

Potential Regional Bank Program

Business and Finance Committee
September 13, 2010

Agenda

- **Current investment practice**
- **Reasons for a regional bank program**
- **Background on Metropolitan's prior small bank program**
- **Local agencies with bank investment programs**
- **Current opportunities for investments in banks**

Prudent Investment Policy

- Metropolitan's short and long term investment portfolios are managed for
 - Safety, liquidity, and yield
 - Performance measured on a total return basis
 - Evaluation of performance and duration against a benchmark

Metropolitan Does Not Have Bank Deposits as Investments

- Investments in non-negotiable time deposits and the Certificate of Deposit Account Registry Service (CDARS) :
 - Lack competitive returns versus maturities
 - Relative lack of timely liquidity
 - Transactions more time consuming than purchasing investments from brokers
 - Penalties ranging from partial to no interest if investments are liquidated prior to maturity

Why Consider a Regional Bank Program

- **Community Goodwill**
- **Support regional banks in Metropolitan's service area**
- **May result in increased loans that may help stimulate renewal, development and growth in local communities**

Metropolitan Had a Small Bank Program

- **Pilot Program for deposits with small banks**
 - **Approved by the Board in 1997**
 - **Maximum amount of program \$2 million**
 - **Eligibility requirements**
 - **Located in Metropolitan's service area**
 - **Have deposits of \$175 million or less**
 - **Deposits insured by the FDIC**

Pilot Program Started With 18 Banks

- **Pilot Program for deposits with small banks**
 - Requests for qualification were sent to 143 banks
 - 18 banks expressed interest in the pilot program
 - \$100,000 in time deposits were placed with these qualified institutions
 - In 1998, the Board approved increasing the program to a total of \$3 million
 - Bank participation decreased to 7 institutions in 1999

Board Cancelled Pilot Program

- **High Administrative Costs**
- **Lower Returns**
- **Desire to split investment portfolios**
- **Lack of demand, less than 8 banks participated towards the program**
- **Not Part of Metropolitan's Mission**

What Has Happened Since the Pilot Program?

- **Of the original 143 banks originally identified in the Pilot Program:**
 - 100 were purchased by other financial institutions
 - 37 remain in business under their original name
 - 6 banks failed
- **Per the Federal Depository Insurance Corporation (FDIC):**
 - 829 out of 7,800 banks in the U.S. are on the FDIC's list of troubled banks
 - 118 banks have failed in 2010
 - 140 banks have failed in 2009

Local Agencies with Bank Programs

- **Two local agencies have bank programs:**
 - **The City of Los Angeles**
 - Invested \$10 million - Portfolio size \$6.2 billion
 - **West Basin Municipal Water District**
 - Invested \$3 million – Portfolio size \$46.7 million

Current Investment Options Are Limited

- **Metropolitan's bank investment options:**
 - Time Deposits up to \$250,000 per institution
 - CDARs – allows investment of up to \$50 million
 - Investments in excess of \$250,000 are invested with different banks allowing each deposit to be insured
 - Investments in CDARs can be liquidated prior to maturity
 - Principal will be returned but no interest will be paid
- **Equity investments are desired by local banks, but are not allowed by the Government Code.**

Summary

- **Portfolio management emphasizes safety, liquidity, yield and investment portfolios are managed against an index**
- **Regional bank program could support banks in Metropolitan's service area and may stimulate growth**
- **Prior program invested in time deposits with small banks located throughout Metropolitan's service area**

Summary – Cont'd

- **Both Los Angeles City and West Basin Municipal Water District have bank programs**
- **A separate regional bank program may be established by the Board to invest in time deposits with local banks**

Next Steps

- **Committee input**
- **At committee's direction - evaluate feasibility of regional program**