

GAO

February 1992

DEPOSITORY INSTITUTIONS

Contracting Practices With Data Processing Servicers





**United States
General Accounting Office
Washington, D.C. 20548**

General Government Division

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Chairman, Committee on Banking, Housing,
and Urban Affairs
United States Senate

The Honorable Jake Garn
Ranking Minority Member
Committee on Banking, Housing, and
Urban Affairs
United States Senate

The Honorable Henry Gonzalez
Chairman, Committee on Banking, Finance
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Ranking Minority Member
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House of Representatives

Section 225 of the Financial Institutions, Reform, Recovery, and Enforcement Act of 1989 (FIRREA) prohibits financial institutions from entering into contracts for goods and services that could adversely affect the safety and soundness of an institution. Congress was concerned that certain practices—that is, vendors buying stock or making deposits in an institution or purchasing the institution's assets at an inflated rate—were being imposed as a condition of a contract award for various services. Further, Congress was also concerned that such practices could have an anticompetitive effect. If large data processing vendors were engaging in such contracting practices, this would enable them to have an unfair competitive advantage over smaller vendors. The act requires GAO and the Attorney General to jointly study (1) whether insured depository institutions are entering into contracts under which vendors agree to purchase stock or assets from or invest capital or make deposits in such institutions; and (2) the extent to which such practices, if they exist, have an anticompetitive effect and should be prohibited.

We gathered information on contracting practices between depository institutions and data processing servicers. First, we surveyed random samples of 2,270 banks and 1,083 savings associations about their

contracting practices with data processing servicers.¹ We also surveyed 264 companies that we identified as data processing vendors. In addition, we reviewed regulatory agencies' examinations pertaining to such contracting practices. We are providing this information to the Attorney General for his determination as to whether potential anticompetitive practices exist and if the matter should be investigated further. The Attorney General will report his results to you separately.

Background

Congress passed section 225 of FIRREA to address its concern that certain contracting practices could be anticompetitive and have an adverse effect on the safety and soundness of depository institutions. Such practices include vendors buying stock or making deposits in an institution or purchasing the institution's assets at an inflated rate as a condition of the contract. For example:

- As a contractual prerequisite, a bank could require that a vendor purchase real estate at book value, while the market value is only half that. The bank would reimburse the vendor over the term of the contract by paying higher servicing fees.
- A bank and a data processing vendor enter into a contract whereby the vendor pays \$30 million for bank assets, such as used computers or office equipment. However, the true market value of these assets is less than \$10 million. The data processing vendor regains the money through excessive servicing fees during a long-term contract of 8 to 10 years or more.

Congress was concerned that large vendors, which could afford to engage in such practices, were being awarded contracts at the expense of small vendors that offered similar products or services but did not have the cash to engage in such practices and were therefore not in a position to compete for these contracts.

Section 225 does not define the phrase "anticompetitive." However, the major antitrust laws, which prohibit certain anticompetitive behaviors, are the Sherman Antitrust Act (15 U.S.C. sections 1-7) and the Clayton Antitrust Act (15 U.S.C. sections 12-27). Section 1 of the Sherman Act makes illegal any contract, combination, or conspiracy that results in a "restraint of trade." The courts have construed the term to cover a variety of trade restraining agreements. Section 2 of this act also prohibits monopolization as well as attempts, combinations, or conspiracies to monopolize.

¹While section 225 was also concerned with the effect of certain contracting practices on the safety and soundness of financial institutions, the act did not require us to review this aspect, which is the responsibility of the regulatory agencies.

The Clayton Act, as amended, supplements the Sherman Act by proscribing certain types of market behavior that constitute an existing restraint of trade and other behavior that, if left as is, may restrain trade.

Oversight and Enforcement Responsibilities

At the time we began our survey, there were 12,689 banks as of March 31, 1989, and 2,633 savings associations as of December 31, 1989, operating in the United States.² State and federal agencies regulate these institutions. The primary federal agencies and offices responsible for their regulation are (1) the Federal Deposit Insurance Corporation (FDIC), which provides insurance coverage for depositors with funds in FDIC-insured depository institutions and is the federal supervisor of state-chartered banks that are not members of the Federal Reserve; (2) the Office of Thrift Supervision (OTS), which charters federal savings and loan associations and supervises the thrift industry; (3) the Office of the Comptroller of the Currency, which is responsible for chartering, regulating, and supervising the operations of national banks; and (4) the Federal Reserve Board, whose major responsibilities include administering and making monetary policy and exercising various examination and supervisory authority over state-chartered federal reserve member banks, bank holding companies, and others. In carrying out their duties, these agencies do a variety of examinations of both depository institutions and the companies that provide them with data processing services. Most of these examinations focus on assessing the safety and soundness of an institution, reviewing such matters as the management of the institution and the quality of its loans.

The enforcement of federal antitrust laws is primarily the responsibility of the Justice Department's Antitrust Division. Enforcement activities include investigating possible antitrust violations, conducting grand jury proceedings, and preparing and trying antitrust cases. The Federal Trade Commission and state attorneys general also share this responsibility.

Results in Brief

In our survey of data processing servicers, 38 percent, 51 with banks and 16 with savings associations, reported that they engaged in other business activities with the financial institutions in addition to the data processing services they provided. Eight percent of the banks and 7 percent of the savings associations we surveyed also reported that they engaged in other business activities with data processing vendors beyond purchasing their

²The universe of savings associations included savings and loans, savings banks, and building and loan associations insured by the federal government and institutions operating under conservatorship. The universe of commercial banks included banks operating in the United States and the District of Columbia except federally insured mutual savings banks.

services. Vendors and savings associations reported the most common types of activities involved vendors making deposits with depository institutions or purchasing used data processing equipment from them. Banks reported that the most common types of activities involved vendors buying or making loans to banks. In cases where assets were purchased from savings associations, the vendors usually paid the market value rather than book value. However, 10 vendors reported paying the book value for assets they purchased from banks. Seven of the 10 vendors paid prices that were higher than the market value.

A number of the vendors believed that some vendors had contracts with depository institutions under which other business activities were required as a condition of the contract. Thirty-two (about 40 percent) of the vendors contracting with banks responded that purchases of equipment or assets were conditions of data processing contract awards at least to some extent. Seventeen, or 22 percent, believed that they definitely or probably have lost contracts to other firms who were willing to engage in other activities as a condition of the contract. A majority of the banks and savings associations responding to the survey did not have an opinion as to whether these types of other business relationships occurred as a condition of the contract award.

Federal regulatory agencies for banks and savings associations found unusual contracting arrangements between depository institutions and data processing servicers through their reviews of depository institutions. These arrangements included awarding data processing contracts to companies after the company agreed to purchase bank assets, such as computer equipment, at substantially higher prices than the market value and agreeing to provide capital to the institution by purchasing stock from the bank. Arrangements such as these allow banks to maintain capital, defer losses on the disposition of assets, and show an increase in financial value on the balance sheet. But, since these arrangements involved banks paying higher fees over the life of the contract, the banks' books were "artificially inflated" and did not reflect the true financial picture of the institution. The regulatory agencies were concerned that these types of arrangements could have an adverse effect on the financial soundness of the institution. As a result, the agencies issued a number of guidelines to depository institutions and their examiners concerning these arrangements. Recently, FDIC proposed a rule that would require banks to prove that contracts they sign with vendors will not jeopardize bank safety and soundness.

Objectives, Scope, and Methodology

We discussed the statutory reporting requirement with the Senate Committees on Banking, Housing, and Urban Affairs and on Small Business and the House Committee on Banking, Finance, and Urban Affairs; and the Justice Department's Antitrust Division officials. On the basis of their input, we agreed that we would gather information on contracting practices between banks and savings associations and data processing servicers. We specifically agreed to gather information on the extent to which data processing servicers engaged in other business activities with depository institutions. We agreed to provide the Justice Department's Antitrust Division the data for its determination as to whether potential anticompetitive practices existed and if further investigation was needed. This data was provided to the Justice Department, which will report separately to you on its analysis.

To gather information on the extent to which certain contracting practices occurred, we (1) mailed surveys to random samples of depository institutions and to all the data processing servicers we could identify and (2) reviewed regulatory agencies' examinations of institutions and servicers. We also interviewed officials from depository institutions and data processing companies.

We mailed three separate questionnaires to

- 2,270 banks out of an adjusted universe of 12,543 banks;
- 1,083 savings associations from an adjusted universe of 2,585 savings associations; and
- 264 servicers that we identified as data processing vendors.

The depository institutions were randomly selected on the basis of asset size. In addition, we oversampled institutions in four states (Arkansas, Colorado, Oklahoma, and Texas) because a number of institutions in these states were reported to have financial problems. We reasoned that these institutions may have been more likely to enter into financial arrangements with data processing vendors to address their financial problems. Officials at FDIC and OTS identified Arkansas, Colorado, Oklahoma, and Texas as the states having the most institutions that had been closed or taken over by the government at the time of our review.

After adjusting our universe of vendors and our samples of depository institutions due to such things as bad addresses or firms no longer in business, we received the response rates shown in table 1.

Table 1: Survey Mailing and Response Rates

Respondents	Number mailed	Adjusted^a mailings	Number of responses received	Response rate
Vendors	264	222	150	68%
Banks	2,270	2,234	1,798	80%
Savings associations	1,083	1,062	942	89%

^aThe number of questionnaires mailed minus the companies deleted because of bad addresses, mergers, firms no longer in business, etc.

The questionnaire methodology, including limitations of the study and sampling error is discussed in further detail in appendix I. Survey results are presented in further detail in appendices II, III, and IV.

We reviewed examinations prepared by FDIC, OTS, the Federal Reserve Board, and the Office of the Comptroller of the Currency. These agencies conducted over 15,000 examinations from January 1989 through October 1990, most of which were safety and soundness examinations. Included in this number were examinations of companies providing data processing services to depository institutions. We asked agencies' officials to identify examinations in which examiners had concerns about certain contracting practices. We then reviewed these exams. In addition, we reviewed 51 examinations of data processing servicers that were identified by regulators. We also interviewed agency officials and reviewed guidelines, memoranda, and other agency documents concerning contracting practices between depository institutions and servicers.

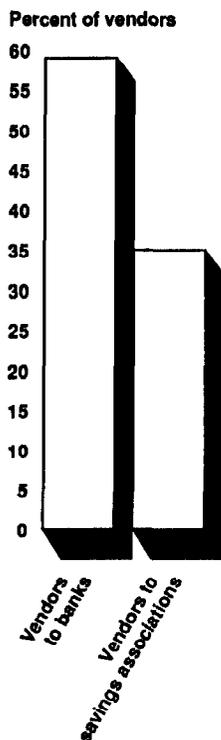
Our work was done from November 1989 through October 1991 in accordance with generally accepted government auditing standards.

Vendor Survey Results

In our survey of 150 data processing servicers, 87 (58 percent) of the companies reported having provided data processing services for banks between January 1, 1985, and the time we completed our survey mailings in April 1991.³Forty-six vendors(32 percent) reported providing services to savings associations.Fifty-one vendors reported engaging in other business relationships with banks (such as making deposits, purchasing assets, or having company officers serve on an institution's board of directors). Sixteen of the vendors reported engaging in such relationships with savings associations. (See fig 1.)

³See appendix I for discussion of the effect of statistical error on results from this survey.

Figure 1: Data Processing Vendors Engaging in Business Activities With Depository Institutions



Source: GAO.

Among those vendors providing data processing services to depository institutions we found that

- 44 (57 percent) said they have made deposits with their bank clients, while 11 (28 percent) of vendors providing services to savings associations said they have done this; and
- 22 (30 percent) said they have purchased data processing equipment from banks, while 9 (23 percent) said they have purchased such equipment from their savings association clients.

The vendors surveyed were asked the extent to which book value versus market value was paid for assets purchased from depository institutions. Few vendors reported paying the book value for assets purchased from depository institutions. However, when vendors did pay book value for assets from banks, 7 of the 10 vendors who made such purchases said the book value was higher than the market value. Four vendors responded that

they had paid book value for assets from savings associations. All four reported that the book value was higher than the market value.

While many vendors said that they had no basis to judge if they had lost contracts to other vendors willing to enter into other business relationships with banks, 17 (or 22 percent) said that they had definitely or probably lost contracts to such competitors. Eleven vendors (or 28 percent) reported that the loss of contracts had definitely or probably occurred with respect to savings associations. About three-fourths of the vendors reported that they would probably or definitely not engage in other relationships with banks or savings associations as a condition of a contract.

When asked their opinion about the extent to which other vendors engaged in activities with banks or savings associations as a condition of a data processing contract, vendors reported that purchases of equipment or other assets were the most common types of transactions. About 40 percent of the vendors believed that this occurred at least to some extent with bank contracts, and 51 percent believed this occurred at least to some extent with savings association contracts. In contrast, 20 percent of the vendors believed that purchase of equipment or other assets as a condition of a contract occurred to little or no extent among banks, and 13 percent believed that to be true with respect to savings associations.

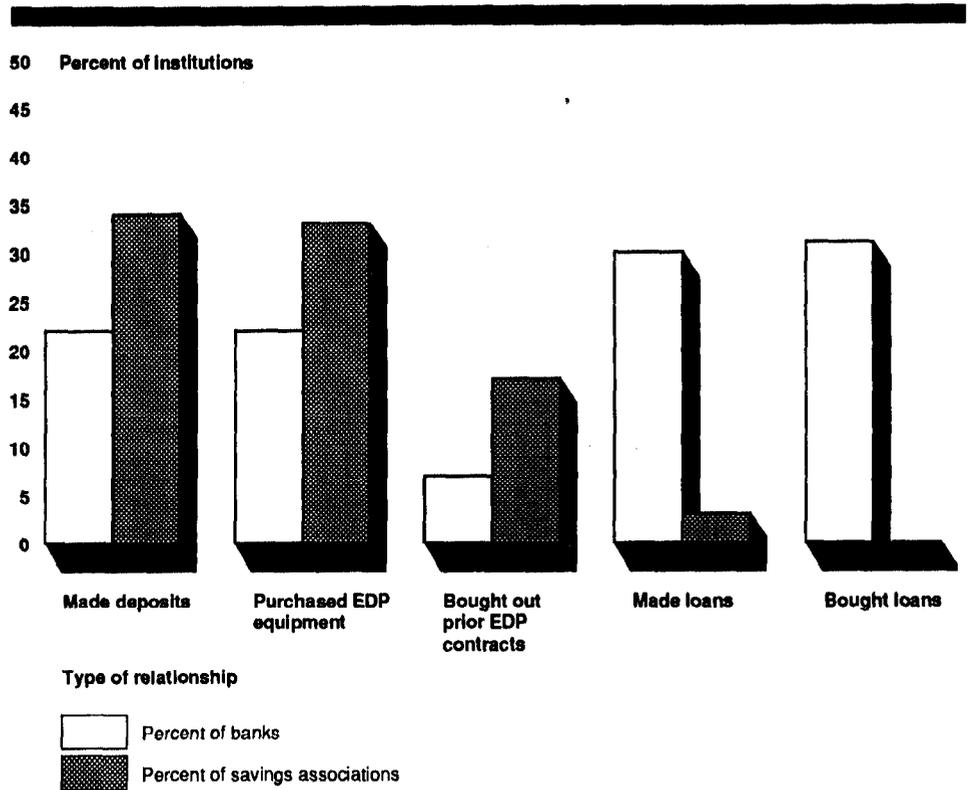
We asked vendors about their contracting practices with nondepository institutions to identify possible differences in how they contracted with depository institutions. Forty-nine vendors who contracted with both depository and nondepository institutions reported that their contracting practices for both groups were similar.

Depository Institutions Survey Results

Eight percent of banks and 7 percent of savings associations reported engaging in other business activities with vendors providing data processing services.⁴ As was the case with the vendors surveyed, the savings associations reported that the most common types of activities involved the vendor making deposits and purchasing data processing equipment. Banks reported that the most common activities were vendors buying or making loans to banks (see fig 2).

⁴The 95 percent confidence interval for these surveys is plus or minus 5 percent, except where noted. Appendix I provides a description of sampling methodology.

Figure 2: Depository Institutions Engaged in Other Activities With Data Processing Vendors



Note 1: Percentages for other types of relationships range between 0 and 3 percent for banks and between 0 and 9 percent for savings associations.

Note 2: These relationships include purchases of stock, capital investments, land, or buildings; assumption of leases; serving on the institution's board of directors; purchase of other assets; and other practices.

Note 3: Percentages have sampling errors of up 12 percent.

Source: GAO.

We found no significant statistical difference between the institutions in the oversampled states and the institutions in the rest of the states regarding the extent to which depository institutions engaged in other activities with vendors.

A majority of institutions also reported that they had no basis to judge whether data processing vendors engaged in other business activities with depository institutions in general as a condition of a contract. Of those that did express an opinion, 29 percent of the banks and 28 percent of the

savings associations said that purchases of equipment or other assets as a condition of a contract occurred to at least some extent.

Depository institutions were asked to provide information on the data processing contract awarded since January 1985 that involved the largest dollar amount. They provided the following information:

- Contract periods varied from 1 month to 28 years, with the average period being between 3 and 4 years.⁵ Banks reported that 5 percent of their data processing contracts were of 7 or more years in length; savings associations reported that 3 percent of their contracts were this length. The average contract period for vendors that had other relationships with banks was 3.6 years and 3.8 years for contracts with savings associations.
- Of the 51 vendors that engaged in at least 1 other business activity with bank clients, 6 (12 percent) reported some of their bank contracts to be more than 5 years in length. Of the 16 vendors that engaged in at least 1 other business activity with savings association clients, 3 (19 percent) reported some of their savings association contracts to be more than 5 years in length.
- Pricing of data processing contracts was most often determined by the volume of accounts or items processed. Fixed price for the life of the contract was used by 17 percent of the banks and 15 percent of the savings associations.
- Penalties for early cancellation were reported as existing in 16 percent of bank contracts and 34 percent of savings association contracts. These penalties varied in amount and severity. Respondents reported penalties that varied from paying the full amount of the contract to a flat fee of \$5,000 to \$500,000. The most common type of penalty was based on a formula that typically would be based on the number of months remaining in the contract times an average monthly bill.

Regulators Uncovered Some Unusual Contracting Practices

Through routine safety and soundness examinations, regulators found some contracting practices between depository institutions and vendors they regarded as unusual. For example, examiners found instances where

- vendors purchased equipment from depository institutions at book values that were substantially higher than market values;
- a vendor provided capital to an institution by purchasing stock in an institution;

⁵Although contracting data was requested regarding contracts awarded since 1985, some institutions reported the original contract award prior to 1985.

- depository institutions made loans to vendors to finance equipment purchases with limited liability if the institution became insolvent and inadequately reviewed the vendor's books prior to making the loan; and
- depository institutions did not properly account for losses on equipment sold to vendors.

Following these examinations, regulatory agencies issued guidelines to their examiners and depository institutions on these arrangements. On May 3, 1989, FDIC issued a memorandum to its regional offices on data processing servicing contracts. The memorandum informed examiners about various arrangements between servicers and banks and provided guidance on the proper accounting treatment for these arrangements. It also discussed recent trends in data processing contracts that could have adversely affected the institution. Among those trends were longer contract periods (from 1 to 3 years up to 10 years), fixed price contracts regardless of volume, and substantial cancellation penalties. They also noted that many of these contracting practices were targeted towards problem depository institutions. In September 1989, FDIC issued another memorandum to its regional directors requiring that examiners review data processing contracts as part of their safety and soundness examinations.

In November 1989, OTS also issued a statement requiring its examiners to review all data processing contracts as part of their examinations. Finally, in February 1990, FDIC, OTS, the Office of the Comptroller, and the Federal Reserve Board issued a joint statement to all federally supervised depository institutions alerting them to the potential risks in contracting for data processing services.

In March 1991, FDIC proposed measures designed to prevent banks from entering into contractual arrangements that could weaken their financial condition. FDIC proposed a rule that would prohibit FDIC-insured depository institutions from signing contracts with vendors that would adversely affect the institution's safety and soundness. If implemented, this regulation would affect the examination responsibilities of all of the regulatory agencies. The public's 60 day comment period ended on May 31, 1991. As of November 1991, no further action had been taken on this measure.

Agency Comments

We discussed the contents of this report with officials from FDIC, OTS, the Office of the Comptroller of the Currency, the Federal Reserve Board, and the Justice Department and incorporated their comments where appropriate. The officials generally agreed with the information presented about their respective areas but could not comment on the questionnaire results.

We are providing copies of this report to interested Members of Congress; appropriate committees, including the Senate Committee on Small Business; the Attorney General; the Chairmen of FDIC and the Federal Reserve Board; the Director of OTS; the Comptroller of the Currency; and other interested parties.

Major contributors to this report are listed in appendix V. If you have any questions, please telephone me on (202) 275-8389.



Lowell Dodge
Director, Administration
of Justice Issues

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Abbreviations

FDIC	Federal Deposit Insurance Corporation
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act
OTS	Office of Thrift Supervision

Questionnaire Methodology

Sampling Methodology

In consultations with the relevant congressional committees about this assignment, we were asked to provide not only information that would describe the total universes of banks, savings associations, and vendors, but also information regarding institutions in those states experiencing problems in the banking or savings industries. The states identified were Arkansas, Colorado, Oklahoma, and Texas. All other states plus the District of Columbia and Puerto Rico were combined into a single "other" group. We identified our universes for the financial institutions by obtaining lists from FDIC and OTS.

We derived the universe of vendors from lists provided by the American Bankers Association, the National Association of Bank Servicers, and FDIC. Because we were unable to determine conclusively from the available lists which vendors provided data processing services to banks or savings associations, we included those vendors for which we initially could not determine the type of service provided. This resulted in a preliminarily identified universe of 264 vendors. From this group, we deleted 42 entries due to bad addresses, firms no longer being in business, or firms not providing data processing services to financial institutions, resulting in an adjusted universe of 222 vendors. A total of 150 questionnaire responses were received from the adjusted universe, producing a response rate of 68 percent.

After obtaining lists of banks and thrifts, our first step in developing sampling plans for the financial institutions was to stratify banks and savings associations according to three size criteria, which were provided by industry experts. The "small" banks included those with \$25 million or less in assets; the "medium" group of banks had more than \$25 million but less than \$1 billion; and "large" banks were those with assets of \$1 billion or more. The "small" savings associations had assets of under \$75 million; "medium"-sized savings associations had assets of \$75 million to \$250 million; and the "large" group had assets of over \$250 million.

For all large institutions within the defined states, we included the entire universe in our sample. For the medium group in the defined states we included the entire universe if it numbered less than 80; otherwise, a 50 percent random sample was chosen. For the small institutions, we selected a 50 percent random sample, except for Texas, from which we selected a one-third random sample. The number of institutions from each of the sampled strata representing defined states was larger than strictly necessary to ensure adequate representation. In the "other" stratum, we selected a random sample of sufficient size to ensure our objective of a 95 percent confidence interval. The final samples included 2,270 banks and

**Appendix I
Questionnaire Methodology**

1,083 savings associations. The distribution of universes, samples, and responses by strata is displayed in tables I.1 and I.2.

Table I.1: Survey of Banks: Universes, Samples, and Responses by Sample Stratum

Stratum	Universe	Adjusted universe	Sample	Adjusted sample	Number of respondents
Arkansas: large	8	8	8	8	7
Arkansas: medium	37	37	37	37	31
Arkansas: small	212	212	106	106	83
Colorado: large	9	6	6	6	4
Colorado: medium	37	36	36	36	36
Colorado: small	405	398	202	199	156
Oklahoma: large	8	8	8	8	6
Oklahoma: medium	42	42	42	42	37
Oklahoma: small	380	374	190	187	132
Texas: large	56	50	50	50	39
Texas: medium	157	152	77	76	57
Texas: small	1,100	1,050	360	350	264
Other: large	846	828	337	331	272
Other: medium	1,553	1,521	412	404	328
Other: small	7,839	7,821	399	394	345
Total	12,689	12,543	2,270	2,234	1,798

Table I.2 Survey of Savings Associations: Universes, Samples and Responses by Sample Stratum

Stratum	Universe	Adjusted universe	Sample	Adjusted sample	Number of respondents
Arkansas: large	4	4	4	4	5
Arkansas: medium	10	9	9	9	8
Arkansas: small	16	16	16	15	14
Colorado: large	4	4	4	4	3
Colorado: medium	3	3	3	3	3
Colorado: small	14	13	13	13	12
Oklahoma: large	10	10	10	10	8
Oklahoma: medium	12	12	12	12	8
Oklahoma: small	14	13	13	11	12
Texas: large	33	32	32	32	23
Texas: medium	41	41	41	41	44
Texas: small	70	67	67	61	49
Other: large	618	600	269	263	238
Other: medium	823	800	273	267	233
Other: small	961	961	317	317	282
Total	2,633	2,585	1,083	1,062	942

Survey Response

We pretested our survey instruments by personally interviewing representatives of vendors, banks, and savings associations. In addition, these instruments were reviewed by knowledgeable people in the field, including officials from the regulatory agencies, Justice Department, and industry associations such as the American Bankers Association. After pretesting the instruments, we mailed questionnaires to 264 data processing vendors, 2,270 banks, and 1,083 savings associations across the country in December 1990. We did follow-up mailings in January and February 1991.

To encourage vendors and financial institutions to answer our survey questions honestly, the survey responses were kept anonymous. We included a numbered postcard with each (unnumbered) questionnaire; respondents were instructed to mail the postcard separately from their completed questionnaire. The number on the postcard corresponded to the identity of the respondent's firm. When we received the postcard, we counted the respondent as having mailed the completed questionnaire.

We adjusted our universe for vendors who did not provide data processing services to financial institutions, vendors that we judged to be out of business, and vendors that we could not locate. We also adjusted our

samples of financial institutions for companies that we judged to be out of business or that we could not locate. After we made these adjustments, the returned questionnaires resulted in response rates of 68 percent for vendors, 80 percent for banks, and 89 percent for savings associations.

Sampling Errors

All sample surveys are subject to sampling error, i.e., the extent to which the survey results differ from what would have been obtained if the whole population had received and returned the questionnaire. The size of sampling errors depends largely on the number of respondents and the amount of variability in the data.

Since the universe of data processing vendors was identified through the survey itself, the data from the vendors are subject to error in universe identification. The response rate to the vendors survey is not 100 percent and the number of responses to some questionnaire items is small, so comparisons across small subgroups are not statistically appropriate. Further, if the population of nonrespondents contains a large number of vendors that contracted with banks or savings associations, the amount of error in the vendors' data could be large.

For the surveys of banks and savings associations, sample sizes were chosen to produce a sampling error of less than 5 percent at the 95 percent confidence level. Sampling errors discussed in this report are within these parameters, except as noted in text or figures.

Nonsampling Errors

In addition to sampling errors, surveys can also be subject to other types of systematic error or bias that can affect results. It is not possible to assess the magnitude of the effect of biases, if any, on the results of our surveys.

Some respondents to our surveys may have been reluctant to provide GAO with rather detailed information concerning data processing services contracts, even with the understanding that individual responses would be kept anonymous. This reluctance may have affected our response rates and thus sampling errors. To the extent that such a group of nonrespondents engaged in the contracting practices we investigated, our estimates of the extent of these practices are underestimated.

Survey of EDP Vendors' Contracting Practices With Banks and S&Ls

Note: Percentages are based on the unweighted responses of 150 services. "A" indicates an average of all responses.



United States General Accounting Office

Survey of EDP Vendors' Contracting Practices with Banks and S&Ls

Introduction

The U.S. General Accounting Office (GAO), an agency of Congress, is seeking information on contracting practices between financial institutions and vendors that provide electronic data processing (EDP) services, as described in Question 2. Section 225 of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 requires that GAO review contracting practices between financial institutions and vendors. Your response will help GAO give Congress important information about these contracting practices.

Although your participation in this survey is voluntary, we cannot conduct a meaningful analysis without your cooperation. This questionnaire is anonymous. There is nothing in this form that can identify how you or any other firm responded. In order to ensure your privacy, we ask that you separately return the enclosed postcard indicating that you have completed your questionnaire. We need these cards returned so that we can delete from our mailing list those who have returned the questionnaire and follow up with those who have not responded to our mailing.

Please answer the questionnaire based on the current status of your company. When answering, please consider your entire operation, excluding any holding, parent, or subsidiary company. If you are a parent company, answer for your own operations only. The questionnaire should be answered by the person most knowledgeable about contracting arrangements between your company and financial institutions.

The questions can be easily answered by checking boxes or filling in blanks. The questionnaire should take about 30 minutes to complete, depending on the availability of your records. Space has been provided at the end of the questionnaire for any additional comments you may want to make. If you have any questions, please call Charlesetta Bailey or James M. Blume at (202) 357-1092.

Please return the completed questionnaire in the enclosed pre-addressed, pre-paid envelope within 10 days of receipt. Also, do not forget to mail back the postcard, separately. Do not enclose the postcard with the questionnaire. In the event the envelope is misplaced, our return address is:

U.S. General Accounting Office
 Ms. Charlesetta Bailey
 441 G Street, N.W., Room 3660
 Washington, D.C. 20548

Thank you for your help.

GGD 11/90 MMS

A. Banks

1. Since January 1, 1985, has your company provided any data processing services for any banks (excluding savings banks)? (Check one.) N=149
 1. Yes (Continue to Question 2.) 58.4%
 2. No (Skip to Question 17.) 41.6%

2. Which of the following electronic data processing services, if any, do you currently provide to banks? (Check all that apply.)
 1. Central Information File (CIF) N=52
 2. Deposits N=48
 3. Loans N=51
 4. Accounting (general ledger) N=46
 5. Automatic Teller Machine (ATM) N=44
 6. Check processing N=45
 7. Credit card N=18
 8. Payroll N=31
 9. IRAs, KEOGHs, or retirement accounts N=48
 10. Other (Please specify.) _____ N=40

 11. Currently provide none of the above data processing services to banks (Skip to Question 17.) N=4

**Appendix II
Survey Of EDP Vendors' Contracting
Practices With Banks and S&Ls**

3. Currently, how many contracts for data processing services does your company have with banks? (Check one.) N=84
- 1. None (Skip to Question 17.)
 - 2. 1 - 25 contracts 50.0%
 - 3. 26 - 50 contracts 11.9%
 - 4. 51 - 75 contracts 3.6%
 - 5. 76 - 100 contracts 4.8%
 - 6. 101 - 500 contracts 13.1%
 - 7. 501 - 1,000 contracts 7.1%
 - 8. More than 1,000 contracts 2.4%

4. Please estimate the percentage of these contracts (in Question 3) you obtained through a formal bidding process (RFP issued), informal competitive bidding process, or a noncompetitive bidding process. (Enter percentages, which should sum to 100%.)

	Estimated Percentage of Contracts	
1. Formal bidding process	___ %	23.9% A
2. Informal bidding process	___ %	48.0% A
3. Noncompetitive bidding process	___ %	18.5% A
TOTAL	100%	

5. What percentage of your current contracts with banks are in each of the following contract periods (from the beginning date to the ending date)? (Enter percentages, which should sum to 100%.)

	Percentage of Contracts	
1. Less than 1 year	___ %	14.6% A
2. 1 - 3 years	___ %	46.6% A
3. 4 - 5 years	___ %	22.5% A
4. 6 - 7 years	___ %	1.7% A
5. More than 7 years	___ %	2.7% A
TOTAL	100%	

6. What percentage of your company's contracts with banks use each of the following pricing arrangements, if any? (Check all pricing arrangements that apply. For each pricing arrangement checked, enter percentage of contracts.)

<u>Pricing Arrangement</u>	<u>Percentage of Contracts</u>	
1. <input type="checkbox"/> Fixed price for life of contract	___ %	9.5% A
2. <input type="checkbox"/> Fixed price for each year with increased cost for later years	___ %	26.4% A
3. <input type="checkbox"/> Price determined by volume of accounts or items processed	___ %	46.2% A
4. <input type="checkbox"/> Other (Specify) _____	___ %	6.0% A

7. Which, if any, of the following clauses are generally included in your company's contracts with banks? (Check all that apply.)

- 1. Adjustment for inflation N=35
- 2. Adjustment for volume N=50
- 3. Adjustment for changes in EDP application N=37
- 4. Adjustment for changes in the bank's size (e.g., significant increase or decrease in assets) N=21
- 5. Penalties to bank for early cancellation by the bank (Please describe.) _____ N=41

**Appendix II
Survey Of EDP Vendors' Contracting
Practices With Banks and S&Ls**

8. Since January 1, 1985, has your company had any of the following business relationships/transactions with any of the banks for which you provided data processing services? (Check one box in each row.)

Has your company...		Yes (1)	No (2)	Not Sure (3)
1. made deposits	N=77	57.1%	39.0%	3.9%
2. purchased stock	N=73	9.6%	87.7%	2.7%
3. purchased EDP equipment	N=74	29.7%	63.5%	6.8%
4. purchased capital investments (e.g., capital notes or debentures)	N=72	1.4%	94.4%	4.2%
5. purchased land	N=73	2.7%	93.2%	4.1%
6. purchased buildings	N=73	1.4%	94.5%	4.1%
7. assumed leases	N=73	6.8%	89.0%	4.1%
8. made loans to directors, officers, or principal stockholders of bank, or to the bank	N=73	2.7%	93.2%	4.1%
9. bought loans	N=74	4.1%	91.9%	4.1%
10. bought out prior contracts for EDP services	N=74	5.4%	86.5%	8.1%
11. served on Board of Directors	N=74	8.1%	85.1%	6.8%
12. purchased other assets (Please specify.)	N=62	4.8%	90.3%	4.8%
13. Other (Please specify.)	N=33	9.1%	90.9%	0.0%

9. If you have any comments or explanations on Question 8, please enter them in the space provided below. Additional space is available on page 9.

10. Since January 1, 1985, has your company paid the book value for stock, equipment, land or building purchases, or other assets of banks? (Check one.)

- N=79
1. Yes (Continue to Question 11.) 12.7%
2. No 50.6%
3. Not applicable/ no stock, equipment, land or building purchases, or other assets purchases 31.6%
4. Don't know 5.1%
- (Skip to Question 14.)

11. Please estimate the percentage of purchases in which book value was paid versus fair market value. (Enter percentages.)

- | | Estimated Percentage of Purchases |
|-----------------------------------|-----------------------------------|
| 1. Book value paid _____ % | N=9 67.2% A |
| 2. Fair market value paid _____ % | N=6 35.8% A |

12. In any of these cases, was the book value more than the fair market value? (Check one.)

- N=10
1. Yes (Continue to Question 13.) 70.0%
2. No 10.0%
3. Don't know 20.0%
- (Skip to Question 14.)

13. If yes, which of the following reasons, if any, contributed to your company paying the higher amount? (Check all that apply.)

1. More cost effective N=2
2. Convenience N=2
3. Condition for obtaining data processing contract N=5
4. Location N=2
5. Time factor N=2
6. Other (Specify.) _____ N=3

**Appendix II
Survey Of EDP Vendors' Contracting
Practices With Banks and S&Ls**

14. Since January 1, 1985, has your company lost contracts to other EDP firms who were willing to enter into business transactions with banks such as described in Question 8, as a condition of the contract? (Check one.)

	N=76
1. <input type="checkbox"/> Definitely yes	11.8%
2. <input type="checkbox"/> Probably yes	10.5%
3. <input type="checkbox"/> Uncertain	15.8%
4. <input type="checkbox"/> Probably no	14.5%
5. <input type="checkbox"/> Definitely no	21.1%
6. <input type="checkbox"/> No basis to judge	26.3%

15. Is your company willing to enter into business transactions with banks such as described in Question 8, as a condition of the contract? (Check one.)

	N=75
1. <input type="checkbox"/> Definitely yes	8.0%
2. <input type="checkbox"/> Probably yes	8.0%
3. <input type="checkbox"/> Uncertain	9.3%
4. <input type="checkbox"/> Probably no	26.7%
5. <input type="checkbox"/> Definitely no	48.0%

16. In your opinion, to what extent, if any, do other EDP vendors have contracts with banks in which the vendor, as a condition of the contract, engages in the following business relationships/transactions? (Check one box in each row.)

The vendor...	Little or no extent (1)	Some extent (2)	Moderate extent (3)	Great extent (4)	Very great extent (5)	No basis to judge (6)
1. purchases stock N=78	29.5%	14.1%	3.8%	1.3%	0.0%	51.3%
2. purchases equipment and other assets N=79	20.3%	13.9%	17.7%	6.3%	2.5%	39.2%
3. invests capital N=78	29.5%	11.5%	6.4%	1.3%	1.3%	50.0%
4. makes deposits N=79	20.3%	11.4%	13.9%	6.3%	2.5%	45.6%

B. Savings and Loans (S&Ls)/Savings Banks

17. Since January 1, 1985, has your company provided any data processing services for any of the following financial institutions? (Check one box in each row.)

FINANCIAL INSTITUTIONS		Yes (1)	No (2)
1. Savings and loans	N=144	31.9%	68.1%
2. Savings banks	N=140	30.0%	70.0%
3. Credit unions	N=126	20.6%	79.4%
4. Other (Specify.)	N=45	28.9%	71.1%

If you checked "no" for both 1) Savings and loans and 2) Savings banks, skip to Question 33. Otherwise, continue to Question 18.

**Appendix II
Survey Of EDP Vendors' Contracting
Practices With Banks and S&Ls**

18. Which of the following electronic data processing services, if any, do you currently provide to S&Ls/savings banks? (Check all that apply.)

- | | |
|---|------|
| 1. <input type="checkbox"/> Central Information File (CIF) | N=30 |
| 2. <input type="checkbox"/> Deposits | N=25 |
| 3. <input type="checkbox"/> Loans | N=28 |
| 4. <input type="checkbox"/> Accounting (general ledger) | N=22 |
| 5. <input type="checkbox"/> Automatic Teller Machine (ATM) | N=24 |
| 6. <input type="checkbox"/> Check processing | N=21 |
| 7. <input type="checkbox"/> Credit card | N=13 |
| 8. <input type="checkbox"/> Payroll | N=11 |
| 9. <input type="checkbox"/> IRAs, KEOGHs, or retirement accounts | N=23 |
| 10. <input type="checkbox"/> Other (Please specify.) _____ | N=20 |
| 11. <input type="checkbox"/> Currently provide <u>none</u> of the above data processing services to S&Ls/savings banks (Skip to Question 33.) | N=6 |

19. Currently, how many contracts for data processing services does your company have with S&Ls/savings banks? (Check one.)

- | | |
|---|-------|
| | N=46 |
| 1. <input type="checkbox"/> None (Skip to Question 33.) | 15.2% |
| 2. <input type="checkbox"/> 1 - 5 contracts | 26.1% |
| 3. <input type="checkbox"/> 6 - 10 contracts | 10.9% |
| 4. <input type="checkbox"/> 11 - 20 contracts | 13.0% |
| 5. <input type="checkbox"/> 21 - 30 contracts | 4.3% |
| 6. <input type="checkbox"/> 31 - 40 contracts | 2.2% |
| 7. <input type="checkbox"/> 41 - 50 contracts | 0.0% |
| 8. <input type="checkbox"/> More than 50 contracts | 28.3% |

20. Please estimate the percentage of these contracts (in Question 19) you obtained through a formal bidding process (RFP issued), informal competitive bidding process, or a noncompetitive bidding process. (Enter percentages, which should sum to 100%.)

	<u>Estimated Percentage of Contracts</u>	
		N=42
1. Formal bidding process _____ %		26.8% A
2. Informal bidding process _____ %		45.2% A
3. Noncompetitive bidding process _____ %		18.5% A
TOTAL	100%	

21. What percentage of your current contracts with S&Ls/savings banks are in each of the following contract periods (from the beginning date to the ending date)? (Enter percentages, which should sum to 100%.)

	<u>Percentage of Contracts</u>	
		N=42
1. Less than 1 year _____ %		16.7% A
2. 1 - 3 years _____ %		55.7% A
3. 4 - 5 years _____ %		13.0% A
4. 6 - 7 years _____ %		1.7% A
5. More than 7 years _____ %		0.9% A
TOTAL	100%	

**Appendix II
Survey Of EDP Vendors' Contracting
Practices With Banks and S&Ls**

22. What percentage of your company's contracts with S&Ls/savings banks use each of the following pricing arrangements, if any? (Check all pricing arrangements that apply. For each pricing arrangement checked, enter percentage of contracts.)

Pricing Arrangement	Percentage of Contracts	
1. <input type="checkbox"/> Fixed price for life of contract	_____ %	N=11 13.6% A
2. <input type="checkbox"/> Fixed price for each year with increased cost for later years	_____ %	N=20 34.3% A
3. <input type="checkbox"/> Price determined by volume of accounts or items processed	_____ %	N=22 44.7% A
4. <input type="checkbox"/> Other (Specify.) _____	_____ %	N=3 5.0% A

23. Which, if any, of the following clauses are generally included in your company's contracts with S&Ls/savings banks? (Check all that apply.)

1. <input type="checkbox"/> Adjustment for inflation	N=19
2. <input type="checkbox"/> Adjustment for volume	N=24
3. <input type="checkbox"/> Adjustment for changes in EDP application	N=20
4. <input type="checkbox"/> Adjustment for changes in the S&L's/saving bank's size (e.g., significant increase or decrease in assets)	N=12
5. <input type="checkbox"/> Penalties to S&L/savings bank for early cancellation by the S&L/savings bank (Please describe.) _____ _____ _____	N=19

24. Since January 1, 1985, has your company had any of the following business relationships/transactions with any of the S&Ls/savings banks for which you provided data processing services? (Check one box in each row.)

Has your company...	Yes (1)	No (2)	Not Sure (3)
1. made deposits	N=40 27.5%	72.5%	0.0%
2. purchased stock	N=38 0.0%	100.0%	0.0%
3. purchased EDP equipment	N=39 23.1%	71.8%	5.1%
4. purchased capital investments (e.g., capital notes or debentures)	N=37 0.0%	97.3%	2.7%
5. purchased land	N=38 0.0%	100.0%	0.0%
6. purchased buildings	N=38 0.0%	100.0%	0.0%
7. assumed leases	N=38 7.9%	92.1%	0.0%
8. made loans to directors, officers, or principal stockholders of S&L, or to the S&L	N=38 0.0%	100.0%	0.0%
9. bought loans	N=39 2.6%	97.4%	0.0%
10. bought out prior contracts for EDP services	N=37 2.6%	97.4%	0.0%
11. served on Board of Directors	N=38 0.0%	100.0%	0.0%
12. purchased other assets (Please specify.) _____	N=32 6.3%	90.6%	3.1%
13. Other (Please specify.) _____	N=19 0.0%	100.0%	0.0%

25. If you have any comments or explanations on Question 24, please enter them in the space provided below.

**Appendix II
Survey Of EDP Vendors' Contracting
Practices With Banks and S&Ls**

26. Since January 1, 1985, has your company paid the book value for stock, equipment, land or building purchases, or other assets of S&Ls/savings banks? (Check one.) N=40

- | | |
|--|-------|
| 1. <input type="checkbox"/> Yes (Continue to Question 27.) | 10.0% |
| 2. <input type="checkbox"/> No | 60.0% |
| 3. <input type="checkbox"/> Not applicable/
no stock, equipment,
land or building
purchases, or other
assets purchases | 25.0% |
| 4. <input type="checkbox"/> Don't know | 5.0% |
- } (Skip to Question 30.)

27. Please estimate the percentage of purchases in which book value was paid versus fair market value. (Enter percentages.)

	Estimated Percentage of Purchases	
		N=3
1. Book value paid _____ %		46.7% A
2. Fair market value paid _____ %		53.3% A

28. In any of these cases, was the book value more than the fair market value? (Check one.) N=4

- | | |
|--|--------|
| 1. <input type="checkbox"/> Yes (Continue to Question 29.) | 100.0% |
| 2. <input type="checkbox"/> No | 0.0% |
| 3. <input type="checkbox"/> Don't know | 0.0% |
- } (Skip to Question 30.)

29. If yes, which of the following reasons, if any, contributed to your company paying the higher amount? (Check all that apply.)

- | | |
|--|-----|
| 1. <input type="checkbox"/> More cost effective | N=2 |
| 2. <input type="checkbox"/> Convenience | N=2 |
| 3. <input type="checkbox"/> Condition for obtaining data processing contract | N=2 |
| 4. <input type="checkbox"/> Location | N=1 |
| 5. <input type="checkbox"/> Time factor | N=1 |
| 6. <input type="checkbox"/> Other (Specify) _____ | N=2 |

30. Since January 1, 1985, has your company lost contracts to other EDP firms who were willing to enter into business transactions with S&Ls/savings banks such as described in Question 24, as a condition of the contract? (Check one.) N=39

- | | |
|---|-------|
| 1. <input type="checkbox"/> Definitely yes | 15.4% |
| 2. <input type="checkbox"/> Probably yes | 12.8% |
| 3. <input type="checkbox"/> Uncertain | 17.9% |
| 4. <input type="checkbox"/> Probably no | 12.8% |
| 5. <input type="checkbox"/> Definitely no | 15.4% |
| 6. <input type="checkbox"/> No basis to judge | 25.6% |

31. Is your company willing to enter into business transactions with S&Ls/savings banks such as described in Question 24, as a condition of the contract? (Check one.) N=39

- | | |
|--|-------|
| 1. <input type="checkbox"/> Definitely yes | 5.1% |
| 2. <input type="checkbox"/> Probably yes | 12.8% |
| 3. <input type="checkbox"/> Uncertain | 5.1% |
| 4. <input type="checkbox"/> Probably no | 28.2% |
| 5. <input type="checkbox"/> Definitely no | 48.7% |

**Appendix II
Survey Of EDP Vendors' Contracting
Practices With Banks and S&Ls**

32. In your opinion, to what extent, if any, do other EDP vendors have contracts with S&Ls/savings banks in which the vendor, as a condition of the contract, engages in the following business relationships/transactions? (Check one box in each row.)

The vendor...		Little or no extent (1)	Some extent (2)	Moderate extent (3)	Great extent (4)	Very great extent (5)	No basis to judge (6)
1. purchases stock	N=38	34.2%	15.8%	5.3%	5.3%	0.0%	39.5%
2. purchases equipment and other assets	N=39	12.8%	17.9%	20.5%	5.1%	7.7%	35.9%
3. invests capital	N=38	31.6%	15.8%	10.5%	2.6%	0.0%	39.5%
4. makes deposits	N=39	20.5%	12.8%	15.4%	12.8%	2.6%	35.9%

C. Nonfinancial Institutions

33. What percentage of your company's contracts with nonfinancial institutions use each of the following pricing arrangements, if any? (Check all pricing arrangements that apply. For each pricing arrangement checked, enter percentage of contracts. If you do not provide any EDP services to nonfinancial institutions, check the box below and skip to Question 36.)

My company does not provide any EDP services to nonfinancial institutions. N=90

	<u>Pricing Arrangement</u>	<u>Percentage of Contracts</u>	
1.	<input type="checkbox"/> Fixed price for life of contract	___ %	N=8 51.3% A
2.	<input type="checkbox"/> Fixed price for each year with increased cost for later years	___ %	N=17 75.1% A
3.	<input type="checkbox"/> Price determined by volume of accounts or items processed	___ %	N=30 90.3% A
4.	<input type="checkbox"/> Other (Specify) _____	___ %	N=6 80.8% A

**Appendix II
Survey Of EDP Vendors' Contracting
Practices With Banks and S&Ls**

34. Since January 1, 1985, has your company had any of the following business relationships/transactions with any of the nonfinancial institutions for which you provided data processing services? (Check one box in each row.) (If you have not provided any EDP services to nonfinancial institutions, check the box below and skip to Question 36.)

My company has not provided any EDP services to nonfinancial institutions since January 1, 1985.

Has your company...	Yes (1)	No (2)	Not Sure (3)
1. purchased stock N=49	8.2%	91.8%	0.0%
2. purchased EDP equipment N=49	16.3%	83.7%	0.0%
3. purchased capital investments (e.g., capital notes or debentures) N=48	2.1%	95.8%	2.1%
4. purchased land N=48	0.0%	93.8%	6.3%
5. purchased buildings N=48	2.1%	93.8%	4.2%
6. assumed leases N=49	6.1%	89.8%	4.1%
7. made loans to directors, officers, or principal stockholders of nonfinancial institution, or to nonfinancial institution N=48	2.1%	91.7%	6.3%
8. bought loans N=49	2.0%	91.8%	6.1%
9. bought out prior contracts for EDP services N=49	6.1%	91.8%	2.0%
10. served on Board of Directors N=48	6.3%	91.7%	2.1%
11. purchased other assets (Please specify.) _____ N=38	7.9%	92.1%	0.0%
12. Other (Please specify.) _____ N=21	4.8%	95.2%	0.0%

35. If you have any comments or explanations on Question 34, please enter them in the space provided below.

D. Comments

36. If you have any comments on this survey, on questions we should have asked but did not, or on contracting practices with banks and/or S&Ls/savings banks, please enter them in the space provided below. If necessary, you may attach additional sheets.

Thank you for your help.

Please go to page 10. —>

**Appendix II
Survey Of EDP Vendors' Contracting
Practices With Banks and S&Ls**

37. Would you or other officials of your company like to meet with GAO representatives to discuss the issues addressed in this survey? (Check one.)

N=80

- | | |
|---|-------|
| 1. <input type="checkbox"/> No | 97.5% |
| 2. <input type="checkbox"/> Yes (If yes, please read the following note and enter the information requested below.) | 2.5% |

Note: Agreeing to meet with GAO is entirely voluntary - please return the questionnaire even if you check "no."

This page will be detached from the questionnaire upon receipt.

If you prefer not to use the space below, you may write your name and telephone number on the postcard.

Name: _____

Title: _____

Name of company: _____

Address: _____

Telephone: _____
(Area code) (Number)

Survey of Banks' Contracting Practices With EDP Vendors

Note: Percentages are based on the weighted responses of 1,798 banks.

United States General Accounting Office



Survey of Banks' Contracting Practices with EDP Vendors

Introduction

The U.S. General Accounting Office (GAO), an agency of Congress, is seeking information on contracting practices between banks and vendors that provide electronic data processing (EDP) services, as described in Question 4. Section 225 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 requires that GAO review contracting practices between depository institutions and vendors. Your response will help GAO give Congress important information about these contracting practices.

Although your participation in this survey is voluntary, we cannot conduct a meaningful analysis without your cooperation. This questionnaire is anonymous. There is nothing in this form that can identify how you or any other firm responded. In order to ensure your privacy, we ask that you separately return the enclosed postcard indicating that you have completed your questionnaire. We need these cards returned so that we can delete from our mailing list those who have returned the postcards and allow us to follow up with those who have not responded to our mailing.

Please answer the questionnaire based on the current status of your depository institution. When answering, please consider your entire operation, including all branches, but excluding any holding, parent, or subsidiary company. If your company operates solely as a holding company, answer Question 1 only. The questionnaire should be answered by the person most knowledgeable about contracting arrangements between your depository institution and EDP vendors.

The questions can be easily answered by checking boxes or filling in blanks. The questionnaire should take about 20 minutes to complete, depending upon the availability of your records. Space has been provided at the end of the questionnaire for any additional comments you may want to make. If you have any questions, please call Charlesetta Bailey or James M. Blume at (202) 357-1092.

Please return the completed questionnaire in the enclosed pre-addressed, pre-paid envelope within 10 days of receipt. Also, do not forget to mail back the postcard, separately. Do not enclose the postcard with the questionnaire. In the event the envelope is misplaced, our return address is:

U.S. General Accounting Office
 Ms. Charlesetta Bailey
 441 G Street, N.W., Room 3660
 Washington, D.C. 20548

Thank you for your help.

GGD-1 11/90 MMS

1. As of December 1, 1990, which of the following categories best describes the charter under which your depository institution operates? (Check one.)

N=12,496

- 1. Bank 95.7%
- 2. Savings Bank 2.9%
- 3. Neither a bank nor a savings bank (e.g., operate as a holding company only) (Please explain below and then return the questionnaire in the enclosed envelope. Thank you.) 1.4%

2. Which of the following best describes the size of your bank, in terms of assets? (Check one.)

N=12,345

- 1. Less than \$25 million 24.2%
- 2. At least \$25 million but less than \$100 million 48.9%
- 3. At least \$100 million but less than \$300 million 18.9%
- 4. At least \$300 million but less than \$500 million 2.8%
- 5. At least \$500 million but less than \$1 billion 2.1%
- 6. At least \$1 billion, or more 3.1%

**Appendix III
Survey of Banks' Contracting Practices
With EDP Vendors**

3. Does your bank contract out for any EDP services?
(Exclude EDP services provided by any bank subsidiaries,
or any affiliates, through a holding company structure.)
(Check one.)

N=12,218

1. Yes 57.7%
2. No 42.3%

4. Which of the following EDP services, if any, does your bank contract out? (Check one box in each row.)

EDP SERVICES	Contract Out?	
	Yes (1)	No (2)
1. Central Information File (CIF) N=8,800	50.4%	49.5%
2. Deposits N=9,103	55.3%	44.7%
3. Loans N=9,038	54.7%	45.3%
4. Accounting (general ledger) N=8,937	47.8%	52.2%
5. Automatic Teller Machine (ATM) N=7,770	50.7%	49.3%
6. Check processing N=8,755	45.0%	55.0%
7. Credit card N=7,568	49.7%	50.3%
8. Payroll N=8,819	54.0%	46.0%
9. IRAs, KEOGHs, or retirement accounts N=8,851	53.7%	46.3%
10. Other (Please specify.) _____		
N=1,707	74.7%	25.3%

If EDP services are provided only by a subsidiary, or affiliate through a holding company, or if you did not check "yes" for any items under "contract out," please stop here and return the questionnaire in the enclosed envelope. Thank you.

5. How many contracts for EDP services did your bank award or renew since January 1, 1985? (Enter number. If all current contracts were awarded or last renewed prior to January 1, 1985, enter "0".)

N=1,117
AVERAGE=1.6

(Number of contracts)

6. How many vendors that provide EDP services did your bank do business with during this time period? (Enter number.)

N=1,117
AVERAGE=1.8

(Number of vendors)

Please answer the following questions for the original contract awarded since January 1, 1985, with the largest dollar amount (total payments over the life of the contract).

7. How many vendors were initially contacted or considered for the job? (Enter number.)

N=1,032
AVERAGE=2.4

(Number of vendors)

If only one vendor, continue to Question 8. If more than one vendor, skip to Question 9.

8. Please explain why only one vendor was considered (Question 7), and then skip to Question 12.

**Appendix III
Survey of Banks' Contracting Practices
With EDP Vendors**

9. How many vendors were requested to submit bids?
(Enter number.)

N=688
AVERAGE=2.8

(Number of vendors)

10. How many vendors bid or submitted proposals to provide EDP services for this contract? (Enter number.)

N=687
AVERAGE=2.8

(Number of vendors)

11. Was the vendor with the lowest price awarded the contract? (Check one.)

N=3,956

- 1. Yes 35.7%
- 2. No 40.6%
- 3. Uncertain 23.7%

12. How important, if at all, was each of the following factors as the basis for the award? (Check one box in each row.)

FACTORS		Little or no importance (1)	Somewhat important (2)	Moderately important (3)	Greatly important (4)	Very greatly important (5)	No basis to judge (6)
1. Cost/price	N=6,799	1.1%	5.4%	28.9%	38.7%	20.4%	5.5%
2. Quality of proposal	N=6,635	2.4%	5.7%	15.4%	39.5%	30.5%	6.5%
3. Reliability (reputation of vendor)	N=6,784	0.7%	0.2%	1.5%	34.5%	58.5%	4.8%
4. Solvency of vendor (financial condition of vendor)	N=6,754	0.8%	2.9%	10.6%	34.4%	44.7%	6.5%
5. Likelihood of success/ability to fulfill contract	N=6,791	0.8%	0.5%	5.1%	29.7%	58.7%	5.2%
6. Ability to meet federal requirements e.g., call reports	N=6,746	2.2%	2.5%	11.6%	25.2%	51.0%	7.5%
7. Other (Please specify.) _____	N=708	4.6%	3.2%	3.0%	23.6%	50.3%	15.2%

13. When was the contract originally awarded? (Enter date.)

Date contract was awarded: ____/____/____
MM DD YY

14. How long is/was the contract period (exclude renewal options)? (Enter dates.)

Beginning date of contract: ____/____/____
MM DD YY

Ending date of contract: ____/____/____
MM DD YY

AVERAGE CONTRACT PERIOD=3.6 YEARS

15. Which of the following, if any, is the primary pricing arrangement for the contract? (Check one.)

N=6,641

- 1. Fixed price for life of contract 17.1%
- 2. Fixed price for each year with increasing cost for the later years 19.5%
- 3. Price determined by volume of accounts or items processed 56.4%
- 4. Other (Please specify.) 7.0%

**Appendix III
Survey of Banks' Contracting Practices
With EDP Vendors**

16. Which of the following pricing clauses, if any, are included in this contract? (Check all that apply.)

- | | |
|---|---------|
| 1. <input type="checkbox"/> Adjustment for inflation | N=1,987 |
| 2. <input type="checkbox"/> Adjustment for volume | N=3,759 |
| 3. <input type="checkbox"/> Adjustment for changes in EDP application | N=2,490 |
| 4. <input type="checkbox"/> Adjustment for changes in your bank's size (i.e., significant increase or decrease in assets) | N=702 |
| 5. <input type="checkbox"/> Penalties to bank for early cancellation by the bank (Please describe.) | N=1,988 |

17. Since January 1, 1985, has the vendor engaged in any of the following business relationships/transactions with your bank? (Check one box in each row.)

If "YES," when did this business or transaction first take place? (Enter date.)

The vendor has..	Yes (1)	No (2)	Not sure (3)	IF "YES"
				Date
1. made deposits N=6,897	3.2%	95.3%	1.4%	MM DD YY
2. purchased stock N=6,869	0.5%	97.9%	1.6%	MM DD YY
3. purchased EDP equipment N=6,839	3.3%	94.2%	2.5%	MM DD YY
4. purchased capital investments (e.g., capital notes or debentures) N=6,816	0.1%	97.9%	2.0%	MM DD YY
5. purchased land N=6,846	0.0%	97.8%	2.2%	MM DD YY
6. purchased buildings N=6,846	0.0%	98.2%	1.8%	MM DD YY
7. assumed leases N=6,845	0.4%	97.4%	2.2%	MM DD YY
8. made loans to directors, officers, or principal stockholders of your bank, or made loans to your bank N=6,891	4.4%	91.7%	3.9%	MM DD YY
9. bought loans N=6,887	4.6%	94.1%	1.2%	MM DD YY
10. bought out prior contracts for EDP services N=6,846	1.0%	97.8%	1.2%	MM DD YY
11. served on Board of Directors N=6,869	0.0%	99.4%	0.5%	MM DD YY
12. purchased other assets (Please specify.) N=6,516	0.1%	98.2%	1.8%	MM DD YY
13. Other (Please specify.) N=781	14.4%	82.3%	3.3%	MM DD YY

**Appendix III
Survey of Banks' Contracting Practices
With EDP Vendors**

18. If stock, equipment, land, buildings, or other assets were sold to the vendor, was the price paid the fair market value or the book value? (Check one box in each row.)

TRANSACTIONS	Fair market value (1)	Book value (2)	Don't know (3)	Does not apply (4)
1. Stock N=4,514	0.7%	0.0%	1.5%	97.8%
2. Equipment N=4,523	1.4%	0.7%	1.3%	96.7%
3. Land N=4,505	0.5%	0.0%	1.2%	98.2%
4. Building N=4,505	0.5%	0.0%	1.2%	98.3%
5. Other assets N=4,456	0.5%	0.1%	0.7%	98.7%

19. If the book value was paid for stock, equipment, land, buildings, or other assets, was the price higher than the fair market value? (Check one box in each row.)

TRANSACTIONS	Yes (1)	No (2)	Don't know (3)	Does not apply (4)
1. Stock N=4,385	0.0%	0.2%	0.9%	98.9%
2. Equipment N=4,417	0.5%	0.6%	1.0%	97.8%
3. Land N=4,377	0.0%	0.1%	0.8%	99.1%
4. Building N=4,376	0.0%	0.1%	0.8%	99.1%
5. Other assets N=4,330	0.0%	0.2%	0.8%	99.1%

20. In your opinion, to what extent, if any, do EDP vendors have contracts with banks in which the vendor, as a condition of the contract, engages in the following business relationships/transactions? (Check one box in each row.)

The vendor...	Little or no extent (1)	Some extent (2)	Moderate extent (3)	Great extent (4)	Very great extent (5)	No basis to judge (6)
1. purchases stock N=6,024	36.2%	2.0%	0.0%	1.1%	0.2%	60.3%
2. purchases equipment and other assets N=6,035	29.4%	5.7%	4.3%	1.4%	0.4%	58.8%
3. invests capital N=6,026	35.5%	2.6%	0.2%	1.0%	0.5%	60.3%
4. makes deposits N=6,049	33.5%	4.2%	3.3%	0.6%	0.6%	57.9%

21. If you have any comments on this survey, on questions we should have asked but did not, or on bank contracting practices with EDP vendors, please enter them in the space provided below. If necessary, you may attach additional sheets.

**Appendix III
Survey of Banks' Contracting Practices
With EDP Vendors**

22. Would you or other officials of your bank like to meet with GAO representatives to discuss the issues addressed in this survey? (Check one.)

N=687

- | | |
|--|-------|
| 1. [] No | 99.4% |
| 2. [] Yes (If yes, please read the following note and enter the information requested below.) | 0.6% |

Note: Agreeing to meet with GAO is entirely voluntary - please return the questionnaire even if you check "no."

This page will be detached from the questionnaire upon receipt.

If you prefer not to use the space below, you may write your name and telephone number on the postcard.

Name: _____

Title: _____

Name of bank: _____

Address: _____

Telephone: _____ (Area code) _____ (Number)

Survey of S&Ls' Contracting Practices With EDP Vendors

Note: Percentages are based on the weighted responses of 94 savings associations.

United States General Accounting Office



Survey of S&Ls' Contracting Practices with EDP Vendors

Introduction

The U.S. General Accounting Office (GAO), an agency of Congress, is seeking information on contracting practices between savings and loans (S&Ls) and vendors that provide electronic data processing (EDP) services, as described in Question 5. Section 225 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 requires that GAO review contracting practices between depository institutions and vendors. Your response will help GAO give Congress important information about these contracting practices.

Although your participation in this survey is voluntary, we cannot conduct a meaningful analysis without your cooperation. This questionnaire is *anonymous*. There is nothing in this form that can identify how you or any other firm responded. In order to ensure your privacy, we ask that you separately return the enclosed postcard indicating that you have completed your questionnaire. We need these cards returned so that we can delete from our mailing list those who have returned the postcards and allow us to follow up with those who have not responded to our mailing.

Please answer the questionnaire based on the current status of your depository institution. When answering, please consider your entire operation, including all branches, but excluding any holding, parent, or subsidiary company. If your company operates solely as a holding company, answer Question 1 only. The questionnaire should be answered by the person most knowledgeable about contracting arrangements between your depository institution and EDP vendors.

The questions can be easily answered by checking boxes or filling in blanks. The questionnaire should take about 20 minutes to complete, depending upon the availability of your records. Space has been provided at the end of the questionnaire for any additional comments you may want to make. If you have any questions, please call Charlesetta Bailey or James M. Blume at (202) 357-1092.

Please return the completed questionnaire in the enclosed pre-addressed, pre-paid envelope within 10 days of receipt. Also, do not forget to mail back the postcard, separately. Do not enclose the postcard with the questionnaire. In the event the envelope is misplaced, our return address is:

U.S. General Accounting Office
Ms. Charlesetta Bailey
441 G Street, N.W., Room 3660
Washington, D.C. 20548

Thank you for your help.

GGD-1 11/90 MMS

1. As of December 1, 1990, which of the following categories best describes the charter under which your depository institution operates? (Check one.)

N=2,582

- | | | |
|-----------------------------|--|-------|
| 1. <input type="checkbox"/> | Savings and loan | 65.2% |
| 2. <input type="checkbox"/> | Savings bank | 33.0% |
| 3. <input type="checkbox"/> | Bank | 0.8% |
| 4. <input type="checkbox"/> | None of the above (e.g., operate as a holding company only) (Please explain below and then return the questionnaire in the enclosed envelope.) | 1.0% |

2. Since January 1, 1985, has your institution's status changed from an S&L to a savings bank or to a bank (e.g., as the result of a merger, acquisition, or conversion)? (Check one.)

N=2,537

- | | | |
|-----------------------------|---|-------|
| 1. <input type="checkbox"/> | Yes (Note: If your status has changed from an S&L to a savings bank or to a bank, please answer this questionnaire based on your total experience.) | 24.6% |
| 2. <input type="checkbox"/> | No | 75.4% |

3. Which of the following best describes the size of your savings and loan, in terms of assets? (Check one.)

N=2,554

- | | | |
|-----------------------------|---|-------|
| 1. <input type="checkbox"/> | Less than \$75 million | 41.5% |
| 2. <input type="checkbox"/> | At least \$75 million but less than \$250 million | 32.3% |
| 3. <input type="checkbox"/> | At least \$250 million, or more | 26.2% |

**Appendix IV
Survey of S&Ls' Contracting Practices With
EDP Vendors**

4. Does your S&L contract out for any EDP services?
(Exclude EDP services provided by any S&L subsidiaries,
or any affiliates through a holding company structure.)
(Check one.)
- N=2,540
1. Yes 88.6%
2. No 11.4%

5. Which of the following EDP services, if any, does your
S&L contract out? (Check one box in each row.)

EDP SERVICES	Contract Out?	
	Yes (1)	No (2)
1. Central Information File (CIF) N=2,248	77.5%	22.5%
2. Deposits N=2,344	86.9%	13.1%
3. Loans N=2,332	86.5%	13.5%
4. Accounting (general ledger) N=2,135	58.4%	41.6%
5. Automatic Teller Machine (ATM) N=1,849	52.3%	47.7%
6. Check processing N=2,193	74.1%	25.9%
7. Credit card N=1,695	40.2%	59.8%
8. Payroll N=2,090	61.7%	38.3%
9. IRAs, KEOGHs, or retirement accounts N=2,229	79.5%	20.5%
10. Other (Please specify.) N=143	83.2%	16.8%

If EDP services are provided only by a subsidiary, or affiliate through a holding company, or if you did not check "yes" for any items under "contract out," please stop here and return the questionnaire in the enclosed envelope. Thank you.

6. How many contracts for EDP services did your S&L award or renew since January 1, 1985? (Enter number. If all current contracts were awarded or last renewed prior to January 1, 1985, enter "0.")
- N=832
AVERAGE=2.2
- _____
- (Number of contracts)

7. How many vendors that provide EDP services did your S&L do business with during this time period? (Enter number.)
- N=834
AVERAGE=2.1
- _____
- (Number of vendors)

Please answer the following questions for the original contract awarded since January 1, 1985, with the largest dollar amount (total payments over the life of the contract).

8. How many vendors were initially contacted or considered for the job? (Enter number.)
- N=765
AVERAGE=2.9
- _____
- (Number of vendors)

If only one vendor, continue to Question 9. If more than one vendor, skip to Question 10.

9. Please explain why only one vendor was considered (Question 8), and then skip to Question 13.

**Appendix IV
Survey of S&Ls' Contracting Practices With
EDP Vendors**

10. How many vendors were requested to submit bids?
(Enter number.)

N=521
AVERAGE=3.3

(Number of vendors)

11. How many vendors bid or submitted proposals to provide
EDP services for this contract? (Enter number.)

N=519
AVERAGE=3.2

(Number of vendors)

12. Was the vendor with the lowest price awarded the
contract? (Check one.)

N=1,388

- 1. Yes 37.4%
- 2. No 36.9%
- 3. Uncertain 25.8%

13. How important, if at all, was each of the following factors as the basis for the award? (Check one box in each row.)

FACTORS		Little or no importance (1)	Somewhat important (2)	Moderately important (3)	Greatly important (4)	Very greatly important (5)	No basis to judge (6)
1. Cost/price	N=2,135	0.6%	5.0%	24.5%	43.9%	23.3%	2.6%
2. Quality of proposal	N=2,105	1.9%	8.5%	22.6%	36.3%	27.0%	3.8%
3. Reliability (reputation of vendor)	N=2,129	0.8%	0.4%	3.5%	33.4%	60.1%	1.8%
4. Solvency (financial condition of vendor)	N=2,134	0.8%	3.5%	12.5%	39.5%	40.6%	3.1%
5. Likelihood of success/ability to fulfill contract	N=2,137	0.7%	0.9%	4.2%	31.9%	60.4%	2.0%
6. Ability to meet federal requirements e.g., FHLBB R134	N=2,129	1.0%	1.5%	7.1%	30.4%	55.7%	4.3%
7. Other (Please specify) _____	N=262	1.8%	0.0%	8.5%	34.4%	47.0%	8.3%

14. When was the contract originally awarded? (Enter date.)

Date contract was awarded: _____
MM DD YY

15. How long is/was the contract period (exclude renewal options)? (Enter dates.)

Beginning date of contract: _____
MM DD YY

Ending date of contract: _____
MM DD YY

(AVERAGE CONTRACT PERIOD=3.8 YEARS)

16. Which of the following, if any, is the primary pricing arrangement for the contract? (Check one.)

N=2,087

- 1. Fixed price for life of contract 14.5%
- 2. Fixed price for each year with increasing cost for the later years 17.6%
- 3. Price determined by volume of accounts or items processed 60.7%
- 4. Other (Please specify.) _____ 7.2%

**Appendix IV
Survey of S&Ls' Contracting Practices With
EDP Vendors**

17. Which of the following pricing clauses, if any, are included in this contract? (Check all that apply.)

- 1. Adjustment for inflation N=600
- 2. Adjustment for volume N=1,385
- 3. Adjustment for changes in EDP application N=1,010
- 4. Adjustment for changes in your S&L's size (i.e., significant increase or decrease in assets) N=299
- 5. Penalties to S&L for early cancellation by the S&L (Please describe.) _____ N=866

18. Since January 1, 1985, has the vendor engaged in any of the following business relationships/transactions with your S&L? (Check one box in each row.)

If "YES," when did this business or transaction first take place? (Enter date.)

The vendor has...	Yes (1)	No (2)	Not sure (3)	IF "YES"		
				Date		
1. made deposits N=2,181	2.7%	95.8%	1.5%	/ / / /	MM	DD YY
2. purchased stock N=2,168	0.6%	97.4%	2.1%	/ / / /	MM	DD YY
3. purchased EDP equipment N=2,169	2.6%	96.1%	1.3%	/ / / /	MM	DD YY
4. purchased capital investments (e.g., capital notes or debentures) N=2,172	0.0%	98.5%	1.5%	/ / / /	MM	DD YY
5. purchased land N=2,177	0.2%	99.0%	0.8%	/ / / /	MM	DD YY
6. purchased buildings N=2,177	0.2%	99.1%	0.7%	/ / / /	MM	DD YY
7. assumed leases N=2,177	0.5%	98.1%	1.4%	/ / / /	MM	DD YY
8. made loans to directors, officers, or principal stockholders of your S&L, or made loans to your S&L N=2,177	0.3%	98.6%	1.1%	/ / / /	MM	DD YY
9. bought loans N=2,177	0.0%	99.3%	0.7%	/ / / /	MM	DD YY
10. bought out prior contracts for EDP services N=2,170	1.4%	97.3%	1.3%	/ / / /	MM	DD YY
11. served on Board of Directors N=2,172	0.0%	99.6%	0.4%	/ / / /	MM	DD YY
12. purchased other assets (Please specify.) _____ N=2,107	0.7%	98.1%	1.3%	/ / / /	MM	DD YY
13. Other (Please specify.) _____ N=53	27.0%	54.5%	18.5%	/ / / /	MM	DD YY

**Appendix IV
Survey of S&Ls' Contracting Practices With
EDP Vendors**

19. If stock, equipment, land, buildings, or other assets were sold to the vendor, was the price paid the fair market value or the book value? (Check one box in each row.)

TRANSACTIONS	Fair market value (1)	Book value (2)	Don't know (3)	Does not apply (4)
1. Stock N=1,547	0.8%	0.2%	0.2%	98.8%
2. Equipment N=1,564	1.5%	0.8%	0.2%	97.5%
3. Land N=1,544	0.0%	0.0%	0.2%	99.8%
4. Building N=1,547	0.0%	0.0%	0.2%	99.8%
5. Other assets N=1,543	0.3%	0.5%	0.2%	99.0%

20. If the book value was paid for stock, equipment, land, buildings, or other assets, was the price higher than the fair market value? (Check one box in each row.)

TRANSACTIONS	Yes (1)	No (2)	Don't know (3)	Does not apply (4)
1. Stock N=1,526	0.0%	0.0%	0.4%	99.6%
2. Equipment N=1,532	0.2%	0.9%	0.2%	98.7%
3. Land N=1,523	0.0%	0.0%	0.2%	99.8%
4. Building N=1,526	0.0%	0.0%	0.2%	99.3%
5. Other assets N=1,522	0.0%	0.6%	0.2%	99.3%

21. In your opinion, to what extent, if any, do EDP vendors have contracts with S&Ls in which the vendor, as a condition of the contract, engages in the following business relationships/transactions? (Check one box in each row.)

The vendor...	Little or no extent (1)	Some extent (2)	Moderate extent (3)	Great extent (4)	Very great extent (5)	No basis to judge (6)
1. purchases stock N=2,023	36.9%	2.7%	1.0%	0.2%	0.2%	59.1%
2. purchases equipment and other assets N=2,023	30.2%	6.8%	4.2%	0.5%	0.4%	57.8%
3. invests capital N=2,020	37.7%	1.7%	0.6%	0.3%	0.2%	59.5%
4. makes deposits N=2,020	33.0%	3.9%	2.1%	0.7%	0.4%	59.8%

22. If you have any comments on this survey, on questions we should have asked but did not, or on S&L contracting practices with EDP vendors, please enter them in the space provided below. If necessary, you may attach additional sheets.

Thank you for your help.

Please go to page 6. —>

**Appendix IV
Survey of S&Ls' Contracting Practices With
EDP Vendors**

23. Would you or other officials of your S&L like to meet with GAO representatives to discuss the issues addressed in this survey? (Check one.)

N=1,376

- 1. No 99.5%
- 2. Yes. (If yes, please read the following note and enter the information requested below.) 0.5%

Note: Agreeing to meet with GAO is entirely voluntary - please return the questionnaire even if you check "no."

This page will be detached from the questionnaire upon receipt.

If you prefer not to use the space below, you may write your name and telephone number on the postcard.

Name: _____

Title: _____

Name of S&L: _____

Address: _____

Telephone: _____
(Area code) (Number)

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