Portfolio Management

By Jim Reber, ICBA Securities

From the corner office

A community bank CEO addresses the bond portfolio.

Jim Reber, CPA, CFA (*jreber@icbasecurities.com*), is president and CEO of ICBA Securities, ICBA's institutional, fixed-income broker-dealer for community banks

Dear Security Inventory,

Since we've finally gotten 2019 closed, the auditors are out of here (yay!) and the shareholders' meeting is behind us, I thought it was time to catch up with you. I realize senior management has given you scant attention over the past five years, but I want you to hear from me that you are a member in good standing of this community bank's balance sheet.

There are several reasons you may have felt under-promoted, but that has nothing to do with how you conduct yourself day to day. I know you've noticed some of our more self-indulgent managers, otherwise known as senior lenders, are all too happy to grab the spotlight for themselves and the results of their efforts: the loan portfolio. I must admit, they've done a really good job of growing our loans. Even the exam we had last year didn't have much criticism, so that's a positive.

We've had trouble lately attracting the right kind of deposits to help our interest rate risk profile. I'm going to chalk this up to noncommunity banks being downright irresponsible in what they're paying for CDs and money markets. Megabanks, credit unions, nonbanks—it's enough to make you want to write Congress and ask for some help in leveling the playing field. Actually, now that I wake up and think about it, ICBA recently suggested I do just that. I will as soon as I'm finished writing this letter.

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But I digress. Between the loan growth and the iffy deposit-gathering, we've neglected you, my good and loyal bond portfolio. I see that changing in 2020. In talking with other community bank portfolio managers, it's been commonplace that the overall investment holdings have shrunk since 2016, so please don't feel like we've singled you out. In fact, you're more the norm than the exception. I suspect, being the grinder that you've always been, you knew that all along. Thank you for continuing to be a team player.

But before I go on to what I need from you in 2020 and beyond, we've got to revisit the recent past in which you and your fellow bond portfolios got a bit lazy. You realize by now that I'm hard to please, and that I'm less than tickled when you're underwater or when your yields are low. I need to state for the record that I get it. One of those two conditions is likely to exist at any one time.

Still, about 18 months ago, you had almost a 3% loss, and your yield had barely budged from the trough of the mid-teens. In other words, you looked like you had lost your touch. I mean, can't we get at least one of these two variables working for us? I'm pleased to note that you've gotten your act together, and you're now above water. Also, your yields have held in there very well considering the Fed didn't help matters in 2019 by cutting rates three times. It would be OK with me if they take a break from tweaking rates for the next year.

So, here's where you come in to our current plans. You'll be back in growth mode. You'll look a little different, as bond fashion has changed since the last lending slowdown. For one thing, tax cuts have helped our bottom line, but we don't need as many tax-frees. For another, there's a new generation of mortgage-backed securities out there that are backed by—get this—multifamily properties. We'll still be using you as a key component of our interest rate risk management activities, too. There are a few new floating rate options out there, and with the curve being relatively flat, it doesn't hurt us too badly to own some of them.

So, get ready to be our darling again. We need you as much as ever and hope you're ready to help us maintain our net interest margins through this economic cooling-off period that's supposedly headed our way. In fact, stability and predictability have always been your best attributes. Those, and the ease with which you can magically morph into cash.

We've been through some tough times together, but don't ever get the impression that management doesn't value your contributions. You're what lets us sleep at night. ■

With kind regards, I remain,
The Chief Executive Officer

Education on Tap

Webinar series continues

ICBA Securities and its exclusive broker Vining Sparks will host the next segment of its 2020 Community Banking Matters webinar series on March 17 at 10 a.m. CDT. Dan Stimpson and Katharine Bray present Balance Sheet Strategies for 2020. Up to one hour of CPE is offered, and there is no cost to attend. Visit *viningsparks.com* to register.

Manage your balance sheet

ICBA Securities and Vining Sparks will host the 2020 Balance Sheet Academy on April 21–22 in Memphis, Tenn. Up to 12 hours of CPE are available. This is an intermediate level class for experienced portfolio managers. You can learn more about the course and register at *viningsparks.com/education/balance-sheet-academy*