Portfolio managers use ICBA Securities tools to make effective decisions with long-term benefits

By Jim Reber

In which of your bank's vendor relationships do you have the strongest faith? Many community bankers have noted their greatest trust is reserved for their securities broker, and they have recited a litany of reasons why.
For most, it’s a matter of time constraints. The typical community bank has roughly 25 percent of its institutional assets in investments, yet very few portfolio managers spend a quarter of their time managing the portfolio. Sometimes, a banker isn’t comfortable with the complexities contained in an offering, and he or she is reluctant to admit it. Other times, a board or investment committee mandates that certain restructurings be done, and the banker relies on the broker relationships to execute and document the trades.

So let’s consider those tools at a portfolio manager’s disposal that have proven invaluable for numerous community bankers; many of these tools—and this may sound heretical coming from the institutional broker/dealer industry—can actually result in less reliance on a broker. This can produce a greater pride of ownership for the banker, and it needn’t be at the cost of lower performance, either.

**Quarterly Blueprint**

If you’ve read the Portfolio Management column featured in ICBA Independent Banker over the years, you’ve heard about ICBA Securities’ comprehensive portfolio review, which approximately 1,400 community banks have elected to use each quarter. A growing number of ICBA member banks have made the review process part of their day-to-day institutional investment decision-making.

“One of the best things about the Performance Profile is how it compares us to our peers, and it’s not an abstract peer group,” says Mike Daniel, chief financial officer of Old Fort Bank in Old Fort, Ohio. “It’s real competitors, other community banks.

“Our portfolio has some uniqueness, so I’m speaking directly with my ICBA Securities rep, and we both have the Executive Summary page open when we make investment decisions. The Profile is a great educational tool, and it gives me a clear picture of my durations and cash flows.”

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– Mike Daniel, Old Fort Bank

In short, by continual reference the document’s Executive Summary and its accompanying Observations and Recommendations, the “best and highest use” doctrine can be applied to the next purchase, and to the next and the next.

**Market, Portfolio Updates**

The ICBA Securities Web site (www.icbasecurities.com) has a wealth of data loaded in its proprietary system and is based on data from more than 2,000 banks. The data is automatically updated and provides a host of benefits for users. For example, all of the “optionality” of a community bank’s...
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callable bonds is recast each week. With the recent volatility in the agency debt markets, a portfolio’s liquidity could have experienced some serious whipsawing. The Cashflow Ladder and the Scenario Call Report can be requested and received by the banker online in seconds. These reports provide a great tracking mechanism for near-term liquidity management.

Also, ICBA Securities creates two market newsletters available by e-mail. The Market Today is distributed by 8 a.m. Central Standard time every business day. It encapsulates the previous day’s activity in the fixed-income markets and discusses the morning’s economic data. The Market Review comes out every Friday afternoon and recaps the week’s markets and the upcoming economic calendar.

Both publications contain tables that display available yields on popular community bank investments. Banks can register to receive either or both at ICBA Securities’ Web site.

Cost-Effective ALCO
ICBA Securities’ interest rate risk model, Risk Manager, has steadily
gained users since opening for business about five years ago. Wade Oliver, director of asset-liability management for ICBA Securities, and his colleagues provide community banks with a variety of options for quantifying their exposure to rate changes. Their base of community bank clients has grown organically, as more banks have been “encouraged” by regulators to seek third-party help with asset-liability management. It is not uncommon for community banks with less than $100 million in assets to have an outside service provider create a series of reports that document their interest rate risk.

Earle Harvey is president and CEO of Border Trust Co., a $92 million-asset community bank in Augusta, Maine, and a Risk Manager client. He was compelled to contract out the service once he realized his decision-making regarding investment purchases were of the seat-of-the-pants variety.

“Our previous model, in addition to being three times more expensive than Risk Manager, didn’t give my ALCO an understandable summary,” says Harvey. “We use it to make direct investment decisions, to price our commercial loans and to set all our deposit rates. And we’ve found it stands up very well to back-testing.

“It’s not just a regulator-pleaser. All of our branch managers, all of our loan officers, and most of our operations staff receive and review the results. It is an integral part of day-to-day business at the bank.”

Jim Reber is president and CEO of ICBA Securities, ICBA’s institutional broker/dealer. Reach him at jreber@icbasecurities.com.