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Municipal Portfolio Management: Credit Risk and Regulatory Requirements

JC BREW, Senior Municipal Bond Analyst, Seifried & Brew LLC | July 25, 2013

The new regulatory environment demands elevated scrutiny of each community bank's investment portfolio, including and especially municipal bonds. Seifried & Brew's (S&B) propriety, independent, third-party Municipal Bond Ratings are tailored to meet the new regulatory guidelines and the expanding needs of community banks.

Credit risk is the mother of all risk. In the Post-Great-Recession age we live in, of uncommon markets and volatile economic forces, a multitude of forces compound investment credit risk. Municipal bonds carry with them a set of credit risk attributes as wholly unique as the earning quality of the investments itself. With the largest municipal default of all time looming, the City of Detroit, bondholders are asking: ***Who will be next?*** Even some school districts are losing their stability. With pension systems underfunded, many school districts must make higher pension contributions while states cut districts' aid. Some underfunded districts return to the state for intercept aid. In the case of Michigan, some cash-strapped districts could be dissolved under new law. Local governments are being stressed by local and global forces: ***Do you know which local governments have the highest risk?***

During the Great Recession, many community banks suffered tremendous losses and started to question the prudence of relying on a handful of rating agencies. Congress and then the OCC and FDIC regulators agreed and responded with new regulatory demands. Banks must now independently assess whether the credit quality of their investments, including municipal bonds, qualifies as investment grade. The questions facing every community bank at this time are these: Will we be best served by conducting our own internal credit analysis, aided by research from our broker dealer? Or, will we heed the regulatory warning, raise our due diligence on credit risk, ***and seek an independent, third-party credit research firm with foresight, experience, and objectivity***?

S&B asserts the vital importance of employing independent, third-party analysis for the review of every community bank's municipal bond investment portfolio. S&B's work is independent and unbiased, not impacted by the bank's history or relative earning ability of each bond. As a third party specializing in municipal credit research, S&B has analyzed numerous and varied bond issues and knows what is important to look for in each type of bond. S&B's process is thorough, methodical, and highly analytical. S&B knows that portfolio management decisions are important to community bankers who like to be involved in the analysis process. S&B maintains a dialogue during the rating process, especially in regard to credits with evidence of higher credit risk.

S&B offers a variety of products to meet regulatory requirements. These products have sufficed for regulatory examinations, from the broad **S&B Portfolio Surveillance** to the in-depth **S&B Comprehensive Report**. The ratings for each product are based on the same level of quantitative analysis. More in-depth products are recommended for higher risk credits, including higher credit risk or a non-rated or uninsured rating status.

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