



BOARD REPORT 18-50

Date: November 20, 2018

To: Board of Deferred Compensation Administration (Board)

From: Staff

Subject: Evaluation of Responses to Procurement for FDIC-Insured Savings Account Option

Board Members

John R. Mumma
Chairperson

Thomas Moutes
Vice-Chairperson

Raymond Ciranna
First Provisional Chair

Robert Schoonover
Second Provisional Chair

Wendy G. Macy
Third Provisional Chair

Joshua Geller
Hovhannes Gendjian

Neil Guglielmo

Linda P. Le

Recommendation:

That the Board (a) receive and file report regarding evaluation of proposals from Bank of the West, East West Bank, and Union Bank to be providers for the FDIC-Insured Savings Account investment option; and (b) direct staff to work with the consultant to review the potential for establishing a common crediting methodology and crediting contingencies for all three service providers and report back at the Board's January 15, 2018 meeting.

Discussion:

This report contains staff's analysis related to the selection of providers for the Deferred Compensation Plan (DCP) FDIC-Insured Savings Option pursuant to the Board's recently issued Request for Proposal (RFP). Following completion of its evaluation of RFP responses, staff's finding is that all three banks are reliable and capable providers for the DCP FDIC-Insured Savings Option.

However, in that a material issue arose during the evaluation related to the crediting rates to be utilized by the providers, staff recommends that prior to making a contract award the Board direct staff to work with the consultant to review the potential for establishing a common crediting methodology and crediting contingencies for all three service providers and report back at the Board's January 15, 2018 meeting. This report will review key findings from its evaluation process and the basis for its recommendations related to crediting rates.

A. Background

The FDIC-Insured Savings Account is an option in the DCP core investment menu. The foremost objective for this option is capital preservation. As indicated in the DCP Investment Policy Statement (IPS), this option is intended to have three underlying providers with equal allocations of the total asset pool, unless the Board adjusts such allocations based on institutional viability or interest rate differentials. This option currently includes two providers: East West Bank and Bank of the West, both of which currently hold 50% of the fund's total asset pool (\$167 million per provider as of September 30, 2018). Their five-year contracts will expire on September 30, 2019.

The addition of a third provider is desirable because it would meet the IPS objective for this investment option and increase the amount of FDIC insurance coverage available to participants from \$500,000 to \$750,000. Each provider provides participants up to \$250,000 of FDIC coverage.

B. Request for Proposal and Recommended Providers

The RFP for FDIC-Insured Savings Account providers was released on May 29, 2018. On June 27, 2018, a mandatory pre-proposal conference was held. The following firms attended (in alphabetical order):

- 1) Bank of America
- 2) Bank of the West
- 3) East West Bank
- 4) Union Bank

Proposals were due on July 20, 2018. Proposals were received from the following firms:

- 1) Bank of the West
- 2) East West Bank
- 3) Union Bank

The Personnel Department's Administrative Services Division found all three respondents to be compliant with the City's general contracting requirements. Evaluation of the service components was completed by DCP staff according to the review criteria adopted by the Board for this RFP.

For the more technical aspects of the RFP, Mercer Investment Consulting (Mercer) provided assistance. Mercer's review and analysis of each bank's qualifications and services is provided as **Attachment A**. Mercer concurs with staff's finding that all three firms are viable service providers.

Attachment B provides a section-by-section summary of the proposers' responses and their scores for each section. The review criteria and summary scoring are indicated as follows:

Evaluation Category	Bank of the West	East West Bank	Union Bank	Points Possible
Organizational Background, Financial Strength, Experience	95	98.5	92.5	100
Regulatory and Contractual Actions	41.5	46	24.5	50
References	50	50	50	50
Financial Strength	93.5	82	100	100
FDIC-Insured Product Characteristics	272.5	297.5	270	300
Recordkeeping Interface	139	136.5	138.5	150
Reporting and Accounting Requirements	150	150	150	150
Compensation and Performance Guarantees	35	35	35	50
Performance Exam	50	47.5	45	50
TOTAL-->	926.5	943	905.5	1,000

The RFP process included performance exams in which staff and the DCP’s consultant met with each proposer to discuss certain detailed topics related to the DCP’s FDIC-Insured Savings Account option. During the performance exams, discussion focused on credit rating methodologies, organizational stability and reliability, and each proposer’s commitment to the product.

Crediting Rates and the Future of LIBOR

Two of the firms proposed a crediting rate based on the 3-month London Interbank Offered Rate (LIBOR). This was a significant topic of interest because Mercer indicates that LIBOR may be discontinued in the next few years.

LIBOR is the interest rate that certain London banks offer each other for short-term loans. The rate is reported daily on a voluntary basis by the banking institutions. LIBOR came under scrutiny in 2012 when it was discovered that some banks had been misreporting their rates to give the impression that they were more creditworthy than they were and to increase profits. Evidence of misreporting went back to 1991. Since the misreporting was uncovered, and given that LIBOR can only continue to be published if banks continue to voluntarily report their rates, there has been speculation on the part of regulators and the financial services community that LIBOR may cease to exist within the next few years. In the performance exams staff discussed with each firm the likelihood of a shift away from LIBOR and how that would impact their crediting rates.

East West Bank’s proposed crediting rate is the 3-month LIBOR minus 3 basis points, which is the rate it currently provides to the City. They suggested that LIBOR provides for a better rate than other indexes, such as the Treasury rate. They were skeptical about the notion that LIBOR will be replaced by a different index since LIBOR is used so widely throughout the industry. East

West Bank indicated that it would be willing to negotiate an alternative index to LIBOR if LIBOR is discontinued or if the DCP would prefer a different index.

Bank of the West currently contracts with the City and presently offers a rate of LIBOR plus 10 basis points that is capped at the Fed Funds Rate. Because of the possible discontinuation of LIBOR, in their RFP response they opted to propose the Fed Funds Rate, although they also questioned the likelihood that LIBOR would be eliminated. They indicated they would be willing to use an alternative rate structure if the City desired.

Union Bank's crediting rate proposal is the 3-month LIBOR minus 15 basis points. They indicated that LIBOR was chosen because it is the simplest and easiest to understand. They indicated that the Fed is still working on a replacement rate and that they can change to any index the DCP would like to use. They indicated that they are working under the assumption that LIBOR will be discontinued by 2020, though they believe the impact could be significant within the financial services industry due to its widespread use.

Given the potential for LIBOR not being available as a benchmark over the full term of the contract, staff and the consultant believe that it would be advantageous to explore the feasibility of establishing a common crediting methodology and common contingencies for all three banks if LIBOR is eliminated.

Deployment of Deposits

The primary objective of this savings option is principal protection. A key objective of staff's and the consultant's analysis was to assess how deposits are deployed.

East West Bank indicated their deposits are primarily used to issue loans to small- and mid-sized regional businesses. They noted that most of their business is conducted within California and they refrain from issuing loans over \$50 million to ensure no one client comprises too high a percentage of their loan portfolio. Additionally, they avoid long-term fixed rate loans and prefer more short-term variable rate loans.

Bank of the West indicated they engage in traditional commercial banking and deposits are used to fund loans. They indicated they have stringent loan requirements and their loan portfolio totals \$60 billion, which includes loans for commercial real estate, RVs, mortgages, leases, and home equity. They have a risk management unit that monitors risks related to each portfolio segment and implements certain thresholds to limit risk exposure.

Union Bank reported that their parent company, Mitsubishi UFJ Financial Group (MUFG), has a significant loan portfolio in the United States. They indicate they currently stand as the eighth largest loan provider and are actively pursuing deposits as they seek additional growth. They reported that short-term deposits are used to fund short-term lending and long-term deposits are used to fund long-term loans to ensure corresponding levels of risk.

Preparation for Abnormal Market Environments

A key focus of interest with each provider was institutional reliability and stability in unusual or extreme market conditions. During the performance exams staff and Mercer posed questions to the providers designed to assess their institutional reliability and stability in different interest rate and economic environments.

East West Bank indicated that if the yield curve inverted they would benefit from their largely short-term loans that feature variable interest rates. They indicated that during the 2008 recession they took steps to quickly recover including selling stock, recapitalizing, diluting shareholder equity, and accepting Trouble Asset Relief Program (TARP) funds from the federal government. During that time, they also sought to expand their presence in California by purchasing San Francisco based United Commercial Bank which had been shut down by regulators during the recession. They stated that in preparation for a future recession they regularly review their outstanding loans and evaluate the potential impact to their portfolio if certain market events were to occur. They also indicated that presently they are also focused on the economic and interest rate impacts of increased tariffs.

Bank of the West indicated that in compliance with the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Fed's Comprehensive Capital Analysis and Review (CCAR) they undergo stress testing two times per year. They indicate they simulate five scenarios of varying severity which they refine internally. They stated that the scenarios include significantly increased unemployment, a fall in home values, a declining stock market, and an economic downturn more severe than the 2008 recession. They indicated that in the most severe scenarios their ability to maintain the integrity of their deposits and institutional viability would still be above federal standards. They indicated that prior to the recession stress testing was less regimented and each bank was responsible for determining its own testing. They reported that the bank remained well capitalized during the recession and that their losses were lower than their peers. Furthermore, they indicated that during the recession they were one of the first banks to assist the State of California by accepting Registered Warrants issued by the state to taxpayers entitled to a refund, and to contractors who had completed work for the state.

Union Bank indicated that they didn't have risky loans in 2008 like other financial institutions and didn't rely on a government bailout because they operate in a conservative manner and avoided predatory lending. They stated that during the recession they were in a financial position that allowed them to invest \$9 billion in Morgan Stanley, which was struggling at the time. They indicated that they also undergo Dodd-Frank and CCAR stress testing with multiple scenarios of varying severity including scenarios that test a corporate bond bubble or further trade war actions. They noted that they test more scenarios than are required by federal regulations.

C. General Contracting Requirements

All three vendors indicated they are able to comply with the City's general contracting requirements, including the Standard Provisions. It is noted that in 2017, the City attempted to

enter into a contract with Union Bank for FDIC-Insured Savings Account services. The process was abandoned over issues that arose relative to the City's Standard Provisions for City contracts. For this RFP, Union Bank indicated it was willing to comply with the City's Standard Provisions. During the performance exam Union Bank provided reassurance that they have reviewed the City's requirements closely with new legal counsel and did not identify issues with agreeing to the City's contract requirements.

D. Conclusion

Staff and the consultant's findings are that all three banks are capable providers for the Plan's FDIC-Insured Savings Option. As previously noted in this report, given the potential for LIBOR not being available as a benchmark over the full term of the contract, staff recommends that prior to taking a final action approving selection of the providers and authorizing the Board Chairperson to execute contracts, the Board direct staff to review the potential for establishing a common crediting methodology and crediting contingencies for all three service providers and report back at the Board's January 15, 2018 meeting.

Submitted by:

Daniel Powell

Approved by:

Steven Montagna

CITY OF LOS ANGELES DEFERRED COMPENSATION BANK DEPOSIT SAVINGS ACCOUNT RFP EVALUATION

DECEMBER 18, 2018



CONTENTS

1. Introduction	1
2. Evaluation Detail	5

1

Introduction

The City of Los Angeles Deferred Compensation Plan currently offers an FDIC-insured option which blends two bank accounts (held at Bank of the West and East West Bank) in order to provide optimal FDIC insurance coverage in addition to competitive interest yields. Currently, up to \$500,000 in deposits is fully insured by the FDIC. For those participants with greater than \$500,000 balances invested in the option, the current FDIC bank providers may be required to collateralize these investments in qualified securities pursuant to California Government Code. The option is designed to have three bank providers, which in turn would provide for \$750,000 (3 times \$250,000 per bank) in FDIC coverage. This has not been feasible in recent years due a lack of bank interest in accepting deposits among other factors. As of June 30, 2018, nearly \$343 million was invested in the FDIC account, and the blended interest rate was approximately 2.02%.

As part of the normal procurement cycle, on May 29, 2018, the City released the RFP for Bank Deposit Saving Account providers. Three respondents proposed services by the July 20, 2018 deadline. Bank of the West and East West Bank are incumbents and chose to respond. The other respondent was MUFG Union Bank (“Union Bank”). Union Bank previously negotiated with the City to be the third bank provider to the FDIC-insured option, but ultimately contractual terms could not be resolved by both parties. Union Bank states it is now able to meet the City’s contracting requirements.

Mercer Investment Consulting, LLC. (Mercer) was directed by the Board of Deferred Compensation to assist in evaluation of responses to the City of LA Deferred Compensation Plan’s RFP for Bank Deposit Savings Account providers for the Plan’s blended FDIC option. The RFP review process entailed a preliminary stage in which solely City staff reviewed the completeness of required documentation and compliance with the City’s administrative and general contracting requirements. The second phase involved City staff and Mercer reviewing the technical competence of the respondents. Key dimensions examined in the second stage included 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 Defined Contribution (DC) plan, competitiveness of interest rate, and other items), and accounting characteristics (i.e., ability to effectively interface with the recordkeeper in providing daily plan level information and reporting).

Evaluation Summary

As presented in this report, Mercer believes all three banks are viable providers for the Plan. Our evaluation of technical competency and brief commentary on the dimensions of evaluation follows.

Provider	Evaluation of technical competency
BANK OF THE WEST	Satisfies technical requirements
EAST WEST BANK	Satisfies technical requirements
MUFG UNION BANK	Satisfies technical requirements

Financial Strength: Union Bank and Bank of the West rank fairly well from a financial strength perspective as they maintain a strong capital position, good credit ratings, and very competitive key financial ratios relative to other banks. Union Bank is the largest of the three banks with assets above \$100 billion. East West Bank, meanwhile, is a much smaller institution and ranks lesser along this dimension as its capital position, credit ratings, and key ratios are moderately lower, though still adequate.

Viability of FDIC products within a DC plan: All three providers offer products that are workable from a DC plan perspective. East West Bank, however, offers a far more attractive interest rate, which is an attractive component of its proposal. All three providers affirmed there are no additional fees for investment.¹ Two of the vendors (Bank of the West and Union Bank) have ample capacity to hold up to 100% of the value of the FDIC-insured option's assets. East West Bank, however, indicated the limit to its capacity was 50% for DCP assets.² As deposits represent liabilities from a bank's perspective, limitation of deposit capacity may be a reflection of the bank's need to maintain adequate capital levels.

¹ Bank of the West requires a small \$5,000 minimum balance to avoid account charges. This was disregarded since the City would at all times meet this requirement.

² East West stated it would hold 100% of overall assets if negotiated under different terms in order to assist the City in case of emergency.

Recommendation

Despite a better interest rate environment than when the last RFP process was conducted, there was a relatively limited response to this RFP, and very large banks did not respond. Nevertheless, the three respondents to the RFP are well-established businesses which all rank near or within the top 50 US banks in terms of deposits, assets, and total equity capital. As such, all three are qualified providers and offer reasonable crediting rates with no additional expense to the City. Further, all three indicated in their performance examinations that they would be willing to discuss alternative reference rates should the City wish to pursue this. Finally, all are experienced in working with governmental 457 plans, and we believe they will have the resources necessary to adequately serve the Plan.

Therefore, we concur with staff's scoring of the candidates and its recommendation to the Board to approve the selection of Bank of the West, East West Bank, and MUFG Union Bank as providers for the FDIC-insured option. Likewise, we agree that engaging in further discussion with the providers to arrive at a common reference rate (likely based on LIBOR initially) as well as a contingency reference rate in the event LIBOR is phased out during the term of the relationship is prudent.

2

Evaluation Detail

Financial Strength

Evaluation factor	Bank of the West (BotW)	East West Bank (EWB)	MUFG Union Bank (MUB)
Total assets (3/31/18)	\$89.6 billion <i>Ranks 32nd of banking institutions nationally</i>	\$37.7 billion <i>Ranks 51st of banking institutions nationally</i>	\$120.9 billion (12/31/17) <i>Ranks 23rd of banking institutions nationally</i>
Total deposits (3/31/18)	\$68.8 billion <i>Ranks 32nd of banking institutions nationally</i>	\$32.6 billion <i>Ranks 45th of banking institutions nationally</i>	\$84.0 billion <i>Ranks 24th of banking institutions nationally</i>
Total equity holdings	\$12.1 billion <i>Ranks 29th of banking institutions nationally</i>	\$4.0 billion <i>Ranks top 54 of banking institutions nationally</i>	\$16.6 billion <i>Ranks 17th of banking institutions nationally</i>
Short-term credit ratings	F1 (Fitch)/P-1 (Moody's)/A-2 (S&P) <i>(between upper and lower medium grade ratings)</i>	F2 (Fitch)/A-2 (S&P) <i>(between upper and lower medium grade ratings)</i>	F1 (Fitch)/P-1 (Moody's) <i>(upper medium grade rating)</i>
Long-term deposit credit ratings	A+ (Fitch)/Aa3 (Moody's) <i>(between high and upper medium grade ratings)</i> Outlook – positive	BBB (Fitch)/BBB+ (S&P) <i>(between upper and lower medium grade ratings)</i> Outlook – stable	A+ (Fitch)/Aa2 (Moody's) <i>(between high and upper medium grade ratings)</i> Outlook – positive

<i>Evaluation factor</i>	Bank of the West (BotW)	East West Bank (EWB)	MUFG Union Bank (MUB)
Total risk-based capital ratio (3/31/18)	13.2% (well capitalized)*	13.4% (well capitalized)*	17.8% (well capitalized)*
Tier I capital ratio (3/31/18)	12.2% (well capitalized)*	11.9% (well capitalized)*	16.3% (well capitalized)*
Leverage ratio (3/31/18)	9.8% (well capitalized)*	9.6% (well capitalized)*	10.2% (well capitalized)*

* Per FDIC's Prompt Corrective Action (PCA) test guidelines. Well capitalized if the bank has a total risk-based capital ratio of 10% or greater; and has a Tier 1 risk-based capital ratio of 6% or greater; and has a leverage ratio of 5% or greater.

Total risk-based capital ratio is a method of measuring the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration to its size and risk profile.

Tier 1 capital ratio measures a bank's financial health. It is the ratio of a bank's core capital (consisting primarily of common stock and disclosed reserves) to its total risk-weighted assets (total of all assets held by the bank weighted by credit risk).

Leverage ratio is a financial measurement that indicates how much capital comes in the form of debt (loans) or assesses the ability of a company to meet its financial obligations.

FDIC-Insured Product Characteristics

Evaluation factor	Bank of the West (BotW)	East West Bank (EWB)	MUFG Union Bank (MUB)
Vehicle Type	FDIC Insured Employee Benefits Deposit Account	FDIC Insured Deposit Savings Account	FDIC Insured Interest Checking Account
Participant deposits eligible for pass-through insurance coverage	Yes	Yes	Yes
Acknowledgment that FDIC offering meets City's operational requirements (15 items requested in question 35)	Respondent represents product meets all requirements	Respondent represents product meets all requirements	Respondent represents product meets all requirements
Proposed interest rate structure³	Fed funds rate, which will fluctuate with changes in the US Federal Open Market Committee (FOMC) rate policy changes	Three-month LIBOR rate less 3 basis points	3-month LIBOR minus 15 basis points
Competitiveness of interest crediting rate	Simple interest rate crediting	Credited monthly and adjusted quarterly. Interest calculated based on actual days and would reset on the last day of the quarter for the next quarter	3-month LIBOR rate shall be posted on the last business day of the month
Illustration of simulated historical returns ending 6/30/18 (periods over 1 year annualized)	3 month: 0.50% 1 year: 1.63% 3 year: 0.98% 5 year: 0.69% 10 year: 0.51%	3 month: 0.58% 1 year: 1.90% 3 year: 1.16% 5 year: 0.78% 10 year: 0.70%	3 month: 0.55% 1 year: 1.78% 3 year: 1.04% 5 year: 0.66% 10 year: 0.58%

³ The federal funds rate is the rate at which depository institutions (banks) lend reserve balances to other banks on an overnight basis. LIBOR is the London Interbank Offered Rate and represents the average rate for a given period that major banks report as the market rate for short-term loans to other banks. Typically, LIBOR is higher than the Fed funds rate.

Evaluation factor	Bank of the West (BotW)	East West Bank (EWB)	MUFG Union Bank (MUB)
Interest crediting rate changes as amount of Plan assets increases	No	No	No
Process for collateralizing investments that exceed the maximum FDIC coverage threshold pursuant to California Gov't codes 16610-16622, 16520-16533, and 53635-53652	Upon notice provided by recordkeeper, BotW shall collateralize all balances by participant that are not insured by the FDIC, in accordance with the State of CA Gov't Code Section 16521, 16610-16622 and 16625-16629 as applicable	EWB will provide appropriate collateral by collateralizing investments that exceed the maximum FDIC coverage threshold pursuant to CA Gov't Code Section 16610-16622, 16520-16533 and 53635-53652	Upon notice provided by recordkeeper, contractor shall collateralize all balances in the account not insured by the FDIC in accordance with State of CA Gov't Code Section 16610-16622 and 16520-16533, 53635-53652
Fees associated with product. Tiered fee schedule?	No fees are anticipated	No fees are anticipated	No fees are anticipated
Would hold 33.3% of the value of this Plan investment	Yes	Yes	Yes
Would hold 50% of the value of this Plan investment	Yes	Yes	Yes
Would hold 100% of the value of this Plan investment	Yes	No, may be willing to negotiate in case of emergency	Yes

Disclosures

Important notices

References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

© 2018 Mercer LLC. All rights reserved.

This contains confidential and proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's prior written permission.

Mercer does not provide tax or legal advice. You should contact your tax advisor, accountant and/or attorney before making any decisions with tax or legal implications.

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance does not guarantee future results. Mercer's ratings do not constitute individualized investment advice.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

This does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products or constitute a solicitation on behalf of any of the investment managers, their affiliates, products or strategies that Mercer may evaluate or recommend.

The value of your investments can go down as well as up, and you may not get back the amount you have invested. Investments denominated in a foreign currency will fluctuate with the value of the currency. Certain investments, such as securities issued by small capitalization, foreign and emerging market issuers, real property, and illiquid, leveraged or high-yield funds, carry additional risks that should be considered before choosing an investment manager or making an investment decision.

For the most recent approved ratings of an investment strategy, and a fuller explanation of their meanings, contact your Mercer representative.

For Mercer's conflict of interest disclosures, contact your Mercer representative or see www.mercer.com/conflictsofinterest.






Mercer (US) Inc.
633 W. 5th Street, Suite 1200
Los Angeles, CA 90071
+1 213 346 2200

FDIC-Insured Savings Account Option RFP

City of Los Angeles Deferred Compensation Plan (DCP)

Organizational Background, Financial Strength, Experience

100 Points Possible

		
<ul style="list-style-type: none"> • Bank of the West is a subsidiary of BNP Paribas, with \$89.8 billion in assets as of December 31, 2017. • Currently provide FDIC insured savings account products to three clients for retirement plans. • Operate network of retail, wealth, commercial and business banking branches and offices in 23 states; have 10,000 team members and over 2 million customers. • CEO Nandita Bakhshi joined Bank of the West in 2016. • Indicated that the distinguishing traits of their client service program include their financial integrity, access to expertise, steadfast relationships, and ability to deliver results locally and globally. 	<ul style="list-style-type: none"> • East West Bank is a publicly owned company with total assets over \$37.7 billion. • Currently provide FDIC Savings account products to City of Los Angeles and County of Los Angeles. • Provide banking services to local business, municipalities, non-profits, and institutional clients including two retirement plans. • Operate in 130 locations internationally. • No recent substantive organizational changes. • Indicated that distinguishing traits of their client service program include their experience in providing services to public sector and government entities and their experience in interfacing with different Third-Party Administrators and recordkeepers. 	<ul style="list-style-type: none"> • MUFG Union Bank is a full-service bank with \$120.9 billion in assets. • Currently maintain 192 FDIC deposit accounts, with total aggregate balance of over \$284 million. • Indicated that they provide services for retirement plans but did not indicate which plans. • Have over 500 municipal, state and public entity clients across the United States including the State of CA, with over 40 years serving CA public agencies and 414 retail banking offices on West Coast providing corporate, commercial, retail banking and wealth management services and products. • Indicated that the distinguishing trait of their client service program is that they will provide a priority support team and proactive outreach for specific account issues and reviews.
<p>95 Points</p>	<p>98.5 Points</p>	<p>92.5 Points</p>

Regulatory and Contractual Actions

50 Points Possible



BANK OF THE WEST
BNP PARIBAS

- Disclosed that in 2014, BNP Paribas (Bank of the West's parent company) settled an investigation related to conducting transactions involving parties subject to US Sanctions; also, in May of 2017 BNP Paribas paid a penalty to resolve allegations by New York's banking regulator that foreign exchange traders engaged in collusion to manipulate currency rates; also, in July 2018, BNP Paribas paid \$90 million in fines for manipulation of currency prices. Consultant feedback was that the regulatory action for these activities was imposed upon several large banks, that these actions have been known to the market, and BNP Paribas continues to have investment grade ratings from the major rating agencies, indicating that they remain in a financially strong position.
- No contracts have been terminated for default within the past 5 years.
- Neither Bank of the West, nor any of its subsidiaries, have ever filed or been petitioned into bankruptcy or insolvency.

41.5 Points



EAST WEST BANK

- Responded that East West Bancorp has never been reprimanded or otherwise cited by a licensing agency.
- No contracts have been terminated for default within the past 5 years.
- Indicated that East West bank will from time to time be sued in the ordinary course of business but noted that they have never been sued in connection with any activities similar in nature to those contemplated under this RFP.
- Neither East West Bank, nor any of its subsidiaries, have ever filed or been petitioned into bankruptcy or insolvency.

46 Points






- For several of the RFP questions related to regulatory actions, Union Bank referred the City to its Securities and Exchange Commission (SEC) filings on its website; the information provided within the SEC filings did not indicate any adverse regulatory actions. Staff raters deducted points for not providing the requested information directly in the RFP questionnaire.
- Union Bank indicated that it hasn't had any contracts in the past five years terminated for default.

24.5 Points




Client Reviews

50 Points Possible

 BANK OF THE WEST BNP PARIBAS	 EASTWEST BANK	
<ul style="list-style-type: none">• No issues or concerns were conveyed.• Firm noted as responsive to requests and accommodating of needs.	<ul style="list-style-type: none">• No issues or concerns were conveyed.• Firm noted as providing smooth operational support, particularly in terms of the rate calculation.	<ul style="list-style-type: none">• No issues or concerns were conveyed.• One client noted they had recently re-awarded contract and extra assets for management.
50 Points	50 Points	50 Points




Financial Strength

100 Points Possible

 BANK OF THE WEST BNP PARIBAS	 EASTWEST BANK	
<ul style="list-style-type: none"> • \$89.5 billion in total assets. • \$68.8 billion in total deposits. • \$12.1 billion in equity. • Short-term credit ratings: <ul style="list-style-type: none"> • Moody's – P-1 • Fitch – F1 • S&P – A-2 • Long-term deposit credit ratings: <ul style="list-style-type: none"> • Moody's – Aa3 • Fitch – A+ • S&P – N/A • Second highest credit ratings of the respondents. 	<ul style="list-style-type: none"> • \$37.7 billion in total assets. • \$32.6 billion in total deposits. • \$4.0 billion in equity. • Short-term credit ratings: <ul style="list-style-type: none"> • Moody's – N/A • Fitch – F2 • S&P – A-2 • Long-term deposit credit ratings: <ul style="list-style-type: none"> • Moody's – N/A • Fitch – BBB • S&P – BBB+ • Third highest credit ratings, but still considered acceptable by the consultant. 	<ul style="list-style-type: none"> • \$120.9 billion in total assets. • \$84 billion in total deposits. • \$16.6 billion in equity. • Short-term credit ratings: <ul style="list-style-type: none"> • Moody's – P-1 • Fitch – F1 • S&P – Aa2 • Long-term deposit credit ratings: <ul style="list-style-type: none"> • Moody's – Aa2 • Fitch – A+ • S&P – N/A • Highest credit ratings of the respondents.
<p>93.5 Points</p>	<p>82 Points</p>	<p>100 Points</p>

FDIC-Insured Product Characteristics

300 Points Possible

 BANK OF THE WEST BNP PARIBAS	 EASTWEST BANK	
<ul style="list-style-type: none"> Proposed interest rate structure is the Fed Funds Rate. Simple interest rate crediting. Costs are netted out of the crediting rate. No changes to interest crediting rate as the amount of DCP assets increase. Will collateralize all balances by participant that are not insured by the FDIC in accordance with CA government code. Willing to hold up to 100% of the value of this DCP investment. 	<ul style="list-style-type: none"> Proposed interest rate structure is the three-month LIBOR rate less 3 basis points, which is the highest rate of the respondents. Interest credited monthly and adjusted quarterly; interest calculated based on actual days and would reset on the last day of the quarter for the subsequent quarter. Costs are netted out of the crediting rate. No changes to interest crediting rate as the amount of DCP assets increase. Will collateralize investments that exceed the maximum FDIC coverage threshold pursuant to CA government code. Willing to hold up to 50% of the DCP investment; the holding of 100% of the DCP investment may be negotiated in case of emergency. 	<ul style="list-style-type: none"> Proposed interest structure is the three-month LIBOR rate less 15 basis points. Interest rate is posted on the last business day of the month Costs are netted out of the crediting rate. No changes to interest crediting rate as the amount of DCP assets increase. Will collateralize all balances in the account not insured. Willing to hold up to 100% of the value of the DCP investment.
<p>272.5 Points</p>	<p>297.5 Points</p>	<p>270 Points</p>




Recordkeeping Interface

150 Points Possible

		
<ul style="list-style-type: none">• Indicated that they are able to comply with all recordkeeping requirements.• Indicated that they currently utilize a manual process with the recordkeeper to transact purchases and redemptions, but they would like to review current procedures and implement automated processes where able.	<ul style="list-style-type: none">• Indicated that they are able to comply with all recordkeeping requirements.• Able to support manual and electronic wire initiations via their online system. Their online system is available to City and recordkeeper staff and also provides a record of all incoming and outgoing transfers.• The interest will be credited on a monthly basis at the end of the day on the last day of the month. The interest rate will adjust on a quarterly basis, and the rate will reset on the last day of the quarter for the following quarter.	<ul style="list-style-type: none">• Able to provide daily values to the City's TPA for the purposes of recordkeeping and participant servicing.• Responses indicate they have the infrastructure and processes in place to serve the transactional (wire, deposits, withdrawals) and recordkeeping needs for this product.• Responses indicate they are able to comply with the City's reporting and accounting requirements, including making accounts whole in cases of processing or pricing error committed by the banking institution; and making financial and accounting records as well as information material related to this product available to City and other pertinent parties.
139 Points	136.5 Points	138.5 Points




Reporting and Accounting Requirements

150 Points Possible

 BANK OF THE WEST BNP PARIBAS	 EAST WEST BANK	
<ul style="list-style-type: none">Bank of the West confirmed that they are able to comply with all the DCP's processing, financial, and accounting reporting requirements.	<ul style="list-style-type: none">East West Bank confirmed that they are able to comply with all the DCP's processing, financial, and accounting reporting requirements.	<ul style="list-style-type: none">Union Bank confirmed that they are able to comply with all the DCP's processing, financial, and accounting reporting requirements.
150 Points	150 Points	150 Points




Compensation and Performance Guarantees

50 Points Possible

 BANK OF THE WEST BNP PARIBAS	 EASTWEST BANK	
<ul style="list-style-type: none">• No additional fees will be assessed that are not already included within the compensation that is netted from the credited rate of return.• Would waive transaction fees or charges that might be incurred in connection with the administration of this account.• No performance guarantees proposed.	<ul style="list-style-type: none">• No fees associated with the normal operation of the account.• Would waive transaction fees or charges that might be incurred in connection with the administration of this account.• The account is structured as a floating rate product; affirm that the account will consistently yield the quoted rate and will fully participate in any interest rate increases.• No performance guarantees proposed.	<ul style="list-style-type: none">• Administrative cost, fees and charges will be netted out of the credited rate.• MUFG will make the City and/or participants whole due to a processing error or late interest posting.• No performance guarantees proposed.
35 Points	35 Points	35 Points

Performance Exam

50 Points Possible

		
<ul style="list-style-type: none">• Indicated that if the City wishes they are open to discussions regarding adopting a different reference index in order to determine an appropriate crediting methodology.• Indicated that that they are actively seeking deposits and have a long term commitment to this product and to the DCP.• Short-term deposits are deployed as short-term loans to local small and mid-sized businesses.• Diversify their risk by lending among different categories of business.• 90% of their assets are loaned out.	<ul style="list-style-type: none">• Indicated that they are open to renegotiation of crediting methodology.• Indicated that that they are actively seeking deposits and have a long term commitment to the this product and to the DCP.• Have strict lending criteria and regularly evaluate the financial strength of the clients they lend to.• Indicated that their business. consists of \$60 billion in loans, with a large part in commercial lending.• Indicated that they have a team that monitors their exposure to risk.• Stated that stress tests conducted twice a year, with internal test consisting of more severe scenarios than what is prescribed by the Federal Reserve.• Indicated their bank is collateralized pursuant to CA code and requirements.	<ul style="list-style-type: none">• Indicated that if the City wishes they are open to discussions regarding adopting a different referencing index in order to determine a mutually beneficial crediting methodology.• Indicated that that they are actively seeking deposits and have a long term commitment to this product and to the DCP.• Indicated that they conduct daily and monthly stress tests on liquidity and that their stress test scenarios consist of scenarios more severe than what is prescribed by the Federal Reserve.
50 Points	47.5 Points	45 Points

Final Scores

1,000 Points Possible



BANK OF THE WEST
BNP PARIBAS

926.5 Points



EAST WEST BANK

945.5 Points



910.5 Points