bank of the continuing duty to maintain commercially reasonable security procedures during the term of this Agreement."

FDIC Announcement

Caution Regarding Passing Deposit Insurance Assessment Fees on to Customers

FIL-33-2012
July 9, 2012

Printable Format:
FIL-33-2012 - PDF (PDF Help)

Summary:

The FDIC has become aware that certain insured depository institutions (IDIs) are charging customers an "FDIC fee" or similarly described fee, apparently to compensate the IDI for some or all of its FDIC deposit insurance assessment costs. This Financial Institution Letter (FIL) communicates the FDIC's concerns and expectations when IDIs assess these types of fees.

Statement of Applicability to Institutions Under $1 Billion in Total Assets: This FIL applies to all insured financial institutions, including those with under $1 billion in assets.

Highlights:

- The FDIC has received a number of complaints from depositors stating that IDIs are charging them an "FDIC Fee," "FDIC Assessment," "FDIC Insurance Premium," "FDIC Insurance Charge," or similarly described fee for deposit insurance.
- While IDIs are not prohibited from passing the costs of deposit insurance on to customers, the FDIC discourages institutions from specifically designating that a customer fee is for deposit insurance or from stating or implying that the FDIC is charging such a fee.
- Institutions that characterize fees in this manner may (1) reveal information that could be used to determine an institution's confidential supervisory ratings, (2) mislead customers into believing that the FDIC charges IDI customers or requires IDIs to charge customers for deposit insurance, or both.
- Institutions should review their designation and identification of fees and ensure that those fees do not reveal confidential supervisory information or mislead customers.

Complete Financial Institution Letter: http://www.fdic.gov/news/news/financial/2012/fil12033.html

III. Case Studies

Case studies are for illustrative purposes only, they do not necessarily represent current circumstances, and your experiences will vary based upon the current environment.

Case Study #1 – Reviewing How Much Are You Really Earning?

Case studies are for illustrative purposes only, they do not necessarily represent current circumstances, and your experiences will vary based upon the current environment.

How Much Are You Really Earning?

- Here's an example of how typical bank fees can reduce a quoted rate of 0.30%. In this example, after all the assessments and hold-backs are considered, the actual net return is only 0.058%.

Description	Balance/Charge	Earnings/Cost*
Ledger Balance	5,000,000	
FDIC Assessment	0.17%	($8,500)
Less: Check Float	1,000,000	
Collected Balance	4,000,000	
Less: 10% Reserve Requirement	(400,000)	
Available Balance	3,600,000	
Earnings at 0.30%	0.30%	$10,800
Net Return (on Collected Balance)	0.058%	$2,300

- **All fees and earnings annualized.*
- What? How does that happen? Where did the 0.30% earnings rate go?
  - Some of it goes to the FDIC Deposit Insurance and some of it goes to the bank

FDIC Assessments

- FDIC Deposit Insurance charges banks for deposit insurance
- April 1, 2011 change to assessments
  - Based on net assets instead of domestic deposits
  - Rates vary from 0.05% - 0.35%
  - FDIC Deposit Insurance assessments are paid on ledger balances
- Not all banks pass through FDIC Deposit Insurance assessments
- Banks that pass through assessments charge on either collected or ledger balance
- Fee shown on analysis statement

FDIC Assessments

- In our example, the FDIC Deposit Insurance Assessment fee of 0.17% of the ledger balance is passed through to the client, which comes out to $8,500 per year
- For some banks, the FDIC Assessment fee is higher! (FDIC 0.12% to 0.22%)

Description	Balance/Charge	Earnings/Cost*
Ledger Balance	5,000,000	
FDIC Deposit Insurance Assessment	**0.17%**	**($8,500)**
Less: Check Float	1,000,000	
Collected Balance	4,000,000	
Less: 10% Reserve Requirement	(400,000)	
Available Balance	3,600,000	
Earnings at 0.30%	0.30%	$10,800
Net Return (on Collected Balance)	0.058%	$2,300

- **All fees and earnings are annualized*

Less: Check Float

- Although the FDIC assessment is based on your ledger balance, the earnings rate is based on your collected balance.
- For cities with check float, this can significantly reduce your net return on deposits.

Description	Balance/Charge	Earnings/Cost*
Ledger Balance	5,000,000	
FDIC Assessment	0.17%	($8,500)
Less: Check Float	**1,000,000**	
Collected Balance	**4,000,000**	
Less: 10% Reserve Requirement	(400,000)	
Available Balance	3,600,000	
Earnings at 0.30%	**0.30%**	**$10,800**
Net Return (on Collected Balance)	**0.058%**	**$2,300**

- **All fees and earnings are annualized*

Reserve Requirements

- Depository institutions must hold funds in reserve at the Federal Reserve
- Reserve requirement varies by type of account
  - Demand deposit: 10%
  - NOW Account 10%
  - Money market deposit: 0%
  - Time deposit : 0%
- In October 2008, the Fed began paying interest to banks on these balances
- July 9, 2012 FDIC Announcement – states caution to banks about passing Deposit Insurance Assessment fees to businesses (See slide 37).

Source: Federal Reserve

Less: 10% Reserve Requirements

- Because these reserve balances are not available for loans or investment, banks have generally not paid depositors interest on amounts that must be reserved.
- This means that the depositor only earned income on 90% of the balance.

Description	Balance/Charge	Earnings/Cost*
Ledger Balance	5,000,000	
FDIC Assessment	0.17%	($8,500)
Less: Check Float	1,000,000	
Collected Balance	**4,000,000**	
Less: 10% Reserve Requirement	**(400,000)**	
Available Balance	**3,600,000**	
Earnings at 0.30%	0.30%	$10,800
Net Return (on Collected Balance)	0.058%	$2,300

- **All fees and earnings annualized*

Summary of Case Study #1

- After adjusting for all of these assessments and hold-backs, the actual earnings per year on this $5,000,000 account actually comes out to $2,300, resulting in a net return of just 0.058% - well below the quoted 0.30% rate.

- **The bottom line**: Be mindful and consider that you may not be getting quite the "deal" you expected from your bank after adjusting for all the potential assessments and hold-backs.

- The only way to tell what you're really getting from your bank is to carefully review your bank account analysis statement. If you're not currently receiving a bank account analysis statement every month, request it from your banker.

Case Study #2 – Compensating Balances

Case Study # 2 – Compensating Balances

- If you've ever had a discussion with your banker regarding fees for services, you've likely heard the term "compensating balance" mentioned a few times.
- So, you might be wondering, "Just what is a compensating balance and what do I need to know about it?"
- We'll look at what exactly a compensating balance is and how to make sure that you are getting a fair deal.

Two Options to Pay for Banking Services

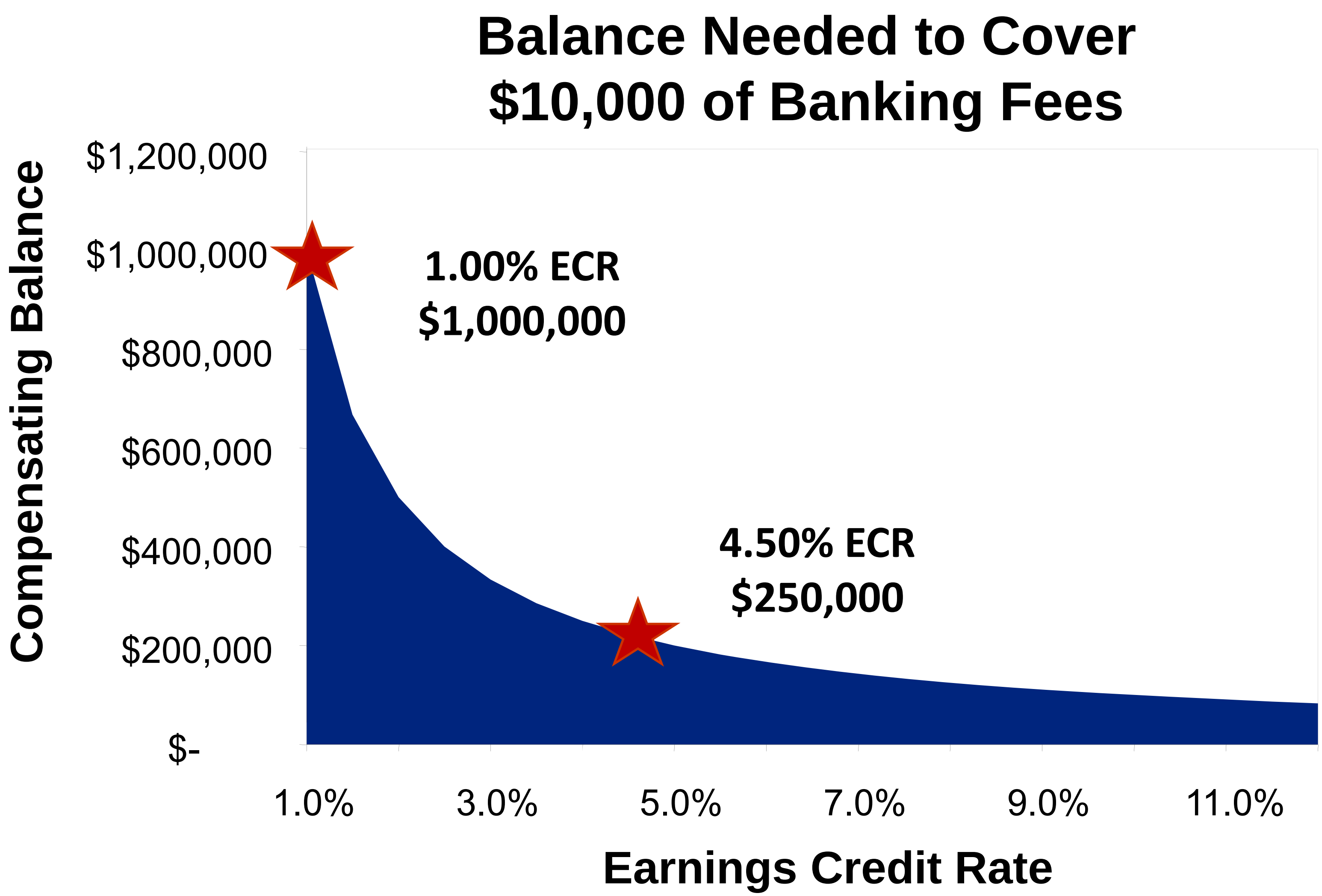
1) Out of pocket fee that is charged to your entity each month as an invoiced item. The invoice is paid like any other accounts payable. This method of compensation is called “hard dollars”.

2) “Pay” by using compensating balances
   - A compensating balance is money left in a bank account on which the entity is not paid interest.
   - Instead, an “earnings credit” is generated that is used to pay for bank fees. The amount of the earnings credit is a function of the un-invested balance and an Earnings Credit Rate (“ECR”). This method of compensating your bank is also called “soft dollars”.

Determining Compensating Balances

- Typically, your banker will look at your historical account activity to determine an average monthly fee for service.
- He or she will then quote the current Earnings Credit Rate available, before performing a quick calculation to determine the amount your entity will need to keep on deposit at the bank in order to offset banking fees.
- The discussion might sound something like this: "We'll give you a 1.00% Earnings Credit Rate on the amount you have on deposit with us. You are typically charged about $10,000 per month in banking fees, so in order to offset this fee with no out-of-pocket fees for our services, you will need to keep a compensating balance of at least $1 million with our bank."

Impact of Rising Rates



Compensating Balance Considerations

- Excess earnings credits - expire
- No roll forward of excess earnings credit
- Application of 10% reserve requirement
- Temporary “special” ECR
- Unneeded services
- Full list prices on services
- Fixed compensating balance

Summary of Case Study #2

- **<u>The bottom line</u>**: Choosing to "pay" for banking service fees using a compensating balance may or may not be a good option for your entity.

- The only way to tell what you're really getting from your bank is to carefully review your bank account analysis statement. If you're not currently receiving a bank analysis statement every month, request it from your banker.

Case Study #3 –
Everything is Negotiable!

Case Study# 3 – Everything is Negotiable!

- After the first two case studies, you may be thinking, “Hmm . . . interesting stuff, but I don’t think any of this really affects me. After all, my entity is locked into a banking arrangement. We even signed a contract, so I don’t think I’m in a position to try to press my banker for a better deal.” Well, you might be wrong about that.

- Actually, when it comes to banking service arrangements, the truth is that everything is negotiable.

Negotiable Areas to Achieve Better Pricing

- Availability Schedule
- Banking Fees
- Start-up Fees for New Services

Concessions for Better Pricing?

- Yes, you probably will have to make some concessions. Here are a few areas in which you could make those concessions without feeling the pinch too much:
  - Contract Extension
  - New Business

Summary of Case Study#3

- **<u>The bottom line</u>**: When it comes to business banking, everything is negotiable. If you don't think that you're getting the best deal from your bank, contact your banker directly and ask for a better deal. Most likely, he or she will be willing to negotiate rather than lose your business.

- However, if your banker does seem unwilling to offer the fee concessions or service upgrades you'd like, contact other banks to see what they would offer. There are a lot of banks out there who would love to do business with your entity, so make your current banker work to keep your business.

- PFMAM has helped dozens of clients to analyze their banking relationships, negotiate for better terms, or go through a competitive banking services procurement process. If you don't believe you are getting the right service, you can always bid out banking services

IV. Appendix

Glossary of Banking Terms

Account Analysis Terminology:

Account Analysis Statement - a periodic statement outlining the banking services provided to your entity. The statement is usually provided monthly and involves displaying all pertinent data, including the company's average daily balance and charges that the company incurs from the bank.

AFP Service Codes © - have been recognized as the standard for identifying balances and charge that appear on account analysis statements.

Available Balance – represents total funds as available for use.

Basis Point - One one-hundredth of a percent used in measuring yield differences among bonds. A rise from 5.41% to 5.61% would be termed a rise of 20 basis points.

Collected balance – cash balance after deducting checks drawn on other banks. Generally defined as account ledger balances, less unpaid checks in the process of collection. A bank may count a deposited check as funds available for use by its customer in two business days, but usually will not include it in the depositor's collected balance for five or six days. This allows time for the drawer bank to return the check because of insufficient funds in the check maker's account or for other reasons. Ledger balance less float.

Daily Treasury Bill Rates - These rates are the daily secondary market quotation on the most recently auctioned Treasury Bills for each maturity tranche (4-week, 13-week, 26-week, and 52-week) that Treasury currently issues new Bills. Market quotations are obtained at approximately 3:30 PM each business day by the Federal Reserve Bank of New York.

DDA balance used to offset fees is a Compensating Balance. Also known as "soft dollars"

Deposit Float – "in process" deposit items. Waiting period for collected funds.

Glossary of Banking Terms Continued

Earnings Credit Rate (ECR) – A daily calculation of interest paid on idle funds that reduce bank service charges. Typically a variable rate and usually equal to the average rate on 91-day Treasury Bills or Fed Funds Target rate.

Federal funds rate - the interest rate at which private depository institutions (mostly banks) lend balances (federal funds) at the Federal Reserve to other depository institutions, usually overnight. It is the interest rate banks charge each other for loans.

Federal funds effective rate - the interest rate that the borrowing bank pays to the lending bank to borrow the funds is negotiated between the two banks, and the weighted average of this rate across all such transactions.

Federal funds target rate - determined by a meeting of the members of the Federal Open Market Committee which normally occurs eight times a year about seven weeks apart. The committee may also hold additional meetings and implement target rate changes outside of its normal schedule.

Ledger Balance – Customer's account balance as it appears on a bank statement. The sole purpose of ledger balances, or total credits less debts during an accounting period, is to facilitate the reconciliation of book balances. Does not include float.

LIBOR - the interest rate that banks charge each other for one-month, three-month, six-month and one-year loans. LIBOR is an acronym for London InterBank Offered Rate. This rate is that which is charged by London banks, and is then published and used as the benchmark for bank rates all over the world. LIBOR is compiled by the British Bankers Association (BBA), and is published 11 am each day in conjunction with Reuters. It is comprised from a panel of banks representing countries in each currency.

Earnings Credit Calculation

$$\text{Earnings Credit} = \text{Collected Balance} \times \left[1 - \text{Reserve Requirement}\right] \times \left[\text{Earnings Credit Rate} \times \frac{\text{Days in Month}}{365}\right]$$

Example:

- Average collected balance $1,900,000
- Reserve requirement 10%
- Earning credit rate 3.00%
- Days in month 31

$$\begin{aligned}\text{Earnings Credit} &= \$1{,}900{,}000 \times \left[1 - .10\right] \times \left[.03 \times \frac{31}{365}\right] \\ &= \$1{,}900{,}000 \times .90 \times .0025479 \\ &= \$4{,}356.99\end{aligned}$$

For illustrative purposes only

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