Investment terms decoded

A dive into the murky waters of bond lingo.

Unless you spend all of your time in the fixed-income investment arena, you’ll sooner or later be introduced to a bond, a ratio, an acronym or an alphabetic that is likely curious in origin and possibly unique, or even bizarre, in construct.

You’re not alone. Even seasoned community bankers struggle to keep pace with the barrage of acronyms and nicknames created by the bond dealers and underwriters.

Thus, the objective of this month’s column is to discuss some of the more common terms being bandied about in the industry—to demystify and enlighten. Your mastery of these terms will make you sound either refined or boorish.

Please join in as we play a variant of the old word-association game.

**Come again?**

**EAR**

Could be: The external organ of the auditory system in mammals.

Is: An acronym for Earnings at Risk. This measurement of how much a community bank’s income will fluctuate in a standard rate-shock scenario is a key determinant of the Sensitivity portion of its CAMELS rating.

By Jim Reber, ICBA

Jim Reber, CPA, CFA (jreber@icbasecurities.com), is president and CEO of ICBA Securities, ICBA’s institutional, fixed-income broker-dealer for community banks.
OTR
Could be: An initialism for Off the Record, a popular technique for unauthorized sources to clue reporters in on a scoop.
Is: An initialism for On the Run. These are the most currently issued benchmark Treasury securities ranging from one month to 30 years, whose yields are used to quantify the yield curve.

TIPS
Could be: Helpful hints or suggestions to run your community bank.
Is: An acronym for Treasury Inflation Protected Securities. TIPS are not owned by many community banks, partly because their principal value isn’t known until their maturity date. The amount of proceeds is a function of inflation during the holding period. Some believe their chief contribution is as an indicator of the market’s expectation for long-term inflation.

WALA
Could be: A corruption of the French “voilà,” a handy colloquialism that has come to mean something akin to “there you have it.”
Is: An acronym for Weighted Average Loan Age. This is a relatively important variable for mortgage-backed securities (MBSs) investors. WALA can help estimate future prepayment activity by relating the remaining loans in a pool to how long the homeowners have had to prepay their mortgages.

Investments personified

ACES
Could be: Complimentary term indicating highly effective key employees.
Is: An acronym for Alternative Credit Enhancement Securities. These are multiclass mortgage securities issued by Fannie Mae, and have as collateral a pool of multifamily properties known as DUS (delegated underwriting and servicing) bonds.

Canary
Could be: A small songbird in the finch family.
Is: A type of callable bond that is a hybrid between the typical “continuous” and “one-time call” (OTC) features. Many canaries have an initial period of time during which they are continuously callable. Once a designated date arrives, the issuer will either call the bond, or it becomes non-callable for the duration. Canaries also usually feature coupons that increase (“step up”) if they are not called.

Dwarf, Nugget and Midget
Could be: References, possibly pejorative, to individuals who are shorter than average.
Are: Designations for 15-year MBSs issued by Fannie Mae, Freddie Mac and Ginnie Mae, respectively.

EVE
Could be: Biblical mother of Cain and Abel.
Is: An acronym for Economic Value of Equity. This risk measure calculates how much a community bank’s net worth will change, given a change in interest rates. Another component of the “S” in the CAMELS rating system.

Mega and Giant
Could be: Informal terms for very large persons or objects.
Are: MBSs that are actually “pools of pools” issued by Fannie Mae and Freddie Mac, respectively. The two housing GSEs’ ability to consolidate existing pools can create improved liquidity for the investors and more consistent prepayment histories.

Done
Could be: A confirmation from your broker that your order has been filled.
Is: The conclusion of this column.