

Understanding The Credit Crisis And What It Means To Your Banking Relationships And Investment Strategy



Understanding The Credit Crisis

- The Time Line – How did we get in this mess?
- Banking and Investment Alternatives
- How To Protect Your Utility Dollars
- Improving Efficiencies



Understanding The Credit Crisis

The Big Picture

How did we get to where we are today?

The timeline.....

- February 28, 2007 - Bernanke tells House Budget Committee the housing sector "is a concern, but at this point we don't see it as being a broad financial concern or a major factor in assessing the course of the economy."
 - DOW closes at 12, 268.
 - Unemployment rate was 4.50%.
 - Fed Funds rate was 5.25%.
- ALL IS WELL



Understanding The Credit Crisis

The Big Picture

- During 2007, the market chugged along and peaked on October 9th that year at 14,164.
 - Unemployment rate was 4.70%
 - Fed Funds rate was 4.50%

What are the two emotions that drive the market?



Understanding The Credit Crisis

The Big Picture



Understanding The Credit Crisis

The Big Picture

GREED

AND

FEAR



Understanding The Credit Crisis



Understanding The Credit Crisis

The Big Picture

- January 2008 – Bank of America agrees to acquire Countywide Mortgage and the first Stimulus Bill was in the works.
 - Dow closes at 12,442 at the end of January
 - Unemployment rate was 4.90%
 - Fed Funds rate was 3.00%



Understanding The Credit Crisis

The Big Picture

- March 2008 – JP Morgan steps in to buy Bear Stearns.
 - Dow closes at 12,262 at the end of March
 - Unemployment rate at 5.10%
 - Fed Funds was 3.00%



Understanding The Credit Crisis

The Big Picture

- July 2008 – Fed seizes IndyMac Bank, Fannie and Freddie bailout announced.
 - Dow closes at 11,378 at the end of July
 - Unemployment rate at 5.70%
 - Fed Funds was 2.00%



Understanding The Credit Crisis

The Big Picture

- September 2008 – Lehman Brothers files Chapter 11 and AIG receives \$85 billion in government support.
- *“An investment in the funds is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the funds seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the funds. Money market yields may vary.”*
 - Dow closes at 10,850 at the end of September
 - Unemployment rate at 6.1%
 - Fed Funds was 2.00%



Understanding The Credit Crisis

The Big Picture

- October 2008 – Washington Mutual fails, Wells Fargo agrees to buy Wachovia, and the \$700 billion bank bailout bill passed.
 - Dow closes at 9,336 at the end of October
 - Unemployment rate at 6.5%
 - Fed Funds was 1.00%



Understanding The Credit Crisis

The Big Picture

- November and December 2008 – Auto giants report major losses, housing starts hit record low, jobless claims hit 16 year high and Citigroup bailed out by government. National Bureau of Economic Research declared that the U.S. has been in a recession since last December.
 - Dow closes at 8,776 at the end of December
 - Unemployment rate at 7.2%
 - Fed Funds lowered to 0.00%-.25% on December 16, 2008



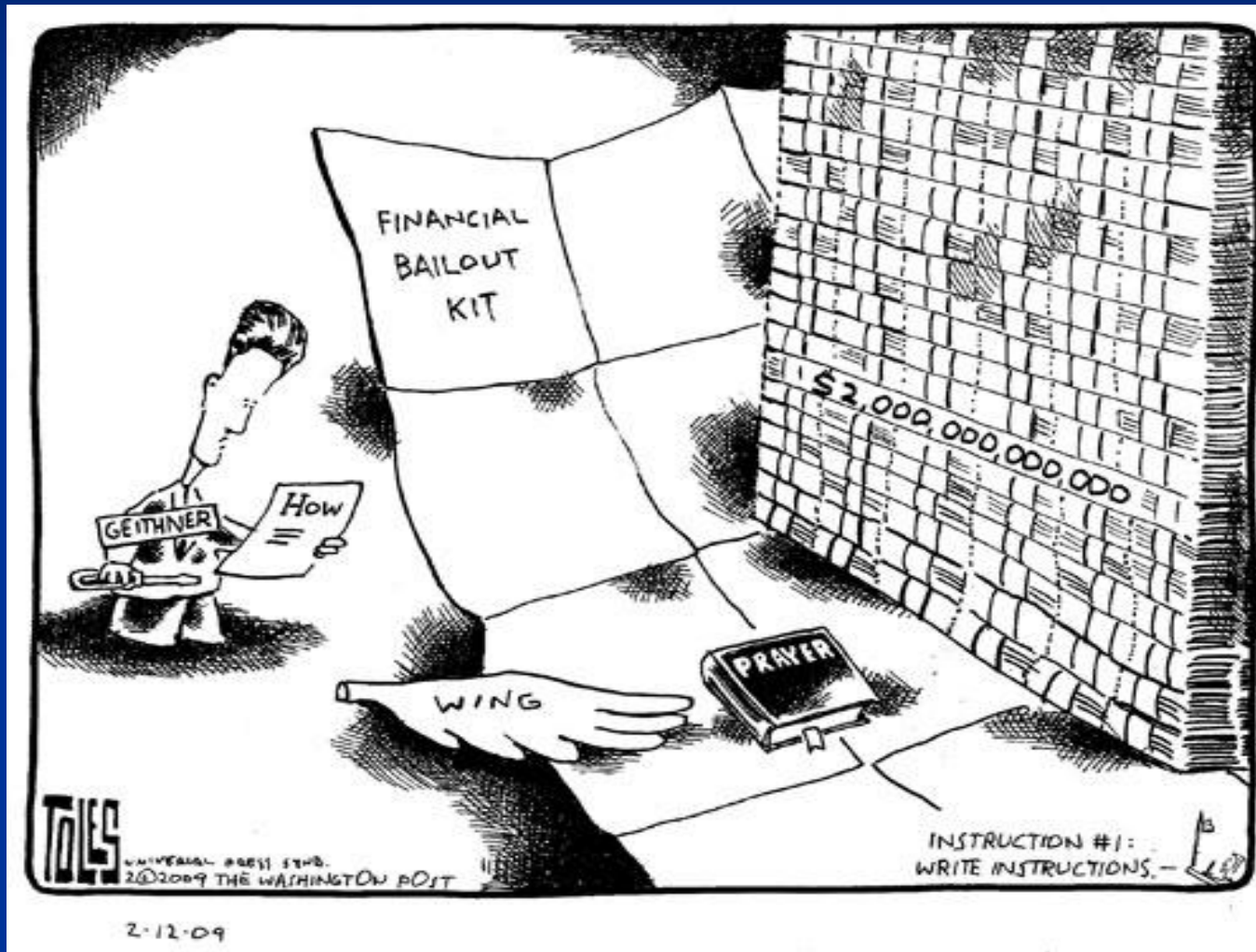
Understanding The Credit Crisis

The Big Picture

- 2009 – President signs \$787 Billion stimulus bill, FDIC announces there are 252 banks on the troubled list and the Treasury department will provide additional capital when needed.
 - Dow closes at 7,200 on March 13, 2009.
 - Unemployment rate at 8.1%
 - Indiana Unemployment at 9.2%, a 25 year high.
 - Fed Funds is 0.00% - .25%



Where Do We Go From Here?



There's Plenty Of Money In The System

■ TARP I	\$ 700,000,000,000
■ AIG	\$ 185,000,000,000
■ Federal Reserve	\$1,900,000,000,000
■ Stimulus I	\$ 787,000,000,000
■ GSE Bailout	<u>\$ 200,000,000,000</u>
	\$3,772,000,000,000

Understanding The Credit Crisis

The Big Picture

- Through the middle of February 2009, the government's commitment to solving the financial crisis reached \$7.9 trillion.
 - That's about \$1,400 for every man, woman and child on earth.



Banking and Investment Alternatives

- ❑ As budgets become tighter and tighter and you are asked to do more with less, it will become increasingly important to improve efficiencies with your bank and develop a more structured and consistent approach to investing utility dollars.
- ❑ Every dollar of additional earnings or dollar of additional savings counts.
- ❑ A 1% increase on \$1,000,000 over the course of a year will add \$10,000 to your budget.



Banking and Investment Alternatives

- Bank Savings and Checking Accounts
- TrustIndiana Investment Pool
- Certificates of Deposit
- Repurchase Agreements
- AAA-Rated Money Market Mutual Funds
- US Treasury Securities
- US Government Agencies



Banking and Investment Alternatives

■ Bank Savings and Checking Accounts

- How can you earn interest on your bank deposits and protect principal and interest?



Banking and Investment Alternatives

Protecting Your Utility Dollars

Checking, Savings and Sweep Accounts

- This is your most liquid money used to make payroll and pay your bills.
- It is important that you negotiate the highest rate (net of fees) possible for this account.
- FDIC Insurance Fund - Insures up to \$250,000 in deposits.
- Public Deposit Insurance Fund – The State of Indiana through PDIF insures those public funds deposited in approved financial institutions that exceed the limits of coverage provided by any federal deposit insurance.



Banking and Investment Alternatives

Protecting Your Utility Dollars

- FDIC Temporary Liquidity Guarantee Program

- Coverage of Deposits

- *What deposit accounts are included in the definition of a "noninterest-bearing transaction account"?*

- All funds in noninterest-bearing transaction deposit accounts held in domestic offices and insured branches in Puerto Rico and U.S. territories and possessions of participating FDIC-insured institutions will be fully guaranteed under the transaction account guarantee component of the Temporary Liquidity Guarantee Program. A "noninterest-bearing transaction account" is defined as a transaction account with respect to which interest is neither accrued nor paid and on which the insured depository institution does not reserve the right to require advance notice of an intended withdrawal. This definition encompasses traditional demand deposit checking accounts that allow for an unlimited number of deposits and withdrawals at any time. This definition does not encompass interest-bearing money market deposit accounts (MMDAs).

Banking and Investment Alternatives

Protecting Your Utility Dollars

Local Government Investment Pool - Trust INdiana

- Utilizes investments allowed by Indiana Public Funds Law
- Provides daily access to your account balance
- Can make deposits, withdrawals or transfers on any business day
- Compare this return against your bank savings and checking account return
- For current rate information, go to www.trustindiana.in.gov/rate



Banking and Investment Alternatives

Protecting Your Utility Dollars

Certificates of Deposit

- The Public Funds Code generally requires that you bid to all banks within your political subdivision.
- How do you know which banks are in your political subdivision?
- How do you know if all banks are qualified to take public deposits?
 - ❖ State Treasurer's website: <http://www.in.gov/tos/deposit/files/ALLDEP.pdf>
- By resolution, you may use banks outside your political subdivision as well.
- You may utilize email for your competitive bidding process.
- The law requires that you keep a record of all bids and that you use the highest bid received.
- May not invest out more than two years.
- These deposits are insured by PDIF.



Banking and Investment Alternatives

Coming To A Bank Near You?

■ CDARS

- Certificate of Deposit Account Registry Service
- Secure and convenient way to invest in large dollar FDIC-insured CDs
- Work with just one bank – any local bank that's a member of the CDARS Network – to obtain access to full FDIC insurance



Banking and Investment Alternatives

Coming To A Bank Near You?

■ How does CDARS work?

Banks that offer CDARS are members of a special network.

When your organization places a large deposit with a CDARS network member, that bank places your fund into CDs issued by other banks in the network. This occurs in increments of less than \$250,000, so that both principal and interest are eligible for complete FDIC protection.

At the same time, other network members do the same thing with their customers' funds.

With help from a sophisticated matching system, network members exchange deposits on a dollar-for-dollar basis (this means each bank comes out “whole”). As a result, your organization can access FDIC insurance coverage from many banks while working with just one. In effect, the full amount of your deposit stays in your local bank and supports lending in your community.

Banking and Investment Alternatives

Coming To A Bank Near You?

- How does CDARS work?
 - Interest rates are competitive with alternative investments
 - There are six choices for your maturities:
 - 4 weeks
 - 13 weeks
 - 26 weeks
 - 52 weeks
 - 2 years (104 weeks)
 - 3 years (156 weeks)



Banking and Investment Alternatives

■ Collateralized CDs

- While not required by law, some banks do offer them
- Collateral is set aside, generally marked-to-market daily
- Collateral is typically agencies or treasuries
- Rate will be a bit less than a traditional CD
- Just ask

Banking and Investment Alternatives

- Repurchase Agreements
 - Collateralized with treasuries and agencies
- AAA-Rated Money Market Mutual Funds
 - Offer diversification
- US Treasury Securities
 - Safe but very little yield in this market
- US Government Agencies
 - Fannie and Freddie may need more government help



Banking and Investment Alternatives

Increased Efficiencies

- Would you like to:
 - Save Time?
 - Reduce Expenses?
 - Increase Interest Earnings?



Banking and Investment Alternatives

Increased Efficiencies

- Banking Services
- Remote Capture
- Merchant Processing



Banking and Investment Alternatives

Bidding Out Banking Services

Why would you want to bid out your banking service contracts?

- ❑ Creating competition usually results in better interest earnings and lower fees.
- ❑ Bank mergers continuously change the competitive environment for public funds.
- ❑ To find out what other technology is available to improve efficiencies.
- ❑ Improve service level.



Banking and Investment Alternatives

Bidding Out Banking Services

Conducting a banking services RFP is not as difficult as you think. Indiana Code 5-22 provides guidelines for your RFP.

Every situation is different, but here are a few important items to consider including:

- ❑ Transaction volume
- ❑ ACH capabilities for payroll
- ❑ Check and wire clearing policies
- ❑ A statement that bank errors will never be charged to the utility
- ❑ Online transaction, statement and reconciliation services
- ❑ Index for paying monthly interest (e.g. Fed Funds plus or minus)
- ❑ Analysis and volume based fees
- ❑ Compensating balances
- ❑ Merchant processing
- ❑ Remote Capture



Banking and Investment Alternatives

Increased Efficiencies

■ Remote Capture/Desktop Scanning

- Deposit customer checks daily via scan sent to the bank
- No more trips to the bank
- Earn an extra day's interest on your total deposit
- Ask your banker to pay for the equipment



Banking and Investment Alternatives

Increased Efficiencies

■ Merchant Processing

- Allowing your customers to pay via credit/debit card
- Allow customers to pay via check online



Banking and Investment Alternatives

Increased Efficiencies

■ Merchant Processing cont.

- Several Options
 - Customer can call the utility office and provide credit card information to pay bill
 - Customer can drop by the office and use card to pay
 - Utility can have a website where customers can make their payment online



Banking and Investment Alternatives

Increased Efficiencies

■ Merchant Processing cont.

- Costs
 - Average 2-3% of bill
 - Utility can pay it or it can be passed along to client as convenience fee
- Benefits
 - Money credited right away to bank account
 - No bad checks



Banking and Investment Alternatives

Increased Efficiencies

■ Merchant Processing cont.

- eCheck
 - Customers can pay online via check
 - Input basic information including routing number
- Benefits
 - Money credited to your bank account more quickly
 - Customer convenience
 - No physical checks to process



Banking and Investment Alternatives Summary

■ Some things to consider:

1. Do a risk analysis on all your investments and bank accounts.
2. What is the net rate of return on your funds right now? What if interest rates are this low for the next twelve months?
3. Are you getting the best deal you possibly can from your banker?
4. Look at technology to gain efficiencies.



Balancing Risk and Return With Your Public Fund Dollars

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