



## ADMINISTRATIVE DIRECTIVE

SUBJECT	NUMBER	PAGE	
		1 of 4	
	CITY OF TUCSON BANKING POLICY		PAGE ISSUE DATE
			June 18, 2001

### I. PURPOSE

To establish procedures for using financial institutions' community reinvestment ratings as a factor in determining eligibility to receive City of Tucson deposits and investments.

### II. DEFINITIONS

- A. **Deposits** – Monies received by the City of Tucson, which are placed in demand deposit accounts for temporary periods pending investment or expenditure.
- B. **Investments** – City monies placed in interest-bearing securities of the type authorized by Chapter XIII, Section 12, of the City Charter.
- C. **Eligible Depository** – Any bank or savings and loan association with offices in the City which is insured by the Federal Deposit Insurance Corporation, or any successor, or any credit union which is insured by the National Credit Union Administration or its successor.
- D. **Servicing Bank** – Any bank which is an eligible depository having a total capital structure of fifty million dollars or more and total assets of five hundred million dollars or more, maintaining a trust department, and being a member of the Federal Reserve System. Banks meeting these requirements are eligible to become the servicing bank for the City Treasurer's Deposit Account, Payroll Account, and General Revolving Account.

### III. POLICY

It shall be the policy of the City of Tucson that its banking and investment activities should promote the economic stability and growth of the City of Tucson and all of its neighborhoods. The City of Tucson recognizes that private financial institutions, through their credit practices and the services they provide, play an essential role in maintaining healthy businesses and institutions in the community and jobs and housing for Tucson's residents. The City of Tucson will therefore use funds available for deposits and investments to discourage red-lining and disinvestment and to encourage responsible reinvestment in the City of Tucson.

### IV. PROCEDURE

- A. **Collateral Required** – No financial institution shall be eligible to receive City monies for deposit or investment above the amount insured by an agency of the U.S. Government unless such deposits or investments are secured by collateral of the type listed in Title 35-323 of the Arizona Revised Statutes. Such collateral, the market value of which must be maintained at a minimum of 105% of the amount of deposits or investments which exceed the insured amount, shall be held by the trust department of the City's servicing bank for the Treasurer's Deposit Account.



ADMINISTRATIVE DIRECTIVE

SUBJECT  <b>CITY OF TUCSON BANKING POLICY</b>	NUMBER  <b>3.01-3</b>	PAGE  <b>2 of 4</b>
	PAGE ISSUE DATE  <b>June 18, 2001</b>	

**B. Pledge Required** – Eligible depositories which are interested in receiving City deposits or investments shall submit a pledge not to discriminate against any individual seeking a loan on the basis of race, color, religion, sex or national origin; not to indulge in red-lining activities against any City neighborhood; and to make loans available, within legal restrictions and prudent financial practices, on low and moderate income residential property and for small businesses in the City of Tucson.

**C. Reports and Written Evaluations Required** – Eligible depositories which are interested in receiving City deposits or investments must submit to the Finance Director the written evaluation of the appropriate Federal financial supervisory agency. Such written evaluation submitted shall include the agency's rating of the institution's record of meeting the community's credit needs, as set forth in the Section 807 of the Community Reinvestment Act. At their option, financial institutions may submit their response to the rating and written evaluation of the supervisory agency and the reasons for their loan decisions. Also at the same time, financial institutions must report to the Finance Director all branches opened and closed in the Tucson metropolitan area during the previous 12 months, and any proposed branch openings or closings.

On a continuing basis, any financial institutions with City deposits or investments must notify the Finance Director of any proposed branch openings or closings in the Tucson metropolitan area.

When requested, financial institutions shall also submit Home Mortgage Disclosure Act (HMDA) reports prepared by the Federal Financial Institutions Examination Council (FFIEC), which shall include the aggregation and cross tabulation of data required by Regulation C, "Home Mortgage Disclosure", on loan applicants and their disposition; the race, sex, and income of borrowers and applicants; and the type of purchaser of loans that are sold.

At such time as the Finance Director has received the written evaluations and reports of the eligible depositories interested in receiving City deposits or investments, the institutions shall be grouped, for comparison purposes, as follows:

1. Institutions qualified to be a servicing bank for the City Treasurer's Deposit Account, Payroll Account, and General Revolving Account.
2. Eligible depositories not qualified to be a servicing bank.

**D. Servicing Banks – Determination of Eligibility to Receive City Deposits** – The Finance Director shall evaluate institutions qualified to become a servicing bank under the following criteria:



## ADMINISTRATIVE DIRECTIVE

SUBJECT	NUMBER	PAGE
		3 of 4
	CITY OF TUCSON BANKING POLICY	
PAGE ISSUE DATE		
June 18, 2001		

1. The performance of the financial institution in meeting the credit and financial needs of the people and neighborhoods of the City of Tucson, especially those with low and moderate incomes.
2. The range, quality, cost, and convenience of services offered.
3. Financial stability, profitability, and capitalization (net worth).

Financial stability and range, quality, and convenience of services being of comparable quality, deposit accounts will be placed as follows:

1. Those institutions with an "A" (outstanding record of meeting community credit needs) or "B" (satisfactory record of meeting community credit needs) rating shall be given preference in the placement of new deposit accounts and in the transfer of deposit accounts from lower rated institutions.
  2. Those institutions with a "C" (needs to improve record of meeting community credit needs) rating will be considered probationary. Such institutions will not be eligible to receive additional deposit accounts if there are any "A" or "B" rated institutions in the servicing bank category. If the institution is a servicing bank for the City of Tucson, the Finance Director shall notify the institution of its probationary status. To continue as a servicing bank, the institution shall be required to submit evidence, within six months, of its attempts to improve its record. If the institution fails to demonstrate improvement or if it receives two consecutive annual ratings of "C" or lower, the Finance Director shall take whatever action is necessary to move all deposit accounts from that institution to a higher-rated institution.
  3. If an institution receives a "D" (substantial noncompliance in meeting community credit needs) rating, the Finance Director shall, as soon as is practical, transfer all deposit accounts to a higher-rated institution in the servicing bank group.
- E. Non-Servicing Banks – Determination of Eligibility to Receive City Deposits** - Eligible depositories not qualified to become a servicing bank for the City of Tucson shall be evaluated, within their group, in the same manner as institutions qualified to become a servicing bank. Deposit accounts transferred from a "C" or "D" rated institution in this group shall be placed with an "A" or "B" rated institution within the same group.
- F. Investments - Funds to be Made Available to Qualified Financial Institutions –** Financial institutions that are considered creditworthy, through evaluation of their financial condition, profitability, and capitalization, and that have received an "A" or "B" rating, shall be given the opportunity to bid on City monies available for investment. All bids shall be on a competitive basis and shall be subject to the provisions of the section of this policy entitled "Collateral Required". No investments shall be made 1) with a financial institution not deemed to be in sound financial condition, 2) at lower than market rates, or 3) for a period exceeding 12 months.



ADMINISTRATIVE DIRECTIVE

SUBJECT  <b>CITY OF TUCSON BANKING POLICY</b>	NUMBER  <b>3.01-3</b>	PAGE  <b>4 of 4</b>
	PAGE ISSUE DATE  <b>June 18, 2001</b>	

Any financial institution that has been given the opportunity to bid on City monies available for investment, but which has not been awarded any investments, will remain on the bid list and will be given further opportunities to bid for City monies available for investment.

- G. Priority for "A" Rated Financial Institutions** – In awarding new deposit accounts and in transferring accounts from lower rated institutions, financial institutions with an "A" (outstanding) rating will be given priority over institutions with a "B" (satisfactory) rating. Financial institutions with a "A" rating will be given the first opportunity to bid on City monies available for investment.
- H. Disqualification** – In addition to being disqualified by reason of one "D" rating or two consecutive "C" ratings, a financial institution may be disqualified from receiving City deposits or investments for any of the following reasons:
1. Refusal of the financial institution to provide any of the required information.
  2. An excessive number of branch closings in low and moderate-income areas by the financial institution.
  3. The financial institution being taken over by a Federal or State regulatory agency.
- I. Reports** – When requested, the Finance Director shall provide the Mayor and Council with a report specifically devoted to presentation of community reinvestment ratings of institutions in which the City has any deposits or investments. The report shall include the number of deposit accounts and the balance of such accounts, the amount made available for investment with financial institutions, the number of institutions submitting bids for those investments, and the amount invested. The report shall also include a listing of all branches opened or closed by each financial institution in low and moderate-income areas of the City.

Copies of this report shall be made available to the public through all branches of the City of Tucson Public Library and other such institutions as the Mayor and Council shall direct.

**V. RESPONSIBILITY FOR REVIEW**

An Assistant City Manager shall review this directive annually, or as necessary.

**AUTHORIZED:**

**MIKE LETCHER**  
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**DEPUTY CITY MANAGER**