



MEMORANDUM

To: Members of the Cash Management Policy Board
From: Local Bank RFP Evaluation Committee
Date: June 6, 2019
Subject: Local Bank RFP Award Recommendations

I. Introduction

On March 8, 2019, the Office of the State Treasurer (“OST”) issued a Request for Proposals (“RFP”) for Professional Services to qualify vendors to meet the State’s local banking needs in accordance with the guidelines approved by the Cash Management Policy Board (the “CMPB”) and the input received from the Government Efficiency and Accountability Review Board (the “GEAR Board”). The RFP was designed to assist with the consolidation of the State’s over-the-counter (“OTC”) banking relationships, centralize the administration and oversight of the State’s OTC banking contracts, and ensure consistent pricing and contractual terms with OTC banking partners.

The RFP articulated OST’s intention to identify a primary, but not exclusive, over-the-counter (“OTC”) collection bank. The selected primary vendor would require branch locations across all three counties to meet the entirety of the State’s local branch banking needs. The State reserved the right to issue multiple awards to ensure sufficient geographic coverage for all State agencies.

A comprehensive evaluation process was completed. This memo provides an overview of the process and the resulting recommendations to the Banking Subcommittee and CMPB.

II. RFP Background

Many State entities deposit coin, currency, and checks into a primary OTC collections account with Citizens Bank, the incumbent OTC provider. This account activity is recorded in the State’s accounting system, First State Financials (“FSF”), and is reconciled by OST. Separately, some agencies maintain special purpose bank accounts with various financial institutions throughout the State for the limited purposes set forth in the State’s Budget and Accounting Manual. These accounts are referred to as “outside” accounts as they are not recorded in FSF and are independently reconciled by their respective agencies. Currently, there are approximately 300 outside accounts residing with 14 different banks. The outside accounts are used primarily to receive deposits. Less than 1/3 of the outside accounts have check disbursement capabilities.

Although OST is seeking to centralize certain banking services through its primary *electronic* banking services provider, and thereby reduce the long-term need for local banking services, the State, in the near-term, will continue to require physical bank branches for State entities to make periodic deposits.

Through this RFP, the State intends to issue an award to a vendor to serve as the State’s primary, but not exclusive, OTC bank. The State also anticipates issuing additional awards to ensure sufficient geographic coverage for the State’s local banking needs. Individual State entities in need of OTC services can either use the primary vendor or select their preferred bank from the list of other approved vendors.

III. RFP Timeline and Proposals Received

A timeline of the RFP process is highlighted below:

Event	Date
RFP published	March 8, 2019
Deadline for responses to Vendor questions	March 22, 2019
Deadline for Vendor proposal submission	April 2, 2019
Finalist presentations	May 1 – 3, 2019

The State received a total of four (4) proposals from potential vendors: Citizens Bank (incumbent provider), M&T, TD Bank, and WSFS. All proposals were received on time, and met the submission requirements.

IV. Evaluation Process and Finalist Selection

The Evaluation Committee (“Committee”) consisted of various subject matter experts from OST, the Division of Accounting, and PFM, the State’s banking consultant. The composition of the Committee provided a diverse perspective regarding the ability of each Vendor to meet the State’s requirements. In addition to the voting members of the Committee, several other individuals from the State with subject matter expertise participated in the process.

All four proposals were independently evaluated and scored by the members of the Committee in accordance with the scoring criteria set forth in the RFP - operational and technical capabilities, overall experience and qualifications, implementation plan, and pricing. All four respondents were invited to make finalist presentations.

V. Proposal Scoring

After tabulating the initial scores, exclusive of pricing, M&T and Citizens Bank emerged as clear frontrunners, with M&T registering a slight advantage over Citizens Bank. TD Bank and WSFS ranked third and fourth, respectively. Upon consideration of all criteria, including pricing, Citizens Bank slightly outscored M&T.

While M&T and Citizens Bank scored considerably higher than TD Bank and WSFS, the Committee unanimously agreed that all four firms met the State’s minimum requirements and demonstrated sufficient operational and technical capabilities to support the State’s deposit needs statewide. Each vendor demonstrated its ability to comply with the collateralization requirements and other guidelines established by the CMPB.

The Committee next considered the question of whether M&T or Citizens Bank was better suited to serve as the State’s primary OTC collection bank. The Committee unanimously agreed that M&T was a better fit for this role.¹ The Committee identified M&T’s significant advantages relative to Citizens Bank, including M&T’s superior local branch network, deposit policies, and onboarding services. Although Citizens Bank submitted a slightly stronger

¹ M&T has the most extensive branch presence in Delaware of the proposing firms, with 40 branches. M&T’s branch network covered all three counties, with 21 locations in New Castle County, five (5) locations in Kent County, and 14 locations in Sussex County. A proximity study of State agency locations relative to M&T branch locations indicated that there was a branch within five (5) miles of every agency location. Additionally, M&T has a streamlined account-opening process and a very flexible deposit policy, allowing for mixed deposits and no limit on coin. Finally, M&T offers a new online platform that will best meet the State’s account management and reporting needs.

pricing proposal, the Committee believed the savings were not material (<\$10,000), and that M&T's significant operational strengths warrant an award for the primary OTC collection bank.

VI. Evaluation Committee Recommendations

The Committee recommends that **M&T be issued an award to serve as the State's primary, but not exclusive, OTC collection bank.** (This would represent a change in incumbent providers, and would require the transition of the primary OTC account from Citizens Bank to M&T.) **The Committee further recommends that the other three vendors – Citizens Bank, TD Bank, and WSFS – be deemed eligible OTC collection banks.** Granting awards to four financial institutions will both support the risk management objectives of the RFP, and provide State agencies with sufficient flexibility to engage with banks within a reasonable geographic proximity.

VII. Discussions at the Banking Subcommittee

OST presented the Evaluation Committee's recommendations at the Banking Subcommittee meeting held on August 14, 2019. The Banking Subcommittee adopted the recommendations after OST addressed questions relating to pricing, the population of in-scope accounts, the transition approach, and the financial well-being of the recommended banks.

VIII. Conclusion

The Evaluation Committee and PFM believe that transitioning the State's primary OTC account to M&T, and the State agency accounts to a combination of Citizens, M&T, TD Bank and WSFS, will result in cost savings, improved operational efficiencies, and enhanced risk management capabilities. Each of these financial institutions are highly regarded and maintain a strong reputation within the Delaware community. PFM prepared profiles of each institution attached in Exhibit 1, highlighting the strength of their balance sheets and the view from independent credit assessments by the nationally recognized statistical rating organizations.

Exhibit 1 – Firm Profiles

The following material is based on information provided by the respective banks within their response to the Office of the State Treasurer's Request for Proposals for Local Branch Banking and other sources generally believed to be reliable and available to the public.

In response, to the RFP, the State received a total of four (4) proposals from the following vendors: Citizens Bank, M&T Bank, TD Bank, and WSFS. The following profiles highlight the strength of their respective balance sheets and view from independent credit assessments by the nationally recognized statistical rating organizations (NRSRO).

Citizens Bank – Firm Profile

- a. **Firm Overview:** Citizens is one of the nation's oldest and largest financial institutions. Headquartered in Providence, Rhode Island, Citizens offers corporate, institutional and not-for-profit clients a full range of wholesale banking products and services, including lending and deposits, capital markets, treasury services, foreign exchange and interest rate products and asset finance.
- b. **Market Share:** Citizens Bank has over 1,100 branches and its geographic footprint is predominantly on the East Coast. Citizens Bank has a No. 1 in deposit market share in New Hampshire. It also has significant market share in: Rhode Island (No. 2), Massachusetts (No. 3), Vermont (No. 4), and Ohio (No. 7).
- c. **Federal Reserve's Stress Test:** Citizens Bank is one of 35 firms subject to an annual "stress test" by the Federal Reserve that was instituted after the financial crisis to grade financial institutions' ability to withstand a severe financial crisis. If a bank fails the stress test, there are restrictions placed on the financial institution's ability to pay dividends and share buybacks. Citizens Bank passed the most recent stress test in June 2018.²

Citizens Bank received a non-objection for its capital plan, which includes common share repurchases of up to \$1.02 billion, as well as a 23% increase in quarterly dividends to \$0.27 per share, with the potential to increase to \$0.32 per share.

- d. **Corporate Headquarters:** Providence, RI
- e. **Year Established:** 1828
- f. **Bank Size by Assets and Rank:** \$161.0 billion, Ranked 19th in the United States
- g. **Total Deposits:** \$119.6 billion
- h. **Total Loans:** \$117.7 billion
- i. **Number of Employees:** 18,100

² <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20180621a.htm>

j. Credit Ratings:

	Standard & Poor's Rating	Moody's Investor Services
Firm / Bank		
Short-Term Unsecured Senior Debt	A-2	NR
Long-Term Unsecured Senior Debt	A-	Baa1
Outlook	Stable	Stable
Bank Holding Company		
Short-Term Unsecured Senior Debt	A-2	NR
Long-Term Unsecured Senior Debt	BBB+	NR
Outlook	Stable	NR

k. Total Risk Based Capital Ratio: 12.6%

l. Tier 1 Risk Based Capital Ratio: 10.6%

m. Tier 1 Leverage Capital Ratio: 9.9%

n. Participant in Sheltered Harbor?: Yes

M&T Bank – Firm Profile

- a. **Firm Overview:** Manufacturers and Traders Trust Company (“M&T Bank”) is a New York State chartered bank and trust company that is wholly owned (100%) by Wilmington Trust Corporation, a Delaware bank holding company. M&T Bank was founded in Buffalo, New York, in 1856. The bank’s headquarters remain located in Buffalo. M&T’s government clients include counties, cities, towns, villages, state agencies, fire districts, public-utility authorities, public-school systems, community colleges and many others.
- b. **Market Share:** M&T has over 750 branches and several markets with a significant presence: Delaware (No. 8), Maryland (No. 2), New Jersey (No. 9), and New York (No. 8).
- c. **Federal Reserve’s Stress Test:** M&T Bank is one of 35 firms subject to an annual “stress test” by the Federal Reserve that was instituted after the financial crisis to grade financial institutions’ ability to withstand a severe financial crisis. If a bank fails the stress test, there are restrictions placed on the financial institution’s ability to pay dividends and share buybacks. M&T Bank passed the most recent stress test in June 2018.³

M&T Bank received a non-objection for its capital plan, which includes common share repurchases of up to \$1.8 billion, as well as a 25% increase in quarterly dividends to \$1.00 per share.

- d. **Corporate Headquarters:** Buffalo, NY
- e. **Year Established:** 1856
- f. **Bank Size by Assets and Rank:** \$120.1 billion, Ranked 23rd in the United States
- g. **Total Deposits:** \$90.2 billion
- h. **Total Loans:** \$88.5 billion
- i. **Number of Employees:** 16,500

³ <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20180621a.htm>

j. **Credit Ratings:**

	Standard & Poor's Rating	Moody's Investor Services
Firm / Bank		
Short-Term Unsecured Senior Debt	A-1	P-1
Long-Term Unsecured Senior Debt	A	A3
Outlook	Stable	Stable
Bank Holding Company		
Short-Term Unsecured Senior Debt	NR	NR
Long-Term Unsecured Senior Debt	A-	A3
Outlook	Stable	Stable

k. **Total Risk Based Capital Ratio:** 12.7%

l. **Tier 1 Risk Based Capital Ratio:** 10.8%

m. **Tier 1 Leverage Capital Ratio:** 9.4%

n. **Participant in Sheltered Harbor?:** Yes

TD Bank – Firm Profile

- a. **Firm Overview:** TD Bank, is one of the 10 largest banks in the U.S., with more than 26,000 employees. The company was founded more than 150 years ago in 1852. TD offers a broad array of retail, small business, and commercial banking products and services to more than 9 million clients through its extensive network of more than 1,250 convenient locations throughout the Northeast, Mid-Atlantic, Metro D.C., the Carolinas, and Florida.
- b. **Market Share:** TD Bank has 1,250 branches and its footprint includes the No. 1 in deposit market share in Maine. TD Bank has a No. 1 in deposit market share in the State of Maine. TD Bank also has a significant presence in Connecticut (No. 5), Delaware (No. 2), Massachusetts (No. 5), New Hampshire (No. 2), New Jersey (No 2.), Pennsylvania (No. 6), South Carolina (No. 6), and Vermont (No. 2).
- c. **Federal Reserve’s Stress Test:** TD Bank is one of 35 firms subject to an annual “stress test” by the Federal Reserve that was instituted after the financial crisis to grade financial institutions’ ability to withstand a severe financial crisis. If a bank fails the stress test, there are restrictions placed on the financial institution’s ability to pay dividends and share buybacks. TD Bank passed the most recent stress test in June 2018.⁴
- d. **Corporate Headquarters:** Cherry Hill, NJ
- e. **Year Established:** 1852
- f. **Bank Size by Assets and Rank:** \$301.4 billion, Ranked 8th in the United States
- g. **Total Deposits:** \$257.0 billion
- h. **Total Loans:** \$149.1 billion
- i. **Number of Employees:** 27,000

⁴ <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20180621a.htm>

j. **Credit Ratings:**

	Standard & Poor's Rating	Moody's Investor Services
Firm / Bank		
Short-Term Unsecured Senior Debt	A-1+	P-1
Long-Term Unsecured Senior Debt	AA-	A2
Outlook	Stable	Stable
Bank Holding Company		
Short-Term Unsecured Senior Debt	NR	NR
Long-Term Unsecured Senior Debt	AA-	A2
Outlook	Stable	Stable

k. **Total Risk Based Capital Ratio:** 15.9%

l. **Tier 1 Risk Based Capital Ratio:** 15.0%

m. **Tier 1 Leverage Capital Ratio:** 9.2%

n. **Participant in Sheltered Harbor?:** Yes

WSFS – Firm Profile

- a. **Firm Overview:** WSFS Financial Corporation is a multi-billion dollar financial services company. Its principal subsidiary, Wilmington Savings Fund Society, FSB (WSFS Bank), is the oldest and largest bank and trust company headquartered in the Delaware Valley. WSFS has 77 offices located in Delaware, Pennsylvania, Virginia and Nevada, and provides comprehensive financial services including commercial banking, cash management, retail banking and trust and wealth management.
- b. **Market Share:** WSFS has 63 branches. In Delaware, WSFS ranks No. 9 in deposit market share.
- c. **Corporate Headquarters:** Wilmington, Delaware
- d. **Year Established:** 1832
- e. **Bank Size by Assets and Rank:** \$7.2 billion, (not ranked)
- f. **Total Deposits:** \$5.6 billion
- g. **Total Loans:** \$4.9 billion
- h. **Number of Employees:** 1,200
- i. **Credit Ratings:** N/A
- j. **Total Risk Based Capital Ratio:** 13.4%
- k. **Tier 1 Risk Based Capital Ratio:** 12.7%
- l. **Tier 1 Leverage Capital Ratio:** 10.8%
- m. **Participant in Sheltered Harbor?:** No