INVESTING WITH CONFIDENCE

ICBA Securities’ C.J. Pickering—a guide for community bank portfolio managers

by Richard Gamble

With education, portfolio measurement and built-in regulatory compliance, ICBA Securities provides strong support for the investment portfolio managers at community banks. And now with liquidity unusually high and investment portfolios bulging, ICBA Securities has become a more important partner than ever for many bankers.

You can’t outsource total management of your portfolio to ICBA Securities. Bank investors still have to deal with an innovative market that keeps tinkering with securities features, and with interest rates gyrating amid possibilities of both inflation and deflation, a bank’s strategy is especially important now.

But community bankers can have confidence that securities bought through ICBA Securities are intrinsically appropriate for a community bank portfolio. And they know they won’t be overcharged—every transaction must comply with pricing guidelines set by ICBA or it is personally challenged by C.J. Pickering, ICBA Securities’ president and CEO. They also can rest assured that the registered rep they buy from has been picked, trained and certified for his or her understanding of community banking. Pickering, a former vice president at the Federal Reserve Bank of Dallas and employee of the Federal Reserve Board, assures this.

“Personally and professionally, C.J. is the top of the line,” ICBA president and CEO, Ken Guenther says. “His educational
outreach and investment advice to community bankers defines his unique corporation, which is at the forefront of many community banks investment activities.”

**Leveraging a Partnership**

Rather than reinvent an expensive wheel, ICBA, as it has done with all of its subsidiaries, went looking for a partner that already knew the business. ICBA sent inquiries to 33 firms during a six-month competition that included written proposals, telephone interviews and face-to-face meetings. The search ended in Memphis with the choice of Vining Sparks Securities, a firm that already specialized in community bank investments.

Vining Sparks, as ICBA Securities’ clearing broker, provides the critical trading desk and technology to carry out the trades community bankers order. Even more important, the registered reps that are the legs of ICBA Securities come from Vining Sparks. They are dual employees—employees of Vining Sparks, which pays their salaries and benefits, but also screened, picked, trained and licensed by ICBA Securities. Pickering too, is a Vining Sparks alum, having served as vice president of the firm’s asset liability management consultant services.

Last year, ICBA Securities did over 11,000 community bank transactions, Pickering says. These transactions when combined with those of Vining Sparks make them the nation’s largest provider of community bank investment products and services.

Since many of the securities community bankers buy come out of the Vining Sparks inventory, it’s important for the reps to talk with their clients and learn what community bank investors do and do not want to buy, Pickering notes. “There’s a daily interactive interface that helps us build an inventory of appropriate investment products,” he says.

Best of all, when community bankers deal with ICBA Securities, they know that the transactions and the reporting will conform with banking regulations that may not even have been announced yet. Pickering meets with regulators while they are hammering out new regs and sees that the new requirements are incorporated into ICBA Securities’ operations and reports.

“My board has set minimum requirements for securities the reps can sell to community banks for their portfolios,” Pickering says, “The regulators’ lists of securities that are suitable for community bank portfolios provide a starting point. We then knock out some of the more speculative securities that are more suitable for larger banks that have full-time investment specialists.”

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—Terry Jorde,
CountryBank USA

ICBA member bankers appreciate this. The $37 million-asset CountryBank USA in Cando, N.D., used to spread its investments among a few brokers, but now ICBA Securities gets all of the bank’s portfolio management business. “Even when we bought from someone else, we’d always check with ICBA Securities to be sure we were getting a fair price,” explains Terry Jorde, president and CEO. “Now we buy everything there. The reps really understand community banks and come to Cando to meet with our board,” she adds. “They’re like part of our management team.” She is a past chairman of the board of directors for ICBA Securities.

The close tie between ICBA Securities and the bank regulatory agencies was well established before ICBA Securities sold its first security in 1989. It was Owen Carney, the OCC’s capital markets specialist, who first suggested that ICBA help its members with their securities business, Pickering recalls. “That was a bit of a shock, a regulator proposing a broker-dealer business move by a trade association.”

“He thought community banks should have at least one place to go where they could be sure they were dealing with honest, competent brokers,” Pickering explains.
“We’ve looked at the regulators’ lists of securities that are suitable for community bank portfolios and made that our standard.”

—C.J. Pickering, ICBA Securities

However odd it may have been, the symbiotic relationship was embraced and continued by both sides. When a securities dealer incorporates bank regulations into its policies and business model, examiners have less to worry about. And built-in compliance means smoother examinations for bankers.

Educating the Bankers
Pickering took one more lesson from the OCC’s guru. Carney had an elderly aunt on which he based a rule, recalls Pickering. The rule was this: if Owen couldn’t explain it in a way that his 85-year old, well-educated aunt would understand then he probably needed to simplify his explanation. It’s a rule that has served Pickering well when talking to bank CEOs and CFOs who admittedly do not have 40 hours a week to devote to the securities market.

“I often ask during seminars how many people at the bank are devoted entirely to the lending function. For a $100 million-asset bank the answer is usually six to 10. Then I ask how many full-time people are devoted to the bank’s investments,” Pickering says. First nervous giggles ensue before the bankers admit that there is usually not even a single person devoted to investments one day a week, he says.

“That’s why we spend the time on education—to help these decision makers quickly and easily have a better understanding of investment management. We try to get them enough information through spring training, through schools, through articles—to help them become better investment decision makers.”

Complementary Role
ICBA Securities is different from the other ICBA Services Network companies in one regard: It does not support products and services banks can then offer to their customers. It simply provides trading and support for the banks’ own investment portfolios.

Says Pickering, “Banks make more money and provide better service to their communities by making loans. We get what’s left over after they’ve made whatever good loans they can. And that’s the way it should be.”

The investment portfolio is the bank’s balance wheel, Pickering points out. “It takes a long time to change a loan portfolio or a deposit mix, but an investment portfolio can be rebuilt immediately. When bankers need to change their asset-liability mix or tax structure, they do it most easily through the investment portfolio,” he explains.

An ambitious education program helps community bankers learn about securities and portfolio management techniques and helps draw new clients to ICBA Securities. Last year, 1,500 bankers attended 31 ICBA Securities’ seminars and workshops. Top programs include two schools—a basic investment course in the spring and an intermediate level one in the fall. OCC and FDIC supply some of the instructors. “No other broker-dealer offers the level and variety of educational programs,” says Pickering, who thinks that if he hadn’t become a broker he might well have pursued education as his calling.

“I’m not just teaching, I’m always learning from the bankers in my seminars,” Pickering says. “What I
learn in one seminar, I’m telling bankers in the next one.”

One of the biggest differences between the managers of high performance and low performance portfolios is that the high performers plan ahead; they understand their investment needs now and under various future rate scenarios,” Pickering says.

“ICBA Securities offers great tools for measuring and evaluating the bank,” Jorde testifies. “You get free quarterly performance reports that are very useful for asset-liability management. The reports contain everything the examiners look for.”

Always on the go, Pickering (on travel an estimated 40 percent of all weekends) relishes his work and doesn’t consider it a typical “job.” “I get to meet with old friends on virtually every business trip I take. It really is a mix of work and pleasure, and it’s hard to differentiate between the two.”

Richard H. Gamble is a freelance writer in Grand Junction, Colo.

A Snapshot

Registered Representatives: 122
Offices: 10
Years in Operation: 14
Contact Info: (800) 422-6442
Web site: www.icbasecurities.com

Services: Execute buy and sell orders on a full range of approved securities for community bank investment portfolios; portfolio performance reports; extensive schedule of schools and seminars for portfolio management training.