

FDIC-INSURED BANK PROVIDER SEARCH

CITY OF LOS ANGELES DEFERRED COMPENSATION PLAN

MARCH 2016

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Introduction

The City of Los Angeles Deferred Compensation Plan offers the FDIC-Insured Savings Account which blends multiple bank accounts in order to provide optimal FDIC insurance coverage in addition to competitive interest yields. Currently, the Plan employs two bank providers, Bank of the West and EastWest Bank. Under this current structure, the first \$500,000 (i.e., two times the FDIC limit of \$250,000 per FDIC-insured account) of a participant's deposits is fully insured by the FDIC, while amounts greater than \$500,000 receive less than complete FDIC coverage. Investments above the \$500,000 per participant maximum are backed by collateralized investments made by both bank providers in qualified securities pursuant to California Government Code. As of December 31, 2015, 15,493 participants had FDIC-insured option investments amounting to nearly \$303 million (6.4% of Plan assets). Based on current interest rates, the blended annual interest rate is expected to be 0.54%.

Until 2014, the Plan used three banks providers for the FDIC option, but this became unworkable when the Plan's RFP for FDIC providers failed to generate sufficient interest from bank providers due the economic environment. As a necessity, the Board approved the use of just two bank providers in a special meeting on September 5, 2014. Accordingly, the FDIC-Insured option's potential¹ FDIC backing was reduced from \$750,000 to \$500,000. At the time, the Board expressed interest in securing a third FDIC bank provider outside of the City's normal procurement process since this would be in the best interest of Plan participants.

In the intervening months, staff and Mercer have had periodic discussions with additional bank providers. As a result, one bank, MUFG Union Bank, N.A. (Union Bank), emerged as an attractive candidate for the Board's consideration. In February 2015, Union Bank submitted its response to a questionnaire staff issued that largely followed the questions outlined in the 2014 RFP for FDIC bank providers. Key dimensions queried were financial strength (i.e., balance sheet data, credit ratings, and key financial ratios), relevant experience and service (i.e., number of retirement plan clients, public sector experience, distinctive client service capabilities), FDIC insured product characteristics (i.e., viability within a DC plan, competitiveness of interest rate, and other items), accounting characteristics (i.e., ability to effectively interface with the recordkeeper in providing daily plan level information and reporting).

¹By Investment Policy design, the Board has the flexibility to deviate from equal weighting among FDIC providers based on interest rate differentials between providers, a practice which could affect overall FDIC coverage of the option.

The conclusion of our analysis of Union Bank's response is that Union Bank would be an attractive addition to the mix of FDIC-Insured Savings Account providers. This is based on the following findings:

- **Financial strength:** Union Bank is significantly larger than the existing bank providers as depicted in the following table. In addition, its key financial health ratios (capital and leverage) as of 12/31/2015 were superior or in line to the current providers.
- **Dedicated team:** Union Bank has a dedicated government services team based in Los Angeles, and it states that it will be willing to meet with the Board and staff on a quarterly basis.
- **Relevant experience:** Union Bank currently provides FDIC insured services to the California Savings Plus 401(k)/457 Plans, making it among a select group of banks with direct defined contribution plan experience. The Bank has extensive experience interfacing with recordkeepers, and the proposed team has already been in conversation with Empower to arrive at a mutually agreeable trading arrangement.
- **Competitive interest rate:** Union Bank is proposing a competitive reference rate of 3-month LIBOR less 0.10%. This is modestly lower than East West Bank, but likely will be higher than Bank of the West.²

We believe the coincidence of these factors provides a compelling case for the addition of Union Bank to the FDIC option. With the introduction of a third provider, the Plan would be able to further solidify the fund and reestablish FDIC coverage of up to \$750,000 per participant; meanwhile, the current interest crediting rate will only modestly change, from a current yield of 0.54% to a projected three provider-based yield of 0.53%. This trade-off is worthwhile from our perspective. **Consequently, we recommend the Board approve Union Bank as an additional bank provider to the Plan FDIC-Insured Savings Account option.** We provide our synopsis of Union Bank's response in the following pages.

² EastWest Bank's crediting rate is 3-month LIBOR minus 0.03% while Bank of the West credits 3 month LIBOR (average of last ten trading days in quarter) plus 0.10% or the Federal Funds target rate, whichever is lower.

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Financial Strength as of 12/31/2015

	MUFG Union Bank, N.A. (Union Bank)	Comment	Bank of the West	East West Bank
Total Assets	\$116.2 billion	Ranks 22 nd – all US banks	\$75.7b	\$32.4b
Total Deposits	\$84.3 billion	Ranks 21 st – all US banks	\$54.2b	\$27.5b
Total Equity	\$15.5 billion	Ranks 21 st – all US banks	\$12.1b	\$3.2b
Short-term deposit credit ratings	F1 (Fitch) / P-1 (Moody's)	High investment grade	F1/P-1	F2 (Fitch)
Long-term deposit credit ratings	A+ (Fitch) / Aa2 (Moody's)	Upper medium grade/High grade	A+/Aa3	BBB+ (Fitch)
Total risk based capital	15.6%	Well capitalized ³ (10.0% is required minimum for well capitalized)	14.3%	12.2%
Tier I risk based capital ratio	13.6%	Well capitalized ³ (8.0% is required minimum for well capitalized)	13.2%	10.6%
Common equity Tier 1 risk based capital ratio	13.6%	Well capitalized ³ (6.5% is required minimum for well capitalized)	13.2%	10.5%
Leverage ratio	11.4%	Well capitalized ³ (5.0% is required minimum for well capitalized)	11.4%	8.5%

³ These capital ratios are calculated in accordance with the transition guidelines set forth in the U.S. federal banking agencies' final U.S. Basel III regulatory capital rules.

Relevant Experience

	MUFG Union Bank, N.A. (Union Bank)
Number of retirement plan clients	4 (including State of California – California Savings Plan; and 3 non-bank financial institutions)
Public sector investment experience	Union Bank answered not applicable
Client service capabilities and distinguishing customer service characteristics	<p>Service location: Downtown Los Angeles</p> <p>Relationship will be managed by Garrett Bell, Managing Director & Relationship Manager, who is located in downtown Los Angeles and is supported by Ranette Douglas, VP & Treasury Management Consultant.</p> <p>Union Bank is willing to meet with the City in person on a quarterly basis. Its specialized Government Services group is staffed with professionals who have extensive banking and public sector experience. Union Bank proclaims that it understands the special needs of government agencies.</p>

FDIC Product Characteristics

	MUFG Union Bank, N.A. (Union Bank)
Product viability in DC plan	Yes
Vehicle type	MUFG Union Bank's Interest Checking Account
Participant deposits eligible for pass-through FDIC coverage	Yes
Competitiveness of crediting rate	Competitive – Union Bank is proposing a crediting rate that is based on 3-month LIBOR less 10 basis points (0.10%). 3-month LIBOR rate based on that posted on the last business day of March, June, September, and December in the Wall Street Journal. Interest is compounded daily and credited to the account monthly.
Illustration of simulated historical returns as of 12/31/2015 (periods over 1-year annualized)	<p>4Q2015: 0.0562%</p> <p>1-Year: 0.1836%</p> <p>3-Year: 0.1656%</p> <p>5-Year: 0.2140%</p> <p>7-Year: 0.2977%</p>
Confirm compliance with State collateralization requirements	Upon notice provided by the recordkeeper, Union Bank shall collateralize all balances in the account not insured by the FDIC in accordance with State of California Government Code Sections 16610-16622 and 16520-16533, 53635-53652 as applicable.

No additional costs for administering FDIC account?	Confirmed – Union Bank does not expect any applicable fees associated with this account.
Capacity to accept Plan deposits in excess of 1/3rd of the overall FDIC option	Yes

Accounting Capabilities

MUFG Union Bank, N.A. (Union Bank)	
Interface with recordkeeper (TPA) - Provide sample wire instructions	<p>With the Bank’s Wire Services, the City can transfer funds quickly, conveniently and securely over the web or by telephone. For the Bank’s high volume wire users, it offers file import through the Bank’s online wire portal, which allows the upload of up to 300 wire payments in a file.</p> <p>Wire transfer capabilities:</p> <p><u>By Telephone:</u> Only authorized individuals can initiate wires by telephone. If a caller does not have a caller ID number and security token authentication, the Bank will perform call-back verification. Any telephone transaction may be subject to call-back verification.</p> <p><u>Through the Internet:</u> Users must have single sign-on authorization to gain access to the system. A segregation of duties protocol requires both the creating and approving operators to have security token authority to transmit a wire from the City to the Bank.</p> <p>Future-dated transfers are available up to 30 business days in advance for automatic processing on the value date indicated.</p> <p>Wires initiated online give customers the ability to batch up to 20 wires into one transfer request, and the flexibility to mix domestic, international, book transfers into one batch, or with the Bank’s ability to import wire files with up to 300 transactions per file through an online system. These import files can be any combination of USD and/or FX payments.</p>
Interface with recordkeeper (TPA) - Process to post assets promptly and accurately. Include cut-off time for incoming wires.	<p>Union Bank processes all wires received daily until the Federal Reserve cut-off at 3:30 p.m., Pacific Time. In the event the Federal Reserve extends the processing deadline, the Bank will stay on-site processing until the Fed closes. Items received after the Bank’s DDA posting deadline will be back-valued to the date of receipt.</p> <p>.</p>

<p><i>Interface with recordkeeper (TPA) - Procedures for processing redemptions / transfers</i></p>	<p>For processing wire withdrawals:</p> <p>Only authorized individuals can initiate wires by telephone. Union Bank performs call-back verification when a caller does not have a caller ID number and security token authentication.</p> <p>Users must have single sign-on authorization to gain access to the system. A segregation of duties protocol requires both the creating and approving operators to have security token authority to transmit a wire from the company to Union Bank. Each user is assigned specific functionality, account access, and dollar amount limits.</p>
<p><i>Interface with recordkeeper (TPA) - Verification process and confirmations</i></p>	<p>Online reports display each step of the outbound wire process: input, approval, release, and confirmation. Reporting shows full or summary detail of all incoming wire transfers and outgoing wire transfers initiated by telephone and fax received and executed by the Bank. In addition, telephone- and fax-initiated wire information can also be obtained through a call-back procedure or by calling a customer service associate.</p> <p>Wire transactions for demand deposit accounts (DDA) are updated on a real-time basis, and the report displays complete wire detail.</p> <p>Union Bank has launched a mobile banking platform for wire approval and intra-company transfers. Electronic alerts can notify customers about major wire transactions for incoming/outgoing transactions by SMS text, email, or electronic voice.</p>

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