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BUREAU OF INDIAN AFFAIRS
TRUST FUNDS MGMT.

Memorandum

To: Assistant Secretary - Indian Affairs

From: Deputy to the Assistant Secretary - Indian Affairs /s/ Frank Anthony Ryan
(Trust and Economic Development)

Subject: Pooling of Tribal Trust Funds

Background: Currently, the Bureau pools or combines individual Indian trust funds as a means of increasing interest earnings on those funds. Earnings are then distributed to account holders on the basis of their proportionate share of the pool(s). To date, the Bureau has not pooled tribal trust funds although Price-Waterhouse and the General Accounting Office recommended that these funds be pooled as well.

In addition to maximizing ? earning, the advantages associated with pooling include:

1. A reduction in administrative workload for Bureau staff at all levels, with concurrent increase in time available to evaluate investment opportunities.

2. A reduction in collateral requirements for insurance purposes since the proportionate share of each member of the pool is relatively small and therefore, well under the insurance ceiling. ?

3. Greater equity or evenness in distribution of investment earnings since each member of the pool would share equally in the return on investment. (Now, individual tribes have greater or lesser return based on the earnings performance of the investments made on their behalf.) why do we need equity?

4. Greater ease in advancing funds to tribes since investment instruments will be maturing on a more frequent basis. A tribe will not have to wait for maturity, nor will it incur a penalty for early withdrawal from specific investment(s) made on its behalf. No penalty

The major disadvantage associated with pooling is that non-pooled investments cannot be made for tribes. This will result in a loss of some tribal identification within a specific portfolio, as well as a lost opportunity for a tribe to specify its investment terms or specify a particular financial institution. However, a greater return on investment will probably offset criticism from tribes. Secured! ?

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An assumption made under the financial management service contract is that tribal funds would be pooled in an effort to maximize returns. In order for our Office of Investments to prepare for implementation of the financial services contract, a pooling/non-pooling decision needs to be made.

<u>Decisions required at this time:</u>

Pooling cannot occur without significant lead time because of FDIC/FSLIC insurance coverage provisions. None of the financial institutions that the Bureau currently has investments with, are eligible for pooling at this time because creation of pools would risk exceeding the $100,000 insurance ceiling for individual tribes which have investments at those institutions.

In order to provide for an orderly transition to pooling of tribal funds, a target date should be established now. I recommend that April 1 be established as the starting date for pooling. This should allow sufficient time for planning within the Bureau and with the contract bank. If April 1 is chosen for the start date, the proceeds from all maturing instruments and new funds received for investment between now and April 1, would be invested to mature no later than that date. We estimate that nearly three-fourths of the institutions we currently invest with, will be ineligible for pools as of April 1, 1987, without risk of inadequate insurance coverage. Nearly <u>one-half of the institutions are banks which could put up collateral</u> to meet full insurance coverage.

Too soon!

Due to CDs maturing beyond 4/1/87

The maximum amount established for a single tribe as it relates to the total pool would depend on the $100,000 insurance coverage and would determine how much money could be invested at a specific institution. The following example demonstrates this point.

<u>Example:</u>

> If an individual tribe owned $10 million and if the total funds owned by all tribes totalled $610 million, in order to determine the percentage of a pool owned by that tribe one would divide $10 by $610 million. Under this example, the tribe would own 1.64 percent of the pool. In order to determine the maximum amount which could be safely invested in an institution in the name of a tribe without exceeding the insurance ceiling, one would divide $100,000 by 1.64 percent which equals $6,097,000. That number should be adjusted downward to allow full insurance coverage if the pool of funds is decreased.

Recommendation:

The Office of Investments recommends that the Bureau begin investing in instruments which would mature no later than April 1, 1987. As noted above, it is estimated that even with that target date, three-fourths of the institutions we currently do business with would be ineligible. Notwithstanding the fact that all of the institutions will be eligible by January 31, 1988, the Bureau can begin to move toward pooling in an orderly fashion. This target date should provide sufficient implementation time, and not impede progress toward implementing the contract with the contract bank, which has been advised of our intention to begin pooling of tribal funds, similar, to the pooling of individual Indian funds.

/S/ Ross O. Swimmer

(Approve) Assistant Secretary - Indian Affairs

OCT 15 1986

Date

(Disapprove) Assistant Secretary - Indian Affairs

Date

cc: Secy's Surname, Secy's RF
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Rewrite per Ryan 10/7/86

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