



Since You Asked ...

A compendium of recent portfolio-investment questions from community bankers

By Jim Reber

It pleases me greatly that so many of you have participated in our multifaceted education efforts. ICBA has built a solid reputation for delivering training that responds to community bankers' needs, and the ICBA education department has seen fit to ask us to participate in its conferences from time to time. I also much appreciate our state community banking association affiliates for granting ICBA Securities a considerable share of air time at their events.

What this creates, fortuitously, is the opportunity to have community bankers pose questions to ICBA Securities, face to face and unfiltered. In just the first five months of 2013, my colleagues from Vining Sparks and I have spoken to around 1,500 bankers on a variety of topics in a variety of locales. I thought it might be instructive to relate some of the more popular questions and answers so that you too can benefit from ICBA Securities' educational reach.

Q What is this new stuff I'm supposed to be doing with my munis?

A How long do you have to listen? Actually, it's a fairly long answer if we get into the details. What we can say is that community bankers are now required to have determined whether a municipal (or corporate) bond offering

is investment grade and that it is consistent with safe and sound banking practices. In doing so, you cannot rely exclusively on external credit ratings.

You also have to monitor your municipal portfolio for subsequent events such as credit ratings changes, and document that the "watch list" securities are being attended to regularly. All of these regulations don't have to be a deterrent for investors, as ICBA Securities has built out a comprehensive set of tools available on our website.

Q Where do I go for yield? I've got tons of cash and I can't stand the market!

A It depends. For community bankers who have exposure to rising interest rates (and your numbers are growing), you may have to work the old barbell trick to get a modicum of reward. We've been singing this song for at least two years. The "belly" of the interest rate curve, around three to four years, has been depressed for some time now. It doesn't hurt too badly to stay shorter than three years, and yields start improving around five. So, equal amounts invested in money markets and, say, seven-year bonds will handily beat a three-year.

As of this writing, a three-year barbell with bullet agencies will yield about 80 basis points (0.80 percent). And with all-in costs of funds now moving down toward just 50 basis points, you're making some spread, *and* you're keeping the asset/liability police happy.

For those with balanced asset/liability positions, my advice to you: premium municipals. I have lots of proof.

Q But what happens when the Fed quits buying up all these bonds?

A It depends. If it absolutely shut down the purchases of mortgage-backed securities (MBS), agencies and Treasuries today, and rates held fairly steady, the Fed would get back around half of its total investments in three to four years just through runoff. Of course, rates would probably rise some, so it's fair to expect the cash flows to be somewhat longer than that. So a lot of its quantitative easing can be unwound without selling a single bond. And, the still-tight supply of mortgage product should keep something of a floor under prices.

Q Glad you mentioned MBS. How in the world do I get comfortable with all these dadgum premiums?

A Common sense—and a bit of effort—and available tools. **Common sense:** I often tell community bankers that MBS should be the easiest thing for them to understand since they are probably either mortgagees or mortgagors themselves. By looking at the borrowers' rates ("gross WAC") and remaining terms, and comparing them to current market rates, you can get a feel for how "refi-able" an MBS may be.

A bit of effort: Continue to monitor your bank's investments. MBS change their patina over time, as loans season, market rates change and remaining balances dwindle.

Available tools: Reports such as ICBA Securities' Prepayment Exposure Impact Report, which can be created on request, neatly display the actual prepay histories of each investment, plus "what-if's" that project future speeds on a range of assumptions. These can identify items that are ripe for sale.

Any questions? 

Webinar Series

ICBA Securities' 2013 Webinar Series kicks off on June 12 with "Mid-Year Portfolio Strategies." Mark Evans, ICBA Securities executive vice president, will deliver the presentation beginning at 10 a.m. CST. Visit www.icbasecurities.com and register through the "Check Us Out" calendar of events, or contact your ICBA sales rep for more details.

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