

Building Your Portfolio Ladder

Association of Indiana Counties

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Why Ladder?

Interest rate protection – Who can tell me with certainty where rates will go? Shouldn't be betting on rates!!!! Most prudent thing to do?

Liquidity needs – Regular maturities to help meet unplanned liquidity needs.

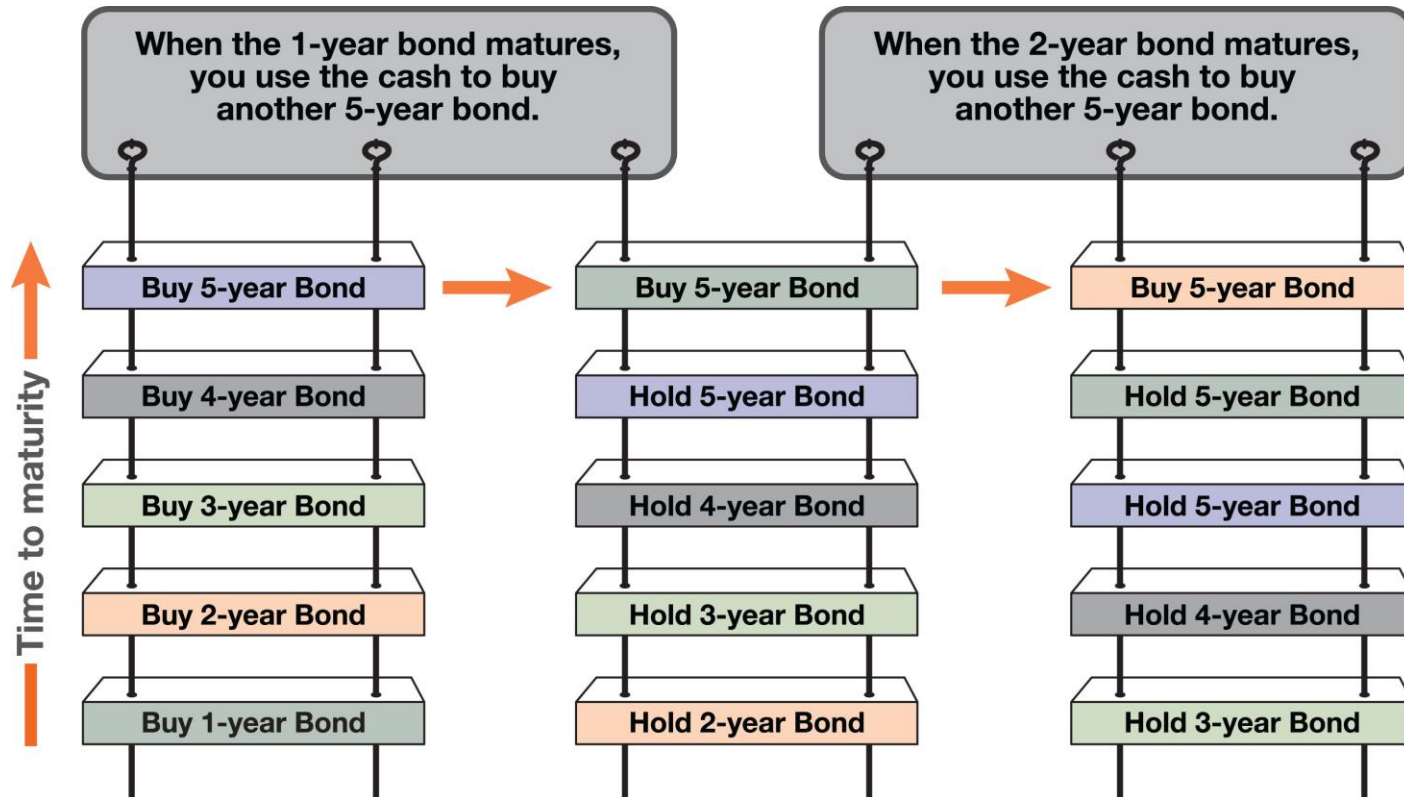
How Much Should You Ladder?

Need liquidity for operations, including allowing for a special situation

Need to fund bond maturities and other expected cash outflows

Regulatory constraints

How Bond Laddering Works



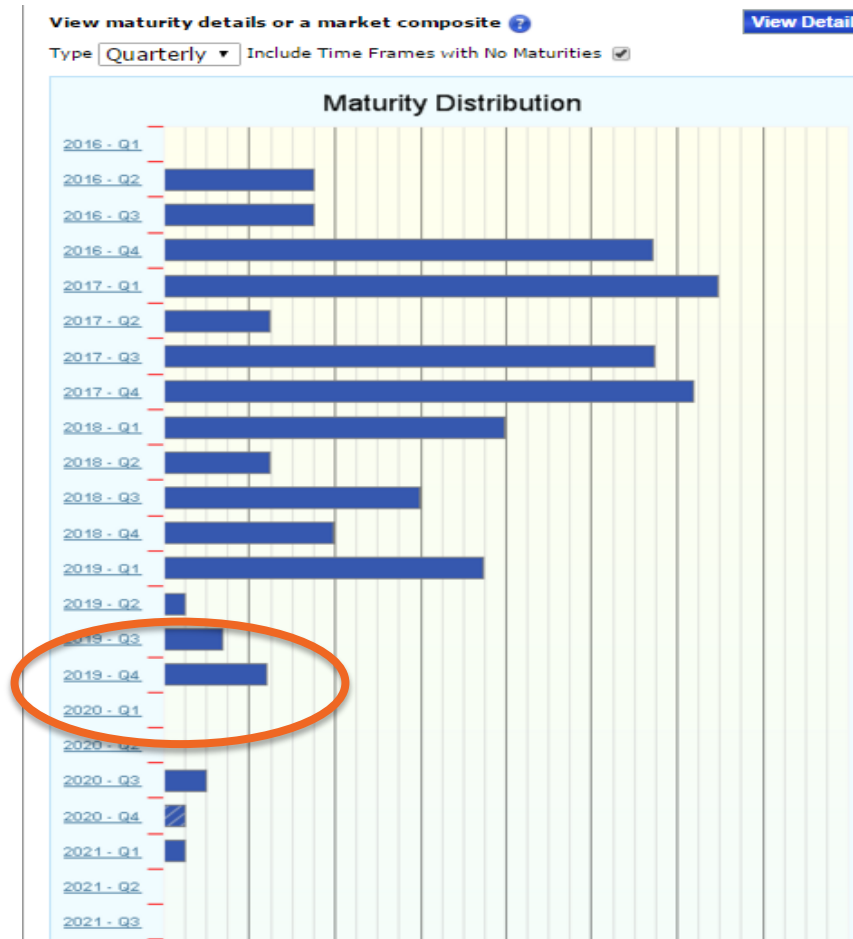
Need-to-Know Terms

WAM – Weighted Average Maturity

WAL – Weighted Average Life

Market Risk – Market value fluctuations caused by *macroeconomic* factors

Example of Portfolio Maturities



Ladder Examples

1-year ladder – Quarterly rungs, monthly rungs, weekly rungs? WAM of 6 months - 6 month part of the curve

2-year ladder – Quarterly, monthly, semi-annual rungs.
WAL of 1 year

4-year ladder – Quarterly, semi-annual, annual rungs.
WAL of 2 years

\$1MM Ladder Example*

*assuming static rates

2-year ladder vs. pools/deposits

Pool/deposit rate assumption = .50% = Total income of \$10,000

vs.

\$250,000 @ 6 months @ .45% = \$562.50 + \$2,812.50 = \$3,375

\$250,000 @ 1 year @ .60% = \$1,500 + \$1,875 = \$3,375

\$250,000 @ 18 months @ .70% = \$2,625 + \$937.50 = \$3,562.50

\$250,000 @ 2 years @ .75% = \$3,750

Total income = \$14,062.50

Difference of \$4,062.50!

\$1MM Ladder Example*

*assuming static rates

4-year ladder vs. pools/deposits

Pool/deposit rate assumption = .50% = Total income of \$20,000

vs.

\$250,000 1 year @ .60% = \$1,500 + \$7,875 = \$9,375

\$250,000 @ 2 years @ .75% = \$3,750 + \$5,250 = \$9,000

\$250,000 @ 3 years @ .85% = \$6,375 + \$2,625 = \$9,000

\$250,000 @ 4 years @ 1.05% = \$10,500

Total income = \$37,875

Difference of \$17,875!

\$1MM Ladder Difference to Your County

The 2-year ladder **increases** your income by \$4,062.50 over the life of the ladder.

Light bulbs, office supplies, equipment?

The 4-year ladder **increases** your income by \$17,875 over the life of the ladder.

Enough for some new equipment, part-time assistant, added services?

\$4MM Ladder Example*

*assuming static rates

2-year ladder vs. pools/deposits

Pools/deposit rate assumption = .50% = Total income of \$40,000

vs.

\$1MM @ 6 months @ .45% = \$2,250 + \$11,250 = \$13,500

\$1MM @ 1 year @ .60% = \$6,000 + \$7,500 = \$13,500

\$1MM @ 1.5 years @ .70% = \$10,500 + \$3,750 = \$14,250

\$1MM @ 2 years @ .75% = \$15,000

Total Income = \$56,250

Difference of \$16,250!

\$4MM Ladder Example*

*assuming static rates

4-year ladder vs. pools/deposits

Pools/deposit rate assumption = .50% = Total income of \$80,000

vs.

\$1MM @ 1 year @ .60% = \$6,000 + \$31,500 = \$37,500

\$1MM @ 2 years @ .75% = \$15,000 + \$21,000 = \$36,000

\$1MM @ 3 years @ .85% = \$25,500 + \$10,500 = \$ 36,000

\$1MM @ 4 years @ 1.05% = \$42,000

Total Income = \$151,500

Difference of \$71,500!

\$4MM Ladder Difference to Your County

The 2-year ladder
increases your income
by \$16,250 over the life
of the ladder!

New office equipment?

The 4-year ladder
increases your income
by \$71,500 over the life
of the ladder!

New safety vehicles?

Think about what a difference laddering
out \$10,000,000 could make!

Remember

We are buying U.S. Treasury securities, which carry the ***full faith and credit of the U.S. government.***

The yield on GSE debt (FNMA, FHMLC, FHLB, etc.) should even be better.

What is the Real “Cost”?

Daily liquidity – **DO NOT** ladder out funds that you might need next week or next month. This strategy requires some Asset Liability management. Keep “rainy day” funds liquid and anticipate future cash outflows like bonds, buildings, etc.

Taking on market risk – Could face losses if sold **PRIOR TO MATURITY.**

Thank You

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Questions?

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