

DOCUMENT RESUME

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[The Minority Bank Deposit Program]. May 18, 1978. 2 pp. + enclosure (4 pp.).

Report to Paul H. Taylor, Acting Fiscal Assistant Secretary, Department of the Treasury; by Thomas R. Colan, Assistant Director, General Government Div.

Contact: General Government Div.

Organization Concerned: Saint Lawrence Seaway Development Corp.

The Saint Lawrence Seaway Development Corporation's participation in the minority bank program, which seeks to increase Federal funds deposited with minority banks, was not accompanied by sound cash management practices. The Corporation acquired certificates of deposit from minority banks at interest rates lower than those given to the general public. In acquiring the certificates, the Corporation did not request the prevailing interest rates, did not get bids from all banks participating in the minority bank program, and did not attempt to acquire longer term certificates of deposit at higher interest rates when feasible. Although steps are being taken to clarify practices for depositing Federal funds in minority banks, no action is being taken or contemplated involving the use of investment funds such as that made by the Saint Lawrence Seaway Development Corporation. There has been no guidance on the use of investment funds apparently because the Department of the Treasury has no authority to direct agencies to invest funds in minority banks or to accept any particular interest rate. (RBS)



6510 UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

18 MAY 1978

The Honorable Paul H. Taylor
Acting Fiscal Assistant Secretary
Department of the Treasury

Dear Mr. Taylor:

As you know, the Department of Treasury, pursuant to Presidential executive orders, seeks to increase--within the constraints of good cash management--Federal funds deposited with minority banks. Because of Treasury's role, we are enclosing a copy of our report on how the Saint Lawrence Seaway Development Corporation's participation in the minority bank program was not accompanied by sound cash management practices. This is but one case and the amount of money involved is small, but the events raise a question on whether some guidance to Federal agencies on program participation might be in order.

The Corporation acquired certificates of deposits from minority banks at interest rates lower than those given the general public. In acquiring the certificates, the Corporation was not (1) requesting the prevailing interest rates, (2) getting bids from all banks participating in the minority bank program, and (3) attempting to acquire longer term certificates of deposit at higher interest rates when feasible. Our recommendations to the Corporation are detailed in the enclosed report; Corporation officials said that better interest rates would be obtained in the future.

Treasury officials are aware that conflicts exist between promoting the use of minority banks and sound cash management practices. Steps are being taken to clarify practices for depositing in minority banks Federal funds flowing through Treasury's general accounts and tax and loan accounts. But no action has been taken or is being contemplated to clarify conflicts involving the use of investment funds such as that made by the Saint Lawrence Seaway Development Corporation. Treasury's banking staff estimated that about \$40 million of Federal-controlled investment deposits were with minority banks at September 30, 1977.

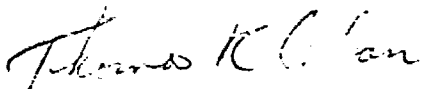
There has been no guidance on the use of investment funds apparently because Treasury has no authority to direct agencies to invest funds in minority banks or to accept any particular interest rate, and Treasury is seeking to have its responsibility for the

minority bank program transferred to the Interagency Council for Minority Business Enterprise.

Fundamentally, of course, sound cash management practices rest with the agencies. However, given the potential for conflict between that practice and the investment of funds with minority banks, we believe some guidance from Treasury to Federal agencies on the trade-offs, if any, that should be made between the competing objectives might be in order. If Treasury's responsibility is transferred, we believe the recipient entity would welcome the guidance.

We would appreciate being advised of any action taken on the matter.

Sincerely yours,



Thomas R. Colan
Assistant Director

Enclosure



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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

IN REPLY
REFER TO:

COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

MAY 12 1978

Mr. David W. Oberlin
Administrator, Saint Lawrence
Seaway Development Corporation
Department of Transportation

Dear Mr. Oberlin:

We have examined the Saint Lawrence Seaway Development Corporation's policies with respect to acquiring 1-year certificates of deposit from banks participating in the Minority Bank Deposit Program. This effort was prompted by the fact that 21 of the 35 banks through which the Corporation is acquiring certificates of deposit, pay the Corporation less than 6 percent interest, the prevailing rate of 1-year certificates of deposit nationwide. Interest lost from January 1977 through February 1978 on certificates acquired by the Corporation at less than 5 percent amounted to about \$2,950.

The Minority Bank Deposit Program was initiated by the Office of Management and Budget in October 1970 to stimulate the formation and growth of minority banks. Since its inception, the program has grown from 31 participating banks to 82 as of June 30, 1977. All Federal agencies--and the private sector--have been encouraged to make maximum use of these banking facilities. In Government publications to both public and private sectors, emphasis is given to the fact that this is not a "hand out" program, but rather an investment in minority business enterprise. The immediate benefit is expected to be in the form of additional funds available in minority communities for local use.

On April 8, 1977, the President of the United States reiterated the Federal Government's support for this program in a memorandum to the heads of all departments and agencies. In essence, he stated that "within the constraints of good cash management," every possible effort should be made to locate agency deposits which can be channeled into minority banks.

The Corporation has been participating in the Minority Bank Deposit Program since its inception. Recipients of Corporation funds are selected from a list of participating minority banks which have been approved by the Department of the Treasury. The Corporation routinely acquires certificates of deposit when funds are available. Initial certificates of deposit were primarily

acquired from minority banking facilities in the Great Lakes area, and later, as more funds became available, the program was expanded to minority banks throughout the Nation. One-year certificates of deposit were acquired in \$20,000 increments because the Federal Deposit Insurance Corporation, until late 1974, only insured up to \$20,000. This practice did not change when the insured ceiling was increased to \$40,000.

Once the selection of a bank is made, the Administrator sends a check to the bank in the amount of \$20,000, and requests a certificate of deposit. An excerpt of a typical letter, dated January 20, 1978, reads as follows:

"With this letter, our Corporation wishes to establish an account with your bank in the amount of \$20,000 in conjunction with the Administration's pledge to expand the opportunities for minority business enterprises through depositing of official government funds in minority banks. Accordingly, enclosed is our check (\$20,000) for the purchase of a one year Certificate of Deposit bearing interest payable at Maturity.

"Would you kindly forward to our Massena Office a record of this deposit."

Treasury Department guidance to potential participants in the Minority Bank Deposit Program impacts on the Corporation's procedure for acquiring certificates of deposit from minority banks. This guidance states that (1) Government investments should be made in terms of good cash management and (2) when certificates of deposit are to be acquired, the Government should try to increase the number of minority banks bidding for such funds. In the latter instance competition is expected, to some extent, to equalize deposits among minority banks. We found that the Corporation (1) was not requesting the prevailing interest rates, (2) was making no attempt to obtain bids from all banks participating in the minority bank program and (3) was not attempting to acquire longer term certificates of deposit at higher interest rates when feasible.

A composite of the Corporation's portfolio of 36 certificates of deposit valued at \$720,000, and held at 35 minority banks as of February 1978 revealed the following:

- one certificate at 4.50 percent;
- one at 4.88 percent;
- six at 5.00 percent;
- one at 5.25 percent;
- ten at 5.50 percent;

--two at 5.75 percent; and

--fifteen at 6.00 percent.

According to the quarterly Federal Reserve Board publications of the most common interest rates paid on time deposits, the prevailing interest rates for the period January 1977 through February 1978 was 6 percent. Based on a 6 percent interest rate, the amount of interest lost on the above 1-year certificates acquired from January 1977 through February 1978, was about \$2,950.

In addition, certificates often were carried over from 1 year to the next, with the Corporation checking only to assure that the recipient minority bank was still on the approved list. Six of the Corporation's 36 certificates of deposit had been held for periods of over 6 years with no change in banks and no attempt to acquire longer term certificates at higher interest rates.

To find out if higher interest rates could be obtained, we contacted 18 banks from which the Corporation is receiving less than 6 percent on certificates. We found that the majority are paying 6 percent to the general public for 1-year \$20,000 certificates of deposit. Certificates acquired by the general public for periods of 2 to 4 years are drawing 6.5 percent, and 4 to 6 year certificates earn 7.0 to 7.5 percent. Further, according to a Federal Reserve Board representative, 1-year certificates purchased by domestic government units can earn up to 7.75 percent. However, most banks are offering only 6 percent.

! We recommend that you take the following actions:

- As the present certificates of deposit become renewable, obtain bids from all participating minority banks. This will assure equal opportunity to all participants and will maximize interest received.
- In deposit negotiations with minority banks, prime consideration should be given to those banks granting Government units a higher interest rate than the prevailing 6 percent rate. But, as a matter of policy, accept nothing less than the prevailing interest rates as set-forth in quarterly Federal Reserve Board publications of most common interest rates paid on time deposits.
- Acquire longer term certificates of deposit, at higher interest rates, for that portion of the \$720,000 for which no immediate cash need is foreseen.

The above recommendations were discussed with the Corporation's Comptroller and he agreed that in the spirit of sound cash management practices, better interest rates would be obtained in the future. In fact he immediately contacted the bank from which he had a 4.5 percent certificate (renewable in May 1978) and negotiated a 6 percent rate for the renewal.

We would appreciate being advised of the actions you take on our recommendations. We appreciate the cooperation extended to us by the personnel at the Saint Lawrence Seaway Development Corporation.

Sincerely yours,

A handwritten signature in cursive script, reading "Hugh J. Wessinger".

Hugh J. Wessinger
Associate Director