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LSU SYSTEM

February 22, 1999

PM-9

MEMORANDUM TO: Chancellors Cavanaugh, Jenkins, Costonis, Marsala, Nunez, O'Brien, Richardson, Trail, and Executive Director Bray

SUBJECT: **Louisiana State University System Investment, Banking Services, and Safeguarding of Deposits Policy**

This memorandum supersedes PM-9 dated December 8, 1995.

1. Purpose:

The Louisiana State University System and its campuses are "State depositing authorities" as described in La. R.S. 49:319. The University retains, deposits, and invests its revenues in financial institutions ("authorized depository or fiscal agent banks") rather that remitting all receipts to the State Treasurer as is required for other state agencies. Banks receive the designation of "authorized depository or fiscal agent bank" by action of the Louisiana Interim Emergency Board.

This memorandum provide the LSU System policy for permitted investments, collateral security for University deposits, and selecting and monitoring financial institutions. La. R.S. 49:319 through 49:325, and 49:327, contain statutory requirements for deposit, security and investment of State funds. The University policy meets or exceeds these statutory requirements.

2. Investment and Banking Services Management

The management of the LSU System investments and banking services shall be entrusted to the Investment Committee. The members of this committee shall be the System Executive Vice President, the System Assistant Vice President for Administration, the Chief Business Officers of the LSU and A&M, LSUMC, LSUMCS, LSUS, and UNO Campuses, and the Associate Vice Chancellor for Finance of the LSU and A&M Campus.

Each member of the Investment Committee is responsible for the execution of this policy at his or her campus and to assist in formulating and recommending system-wide policy changes as required . The Investment Committee shall meet on a periodic basis as necessary to effectively manage the funds of the LSU System, and shall prepare the periodic summary investment reports described herein.

3. Authorized Financial Transactions

The members of the Investment Committee are authorized to enter into the banking transactions described below as necessary to carry out the business of their campuses:

A. University Funds in General:

Demand deposit accounts
Certificates of Deposit
Repurchase Agreements
Sweep Accounts
Direct Obligations of the U.S. Government
U.S. Agency Securities secured by the full faith and credit of the U.S. Government

B. Endowment, Gifts, Grants, Bond Issue Reserve Funds, and Other Permanent Funds Held by the University

Any investment permitted in the Uniform Management of Institutional Funds Act, which requires the "ordinary business prudence" standard.

C. Endowment, Gifts, and Other Permanent Funds Placed with LSU Board-Recognized Support Foundations

Any investment described in 3(B) (above) provided that the support foundation's investment policy for the Eminent Scholar Matching funds must comply with the Board of Regents Investment Policy for those matching funds. The Investment policies of the support foundations must be periodically reviewed by the Investment Committee.

4. **Selection of Financial Institutions for University Banking Transactions**

Demand deposit accounts and other basic banking services will be acquired by competitive requests for proposals once every five years. Requests for proposals will be based on the State Treasurer's Standard banking specifications, modified as necessary to meet the needs of the particular campus; the final banking agreement must be approved by the Investment Committee.

The evaluation criteria in requests for proposals should include the following:

Availability of Services
Location of Institution
Cost of services
Transaction processing time
Institution's financial condition
Opportunity cost of switching institutions

Requests for proposals are not required for investment transactions such as certificates of deposits or repurchase agreements. Such transactions are generally accomplished by surveying institutions to find the best rate.

To be eligible to provide banking services to the University, an institution must be an approved fiscal depository institution as designated by the State of Louisiana Interim Emergency Board. The additional criteria for establishing and monitoring a financial institution's eligibility are described in the following section.

5. Safeguarding Deposits and Investments

The University will use a three-level approach to safeguarding its deposits and investments as follows:

A) Deposits will be fully collateralized,

B) Institutions will be required to execute agreements granting the University a continuing first priority security interest in the pledged collateral, and

C) Financial institutions will be monitored for continued eligibility for University deposits and for potential signs of failure.

A. Collateral Requirements for University Funds

University demand deposits and investments which exceed federally insured limits must be fully secured by a pledge of securities. Demand deposits must be secured based on the average collected balance and investments which exceed federally insured levels must be secured at face value.

Collateral may be in book entry form and must be held by a third party institution acting as trustee. Safekeeping receipts or other evidence of the collateral must be provided by the financial institution to the campus business officer within five working days of the collateral pledge.

Requests for release, transfer or substitution of securities may be initiated by the pledging institution by telephone, but must be confirmed in writing within five working days. In a substitution transaction, replacement securities must be pledged before release of pledged securities.

B. Collateral Security Agreements and Financial Institution Board Resolutions

Each depository institution will be required to execute a *collateral security agreement* with the University; a member of the investment committee may execute the agreement on behalf of the University.

In addition to the signed collateral security agreement, to insure that any pledge of securities under the agreement provides the necessary first priority security interest to the University and meets the FDIC requirements under the Financial Institutions Reform Recovery Act (FIRREA), the institution must provide a *resolution of the its Board of Directors* which:

1) approves the written collateral security agreement, and

2) authorizes designated officers of the institution to grant the continuing first priority security interest in the securities pledged as collateral to secure University deposits.

C. Monitoring Financial Institutions for Eligibility for Deposits

In addition to being listed as an authorized fiscal depository institution by the Louisiana

Interim Emergency Board, an institution must meet several additional tests designed to determine the adequacy of the institution's capital.

The institution' financial data listed in *The Bank Quarterly Rating and Analysis* published by Sheshunoff Information Services (or from such other published source as may be available to the University) will be used as follows (an explanation of the terms used in this section is included in Appendix I):

1. A financial institution will be eligible for University deposits *not to exceed* 5% of its total deposits if the institution :

   a. is listed in Capital Category 1 or 2, and

   b. has a capital ratio [Tier 1 Leverage Ratio (Core Capital /Adjusted Total Assets)] of at least 5%.

2 A financial institution will be eligible for University deposits *in excess of* 5% of its total deposits if the institution:

   a. is listed in Capital Category 1, and

   b. has a Core Capital Ratio [Tier 1 Leverage Ratio (Core Capital /Adjusted Total Assets)] of at least 10%.

The LSU System will obtain *The Bank Quarterly Rating and Analysis* and furnish the ratio information to the members of the Investment Committee. Committee members will review the information and identify any change in deposit eligibility for institutions holding campus deposits and/or investments.

If an institution holding University deposits does not continue to meet the capital requirements as defined in 5 (C) above, no additional (new or renewal) deposits may be made in the institution without the written approval of the Investment Committee.

The Investment Committee will review more closely the financial status of any such institution and will request that the institution furnish the information necessary for the review including the following:

1. Disclosure of any formal or informal regulatory actions or agreements proposed or implemented by both bank's primary regulator (State, OCC, Federal Reserve) and/or the FDIC restricting the institution's rates paid on deposits, increasing deposit insurance premiums, restrictions on lending operations or other conduct, capital plans, or similar actions.

2. The institution's current Federal Financial Institutions Examination Council's FFIEC 031 Consolidated Report of Condition and Income for Bank with Domestic and Foreign Offices (commonly referred to as the Bank's "Call Report").

Following a review of the institution's information and overall financial condition, the Investment Committee may permit the institution to remain an eligible depository. The maximum deposit allowable will, however, be restricted to 2.5% of that institution's total deposits until such time as the Investment Committee determines the institution to be eligible for a higher level of deposits.

Should the institution refuse to make the required disclosures, or in the event of the initiation of a removal of deposit insurance action by the FDIC, or if the bank's Core (Tier 1) capital ratio falls below 3.0 percent, the bank will automatically forfeit eligibility as a depository of University funds. All LSU System deposits with the bank will then be withdrawn in as orderly a fashion as possible.

6. Deposit, Collateral and Investment Reporting Requirements

On a quarterly basis, the following reports will be prepared and submitted to the Executive Vice President:

A. Portfolio report - book and market values of investments at the end of each quarter;

B. Deposit and collateral report - total demand deposits, certificates of deposit, repurchase agreements, and pledged collateral outstanding at the close of each month; *and*

C. Transactions report - a listing of all investment purchases, sales, maturities, or other activities that have occurred during the quarter.

Allen Copping

Dr. Allen A. Copping
President

All System Officers

APPENDIX I

The Sheshunoff Rating Service provides evaluation guidelines using publicly available financial information obtained from the release of the preliminary reports of condition and reports of income from the Federal Reserve. These guidelines provide a composite measurement of historical bank performance using four of the five primary bank rating (CAMEL) factors: Capital Adequacy, Asset Quality, Earnings and Liquidity. (The fifth CAMEL factor is Management).

The terms used in section 5 (C) are defined as follows:

Capital Categories

1: Well capitalized
2: Adequately capitalized
3: Undercapitalized
4. Significantly undercapitalized
5. Critically undercapitalized

Core (Tier1) Capital Ratio (Core Capital/Adjusted Total Assets)

Core Capital as defined in the Sheshunoff rating service include: common stockholders' equity capital, plus non-cumulative, perpetual preferred stock and any related surplus, plus minority interests in equity capital accounts of consolidated subsidiaries, minus goodwill, minus other disallowed intangible assets, minus disallowed deferred tax assets, minus any other amounts that are deducted in determining Tier 1 (core) capital in accordance with capital standards issued by the reporting bank's primary Federal supervisory authority.

Adjusted Total Assets as defined in the Sheshunoff rating service include: the quarterly average for total assets as reported in the Call Report, minus goodwill, minus other disallowed intangible assets, minus disallowed deferred tax assets, minus any other assets that are deducted in determining Tier 1 capital in accordance with capital standards issued by the reporting bank's primary Federal supervisory authority, plus allowance for loan and lease losses, minus excess allowance for loan and lease losses, minus reciprocal holdings for banking organizations' capital instruments.