

**Mansfield Independent School District
Analysis of Bank Depository Service Proposals
May 2009**

In April 2009, the Mansfield Independent School District solicited proposals for banking services to serve the District and its campuses with efficient and cost effective banking services. The District was also intending that its banking partner would provide state-of-the-art technology to assure that its current banking needs would be met and that it will be able to incorporate new services over the period of the contract. The District received five proposals for banking services in response to the Request for Proposal (RFP#09-069). The proposals were made by American National Bank, JPMorgan Chase, Compass Bank, Frost Bank and Wachovia Bank. All the banks have facilities and services in the Mansfield area and are solid financial institutions which could provide most or all of the required services for the District.

The District had determined initially that the objectives for the new service would be based on the following criteria:

- responsiveness and ability to provide services required,
- banking services costs,
- experience, references, and continuity of the bank and bank officials, and
- creditworthiness and stability of the bank.

Since banks bundle services and present information and services differently, a complete evaluation of the proposals must be made on several different levels guided by the overall objectives. (1) The services offered must be evaluated as to the level of service offered compared to the required specifics, the level of automation which can improve staff productivity, level of control, and customer service on an on-going basis. The bank must also show their adaptability and capability to grow into new technologies as they become available. (2) The cost of specific and overall services must be compared between all banks on an equal basis. (3) The potential for earnings must be compared based on various account structures and based on historical data, not simply future projections. Finally, (4) the proposals must be evaluated combining all these factors and netting earnings and costs to create a final, unbiased assessment.

These four levels of analysis have been completed through a detailed and then summary compilation of findings. The worksheets which were used to make these analyses are available as reference. The following report summarizes the findings. Comments on specific differences are included here by way of explanation.

REQUIRED SERVICES EVALUATION

Summary

The District's RFP outlined all the services which it felt were required under the contract to perform its current banking needs and projected future uses of contemplated services/automation which would be required to perform those duties in the most cost effective/cost efficient manner. The proposal also solicited information on two new services which might be added during the contract period: re-presentation of checks (RCK) and stored value cards (pay cards). By exploring new services, the District was able to evaluate the cost effectiveness of such services and have these services available for future possible use.

The anticipated account structure is a ZBA sweep structure for the four main accounts and stand-alone interest bearing accounts for the 39 campus activity accounts. The structure envisions the continuation of deposits by the individual schools although this is not recommended. It is highly recommended that consolidated deposits be made as vault deposits using an armored or courier service and that remote electronic check acceptance be reviewed for use.

The services available at the different banks differed especially between the state chartered American National and the interstate banks. All had the *basic* services needed however there were definite differences in level of automation, reporting capabilities, and approaches to the various services. Automation produces increased capabilities at significantly lower costs as manual handling is replaced by automated systems and communications are streamlined through the use of the internet. These differences are reflected in the overall service scores of the banks.

The RFP examined each of the service areas through a series of detailed questions. Each question was weighted by the District's objectives and each answer scored. (The final scoring rank represents the score multiplied by the weight of the question.) The total resulting service scores were:

American National	452
Chase	638
Compass	634
Frost	669
Wachovia	623

As would be expected, the larger banking systems have an advantage in the service area because of the amount of resources put towards system development and their larger client base over which to spread the cost for those services. The lower overall score for American National reflects, in large part, less well-developed technologies. The more developed services are not simply nice additions but would be beneficial for District operating efficiency and costs. Automation has reduced fees significantly. The costs of service will be compared in the summary later in this report.

The various functional areas of required services are detailed below noting significant differences in service levels or capabilities between banks. The analysis evaluates all services which would most probably be used within the term of the contract. The analysis does not automatically include all services available especially if the costs were prohibitive or the District was unlikely to use them. Services such as serial sorting (return of physical checks) and multiple signatures have been eliminated in the cost comparisons because they represent ineffective and inefficient use of District staff time and bank services.

Transition Incentives

Each of the banks was asked if they were offering the District any transition or retention incentive to change or maintain the account. All of the banks offered some level of incentive.

- American National has offered "to allow" up to \$2,500 a year for checks and deposit slips along with two free safe-deposit boxes. In addition, the bank has offered up to \$2,000 for the purchase of remote deposit scanners. They are waiving all remote deposit specific fees for the term of the contract.
- Chase has offered one free remote deposit scanner and is waiving the first two months free account analysis. (Since the bank has designated the "first" two months of the contract it does not equate to a full month's service charge since all the services would not be fully transitioned.)

- Compass has offered \$5,000 for transition costs without designating its usage. The bank has also offered to provide free deposit bags for the term of the contract.
- The incumbent, Frost Bank, has offered one free remote deposit scanner and is waiving the six months of account analysis charges.
- Wachovia has offered to waive the first three months of account analysis charges.

The monetary impact of these incentives will be discussed in detail later in this report in the discussion of overall costs.

Account Structure and Automated Information Systems

The RFP anticipates that the District will use an automated nightly sweep of idle funds into either an SEC regulated money market fund or a bank structured interest bearing account to recognize and access the best available daily rates for investment and to assure that all funds are invested at all times. All the banks except American National can provide a sweep. Wachovia provides a sweep but little information regarding it.

Currently and in the prior year, the rates have been so low that the banks are offering more alternatives in bank structured accounts rather than money market funds many of which are not competitive (until rates increase). Currently, the interest bearing accounts and money market accounts are similar in rates and could both be used for daily investment purposes. Only Compass has a restriction on investments and that is a \$500,000 minimum balance in non-interest bearing accounts.

The major relative interest rates reported for the past year were:

	Int Bearing/MMA	Sweep
Am National	0.25%/0.39%	n/a
Chase	1.39%/1.39%	1.98%
Compass	1.70%/1.70%	1.55%
Frost	0.85%/1.11%	1.48%
Wachovia	1.56%/0.10%	n/a

The banks were asked to provide the sweep service and state how interest is to be applied to accounts. In a master sweep structure, Wachovia and Chase will apply interest to the master account only but the remaining banks will apply interest to the individual accounts.

Only four banks provided information on the timing of the sweep. Chase, Compass and Wachovia all sweep as the last transaction of the day. This means when a money market fund is used that all funds are fully invested overnight in a security (the fund). Frost confirms that their sweep to AIM is a next day transaction. They did not answer the question of whether the actual funds are collateralized during this overnight period which could represent a potential loss to the District should the sweep involved funds in an amount over the FDIC plus collateral values.

Automated Systems/Services

All the proposing banks utilize automated services to reduce the time and effort now required of District staff for standard banking functions (balance and detail reporting, wires, ACH, stop pays, and some transactions). All the banks have proprietary control of their software and systems and good records of reliability and accessibility. All the banks’ systems rely on multiple levels of client controlled security administration and customization to provide sufficient report detail and provide information in a timely manner.

The level of automation and coordination of those automated services appears to be best developed at Chase. They have moved beyond the services of the other banks in certain areas of record retention (iVault), EDI, data interchange for payments and receivables and cash vault operations. Full search capability on various modules aides in research. All the banks have intra-day transactions available on line. A specific requirement of the District was the capability of a weekly download of transactions for reconciliation purposes. American National does not have this capability. The other four banks make the information available through their automated systems. Another important consideration is the need for timely, daily access to all information. All the banks except American National have their systems available by 7:00am daily. American National will make "best efforts" to have the systems available at 8:00am.

Deposit/Collection Services

The differences between the banks on standard deposit services lie primarily in the (a) cut-off times for same-day credit and the vault location sites for deposits, (b) deposit bags, and (c) remote deposits. The District is utilizing branch deposits only and these deposit times vary considerably. American National has the earliest deposit time requirement at 3:00pm and Chase has the latest deposit at 6:00pm. All the remaining banks have a 4:00pm cutoff with Frost open on Fridays until 5:00pm.

All the banks use tamper-proof deposit bags. Compass and Frost have offered to provide the District with plastic, tamper-proof deposit bags at no cost for the term of the contract. Chase is offering the plastic, tamper-proof coin bags at their cost.

An area of even more particular import in the deposit function is the cost saving ability of the District to capture checks electronically as they are received at various administrative and campus locations. All the banks have web systems operational. These are well developed services and all convert consumer checks to ACH and commercial checks to IRDs for processing thus eliminating the need for check deposits and speeding clearing. None verify or guarantee. Remote deposit times add considerable flexibility. Remote deposit times are Frost at 6:00pm, Wachovia at 7:00pm, Frost at 8:00pm, and 8:30pm at Compass. American National has not stated its cutoff time. Other capabilities of remote processing is similar at all the banks. All of the banks, except American National, allow for multiple batches daily and all endorse/cancel the checks as processed. As mentioned above, Frost, Chase and American National are offering the District one free scanner to start this service. All but Chase allow the District to buy additional scanners through the bank.

Another important tracking and reconciliation feature is deposit location information. All of the banks except American National offer a 10-digit tracking field on the deposits which wil allow the District to better track and trace deposits.

Disbursing Services

Standard disbursing services are relatively similar across the banks. The banks were asked to waive check cashing fees for employees and vendors cashing on-us checks at their respective banks. American National, Frost and Wachovia agreed to the condition with valid identification. Compass will charge \$10 but suggests company banking for employees which would make them account holders. Chase agrees "with properly executed cash checking agreements" which are not fully defined.

In the area of disbursements, it is critical for any institution/business to protect against fraudulent checks. The system designed by the banking industry to provide the security needed is positive pay. Positive pay filters all debits through a database of the checks written by the

District to stop bad checks from hitting the District accounts. Exception checks are reviewed by the District so review times are important as is access to imaging on line. The wider the time window the more time the District has to research the check exception. The review times are differentials in scoring for positive pay. All the banks provide timely updates to tellers. The District does not currently use positive pay on the stand-alone activity accounts (because the schools are using stand-alone Quick Books systems). This results in unlimited liability on fraudulent checks hitting these accounts.

The positive pay services are similar at each bank. All provide for online input and transmission of check register files and all, except Compass, offer payee verification. Positive pay exceptions are sent automatically as e-mail or system alerts from Compass, Frost and Wachovia.

A key differential on positive pay is the time period allowed for the District to receive, review and approve exceptions allowing for research time and other ongoing daily operations. The time windows for the various banks are:

	Review Times
American National	08:00 - 10:00am
Chase	10:00 - 3:00pm
Compass	09:00 - 12:00pm
Frost	09:00 - 12:00pm
Wachovia	09:00 - 01:00pm

Account Reconciliation

The District currently uses full reconciliation services. All the banks provide partial reconciliation. American National provides only partial reconciliation. Chase also has deposit reconciliation available for future use.

The information is provided in report form from all the banks but at different times. Chase keeps reports online 90 days and Compass and Frost 45 days. American National and Wachovia do not specify the time maintained online. Only Frost delays the information 5 days

Wires and District Internal Transfers

Wires and book transfers are quite similar between banks. All provide for dual level security and all, except American National notify on line. No paper transaction is required at any bank. American National also requires a call back to the District for verification on wires over \$25,000 which could be operationally disruptive.

Future dating of wires and entries is convenient for planning and during vacation periods especially. Future dating is not available at American National. Future dating is available at Chase for 15 business days, Compass one year, Frost 14 days, and Wachovia 27 days. All provide for templates and all basically use collected balances before wires can be sent.

ACH Services

ACH services are of paramount importance with the capture of checks, NSF check timing, and EDI services all of which use this less expensive process for payment and information transfer. This is undoubtedly going to increase in importance in the future as new services develop. The District's requested remote check acceptance service will depend on ACH as will future EDI services.

All banks utilize the NACHA formats and services and function through SWACHA so there is little if any difference in the basic service conditions. All the banks have the ability to establish blocks

on the accounts for the District’s protection. Only American National and Frost are restricted to blocks only. Chase Compass and Wachovia can provide multiple filters also to restrict originators or dollar amounts, date ranges, check ranges, or tax id. All the banks can future date ACH transactions.

A key for interpreting and posting ACH is identification of the originator. All the banks, except American National, can capture the ACH addenda for this purpose. Chase has extensive and extended ACH services with EDI capabilities and services for both incoming and outgoing transactions, pay cards, and POS conversion which will be helpful later in the contract period.

Investment Safekeeping

All the banks, except American National, will act as primary custodian of District owned securities. American National states that it will use FHLB as correspondent. Frost uses Bank of New York for DTC transactions.

The DVP settlement and protective safekeeping of the District’s investment securities is critical. It is also an area in which access to information and smooth transactions are paramount. Chase and Frost have online access to monitor settlements.

Collateral Conditions

The District’s RFP outlined conditions for the provision of collateral which were directed to maximum safety of the District’s funds. The requirements included key elements such as the margin level for collateral (102% and 110%), the acceptable types of collateral, and the provision for independent third party safe-keeping. The collateral agreements provided by the banks were to recognize these provisions.

Compass has agreed to the provisions except that it wants to use a letter of credit which was not listed as acceptable collateral. Wachovia did not confirm the conditions specifically but falls back on the PFIA and MISD Policy.

The imposition of an automatic sweep reduces the impact on the bank of significant unexpected deposits, but, without the automatic sweep the District has to consider this liability closely because it does not always know of large deposits. To prepare for such a situation, American National requires prior day (3:00pm) notification which is nearly impossible. The other banks allow for same day afternoon notification (Chase at 1pm, Compass at 2pm, Frost at 4pm, and Wachovia at 11am).

Account Analyses

The account analysis is the banking institution’s monthly invoice. The banks vary on how they make this information available and when.

	Online?	Paper?	Corrections by?
American National	no	by 5 th	same day
Chase	by 6 th	8-10 days	24th
Compass	by 7 th	by 7 th	n/a
Frost	by 1 st	by 3 rd	n/a
Wachovia	by 10 th	by 10 th	by 25th

Monthly Statements

The banks are increasingly providing statements on line rather than on paper. The statements are downloadable and suitable for searches. The banks vary on how and when this information is made available.

	Online?	How long?	Paper provided?
American National	yes, 5th	1 year	on request
Chase	2-3 days	n/a	on request
Compass	yes, 1 st	45 days	in 7 days
Frost	yes, 1 st	45 days	first day
Wachovia	4 th -7 th day	n/a	4 th -7 th day

Stop Pays

Charges and handling of standard stop pays are quite different at the various banks. All the banks can establish stop pays on line. American National has a maximum period of six months and extensions require new stop pays. Chase sets stop pays out one year and renews automatically for a total of 6 years. Compass allows stops for 7 years. Frost establishes the original at 12 months online and extends in the same increment. Wachovia starts at 6 months but can extend to 10 years. (Actually voiding through positive pay is a less expensive option for all banks.)

All the banks list information on stop pays on line for various time periods. Tellers' systems are updated in real time at Chase and Wachovia. Compass updates tellers daily and Frost updates teller systems within 30 minutes.

Company Banking

Each bank, except American National, has a unique name for its company banking program but basically each is a package of services available to the employees of the District creating an account at the bank. Each of the banks offers a menu of similar available services with discounts on loans, free checking and ATM cards and increased rates on savings. Compass has a dual level program for employees and executives.

Service Enhancement

The banks were asked whether they had additional services currently available which might be of interest or assistance to the District during the period of the contract. Chase has the widest range of additional services with cash vault, document manager (archiving of non-bank imaging), health savings accounts, pay cards, merchant services and state purchasing card access. Compass has recommended smart safes (DeposiCash), purchasing cards, and ACH payables management through debit origination. Wachovia has recommended deposit reconciliation and e-box collections (A/R) management. All of these could be useful in the coming years.

Total Service Scores

Incorporating all the various required services and judging the availability and quality of these services from the proposing banks a total service score was computed.

American National	452
Chase	638
Compass	634
Frost	669
Wachovia	623

The lower score for American National represents the difference in automation and available basic services at this bank. It is doubtful whether the bank could accommodate the demands of the District given its size and complexity. The other four banks are very similar in service capabilities. The higher score at Frost did not represent one particular area in which it outperforms or offers additional value to the District. It is however a reflection of a strong service capability across all areas.

OPTIONAL SERVICES

The District's RFP also sought information and pricing on two optional services which were *not required* by the District but could be implemented during the contract period if the District chose to do so. By reviewing these products and services the District can evaluate their cost effectiveness and feasibility for use. In addition, the request for these services allows the District to determine which of the banks have the services currently available for their potential use during the contract period.

The services requested as optional were re-presentation of checks through ACH and stored value cards (pay cards). Since these are not required services, this analysis did not incorporate the scoring of the services into the overall scoring of the banks but the availability of the services and the level of those services is reviewed briefly below as added services which should be considered in the final evaluation.

Re-presentation of Checks (RCK)

The District receives approximately 150 NSF (return) checks each month. Normally these checks are re-presented through the Federal Reserve clearing system and attempt to debit the individual accounts a second time. The failure to collect on these checks presents a liability for the District and collection effort requirement for staff. To address this problem the banking industry has developed RCK in which returned checks are not re-presented immediately. The bank holds the checks and converts them to an ACH debit. The District chooses a day of the month for re-presentation as an ACH against the accounts. Statistically this normally increases collection by approximately 20%. All the banks have this service available with little difference in capabilities. Only Compass can directly link the ACH to the original check however.

Stored Value Cards (Pay Debit Cards)

Stored value cards are debit cards which were originally developed for payment of compensation to employees without bank accounts. This can be used for full time and temporary employees. The District enrolls the user through an online bank function and a bank account is established for the user. The card is PIN controlled.

These cards can be used to withdraw funds from ATMs as well as provide use at point of sale locations like a standard debit card. The District funds them through an ACH the same as direct deposit. The benefit for payroll use especially is the move of the liability from the District to the card user. If a card is lost the user simply gets a new card and continuing access to the funds. The District no longer has to stop checks and reissue checks.

The District's costs can be evaluated basically on the cost per card monthly maintenance fee. This is the primary cost factor to the District. The charges imposed on the individuals receiving the cards is the second cost factor and the District can chose to absorb these costs or have the recipient/user absorb these costs.

All the banks have this service and all use the Visa card. Only Chase charges a maintenance fee with the others' fees based on a per card fee.

BANKING COSTS EVALUATION

In its RFP the District indicates clearly that it reserves the right to pay for services on either a **fee or compensating balance basis** dependent upon the interest rate environment¹. An Attachment was provided with the RFP for a statement of unit costs per service. Regardless of the type of compensation used, the total cost of the contract is based on the individual service costs in each bank. Both fees and compensating balances are based on these fees for services and the volumes of those services used.

A comparison was used to compare the banks providing the same monthly services at the same volumes. The net fees include the incentives offered by the banks. Scanners were offered by American National, Chase, and Frost but the impact was not included since the District does not anticipate using the remote deposit service at this time.

America National	\$ 8,425
Chase	\$ 9,582
Compass	\$ 4,614
Frost	\$ 4,024
Wachovia	\$ 6,441

The major cost areas creating these differences in the total cost structure are described below.

EARNINGS POTENTIAL

The third aspect to banking services' overall relationship is the earnings potential to the District on an ongoing basis. It is the assumption of this analysis that the District intends, through this contract, to create a banking structure which will have all funds swept daily to a SEC registered money market mutual fund (or other alternative internal to the bank if it can compare to outside rates) thereby earning the highest, fully liquid, rates available in various interest rate environments. As such, it is important to compare the earnings rates on the various investment options (funds and accounts) offered through the sweeps (or alternatives) by the banks and additionally to examine the earnings potential in low interest earnings environment.

All the banks have proposed a sweep to SEC registered and regulated money market mutual funds for total safety of the funds (and a reduction in the amount of collateral that the bank will have to have available.) Compass is requiring a \$500,000 balance in non-interest bearing accounts to receive the higher interest rates it is offering. No levels were given if no balance was maintained.

The sweep may or may not have been the best alternative for earnings throughout the recent historically low interest rate period. High expenses and low available rates have made some banks internal rates higher earnings. During this unusual period in rates, the District may not have used the sweep but instead may have chosen to maintain compensating funds in the high ECR rates being offered and used either an interest bearing or money market account for other

¹ In very low interest rate environments the ECR may exceed the interest paid in accounts or money funds. Rates rise however the ECR usually earns half of Fed Funds (i.e. overnight rates).

balances. The differences between the rates offered by the banks are illustrative however of the relative earnings potential in these type accounts on an ongoing basis. The rates below are those reported by the banks for the last year's period.

	ECR	Interest	MMA	Sweep
American National	1.09 %	0.25 %	0.39 %	0.00 %
Chase	1.08 %	1.39 %	n/a	1.98 %
Compass	1.59 %	1.70 %	n/a	1.55 %
Frost	1.50 %	0.85 %	1.11 %	1.48 %
Wachovia	2.05 %	1.56 %	0.10 %	n/a

The compensating balance – especially as rates rise – will prove more expensive overall than a fee basis. Normally ECR rates average approximately half of the Fed Funds rate. This will tend to normalize ECR rates across all the banks.

NET EARNINGS AND COST COMPARISON AND SUMMARY OF FINDINGS

With differences in the service levels available between the banks and the costs proposed for those services, the final analysis rests on a combination of service costs and potential earnings. Netting the costs of the service against the actual total earnings that would have occurred in the prior year provides the net benefit effect of the proposal. For these purposes, we have used the highest possible earnings category for each bank (utilizing the ECR or interest bearing accounts if they were higher) for the comparison.

	Service Points	Monthly Costs Net	Monthly Int Comp	Net Int Fees
American	452	\$ 8,425	\$ 2,397-	\$ 7,908-
Chase	638	\$ 9,582	\$14,442-	\$ 6,343-
Compass	638	\$ 4,614	\$ 1,447-	\$ 1,546-
Frost	669	\$ 4,024	\$ 1,432-	\$ 1,990-
Wachovia	623	\$ 6,441	\$ 1,403-	\$ 3,270-

The low interest rates have in all these cases generated a negative return for the District. Therefore, rather than looking for the best interest received situation, we have to identify the least loss situations. As shown above, Frost falls into the least loss category for both compensating balance basis and a fee basis calculation. Wachovia and Compass are the winners in both categories but by only a slight margin.

Clearly in the past year – and when rates return to a normal yield curve, these banks would then be the best banks to potentially return positive net monthly earnings to the District because of the higher earnings. Considering the sweep funds being used by these three banks the Frost and Wachovia alternatives will perhaps offer the best earnings.

It has to be noted again that these reported rates are reflective of an exceptional period of historically low interest rates the effect of which slightly skews the data. Therefore, anticipating that rates will continue to rise during the contract period (as we saw in 2004) we have extended the estimated earnings at higher interest rate levels that may occur during this contract to estimate a realistic projection of average earnings, net of costs, using the money market fund sweep (or an alternative) during the period. (The rate increases are based on our best estimate of rates as they have been rising and are anticipated to rise by the general market.)

If interest rates continue to rise, as expected, during the contract period, increased earnings in money funds can be expected because of the steeper yield curve.

The District would also show earn additional funds with the added benefit of using the fee basis over the lower yielding compensating balance basis along with the benefit from the increased rates in the money funds. The lowest net monthly fee is at Frost. Incentives offered at the other banks are not enough to overcome any difference in price over the period. Staff costs are also not considered which would be significant in a transition to a new bank but will be avoided in a contract with Frost.

RECOMMENDATION

It is our recommendation that the District award the banking services contract to Frost Bank on the basis of its ability to provide all required services, at a low cost proposed for those services, which when netted with potential earnings in an AIM Fund results in net higher earnings for the District. In addition, Frost, as the incumbent bank, will present no transition difficulties or costs to the District.

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