



## Louisiana State University System

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**Subject:** Louisiana State University System Investment, Banking Services, and Safeguarding of Deposits Policy PM-9 (revised January 14, 2011)

### **1. Purpose:**

- a. 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 than 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.
- b. This memorandum provides 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.
- c. It is the intention of this policy to establish guidelines for the investment, expenditure, safekeeping, and monitoring of the financial resources of all LSU System institutions. Adherence to this policy should reflect the judgment and care which persons of prudence, discretion, and intelligence would use to manage like assets, not in regard to speculation, but in regard to the permanent disposition of the funds, considering the probable income, as well as the probable safety of the capital to be invested.

### **2. Investment and Banking Services Management:**

- a. 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 Chief Financial Officer, the Chief Financial Officers of the LSU and A&M, LSUHSC-NO, LSUHSC-S, LSUS, and UNO campuses, and the Health Care Services Division.
- b. 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, not less than annually, to effectively manage the funds of the LSU System, and shall prepare the periodic summary investment reports described herein.

### **3. Authorized Financial Transactions**

- a. All investment transactions must be in accordance with provisions of R. S. 49:327. The members of the Investment Committee are authorized to enter into the banking and investment transactions described below as necessary to carry out the business of their campuses.
  - i. Demand deposit accounts
  - ii. Certificates of Deposit
  - iii. Repurchase Agreements

*Louisiana State University & Agricultural and Mechanical College*

*LSU at Alexandria • LSU at Eunice • University of New Orleans • LSU in Shreveport • Hebert Law Center • LSU Agricultural Center  
Pennington Biomedical Research Center • LSU Health Sciences Center – New Orleans • LSU Health Sciences Center – Shreveport • LSU Health Care Services Division*

- iv. Sweep Accounts
  - v. Direct Obligations of the U.S. Government
  - vi. U.S. Government Agency Obligations contained in the list promulgated by the State Treasury
  - vii. Investment grade Commercial Paper and Investment grade Corporate Notes and Bonds
  - viii. Money market funds consisting solely of securities otherwise eligible for investment by the state treasurer.
- b. University Endowments
- i. Any investment permitted in the Uniform Prudent Management of Institutional Funds Act, which requires the “business judgement standard” .
  - ii. Provided that any investment of funds described in 3((b)(i) (above) that are part of the Endowed Chair and Endowed Professorship Programs must comply with the Board of Regents Investment Policy for those funds. The investment policies of the support foundations must be periodically reviewed not less than annually by the Investment Committee.

#### **4. Investment Objective**

The long-term investment objective of this policy is to prudently invest the assets within the limitations of State law in order to maximize the risk adjusted total return. For endowed assets, prudent investment management would also strive to preserve the purchasing power of those assets while allowing for an appropriate level of spending consistent with donor intent and the needs of the institution.

#### **5. Spending Policy**

The primary objective of the spending policy is to provide a predictable and sustainable level of program spending. The Investment Committee shall meet and determine the maximum allowable spending from endowment earnings for each fiscal year.

#### **6. Asset Allocation**

##### a. Stocks

- i. In accordance with provisions of Article VII, Section 14 of the Louisiana Constitution, and R. S. 49:327(C)(3)(b) the University may invest publicly funded permanently endowed funds in the stock of any corporation listed on the New York Stock Exchange, the American Stock Exchange, or authorized for quotations display on the National Association of Securities Dealers Automated Quotations System, provided that the total investment in such stocks at any one time shall not exceed thirty-five percent of the market value of all publicly endowed funds of the University.
- ii. The equity portfolio should be well-diversified to avoid undue exposure to any single economic sector, industry group, or individual security. This is to assure that no single security, class of securities, or investment style will have a disproportionate impact on the program assets’ aggregate results.
- iii. Concentration by Issuer:
  - (a.) No more than five percent (5%) of total equity assets shall be invested in the securities of any one issuing legal entity at market value.
  - (b.) No more than twenty percent (20%) of the market value of total equity assets shall be in the securities of any one industry at market value.
  - (c.) Investments in any legal entity shall not exceed five percent (5%) of the outstanding shares of the entity.

## 7. Selection of Financial Institutions for University Banking Transactions

Demand deposit accounts and other basic banking services will be acquired by competitive requests for proposals at least 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.

## 8. Safeguarding Deposits and Investments

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

- Deposits will be fully collateralized,
- Institutions will be required to execute agreements granting the University a continuing first priority security interest in the pledged or secured collateral, and
- Financial institutions will be monitored for continued eligibility for University deposits and for potential signs of failure or undue risk.

### 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 authorized by the 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 its Board of Directors* which:

- i.. Approves the written collateral security agreement, and
- ii.. 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's financial data listed in *Bank Focus Pro* published by Highline Data (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):

- i.. 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%.
- ii.. 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 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 8 (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:

- Disclosure of any formal or informal regulatory actions or agreements proposed or implemented by both bank's primary regulator (State, OCC, and or 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.
- The institution's current Federal Financial Institutions Examination Council's FFTEC 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.

## 9. Deposit, Collateral and Investment Reporting Requirements

On a quarterly basis, the following reports will be prepared and submitted to the System Chief Financial Officer:

- a.. Portfolio report – cost 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 quarter; *and*
- c.. Transactions report – a listing of all investment purchases, sales, maturities, or other activities that have occurred during the quarter.

## APPENDIX I

The Highline Data 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 8 (C) are defined as follows:

### Capital Categories

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

### Core (Tier 1) Capital Ratio (Core Capital/Adjusted Total Assets)

Core Capital as defined in the Highline Data 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 Highline Data 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.