Glossary

Bond	A Debt instrument
Bond Issuers	US Government, US Agencies, Municipalities, Corporations
Coupon Rate	Amount of interest that a bond issuer promises to pay investors
Current Yield	Bond Coupon divided by bond's coupon by its market price.
Discount	Market Price is LESS than its Par Value
Duration	Calculated using the average weighted maturity of all the cash flows associated with the bond; used as a measure of how sensitive a bond's price is to interest rate movement
Maturity Date	Date when a bond's life ends and the borrower must make the final interest payment and repay the principal.
Par Value	Face value of a bond, which the borrower repays at maturity.
Principal	Amount of money on which interest is paid
Premium	Market Price is GREATER than its Par Value
Yield to Maturity	1. Annual rate of return on a bond when it is held to maturity, assuming that all coupon receipts are reinvested at the Yield to Mat. 2. Discount factor that makes Present Value of Interest Payments equal to the current bond price.

Treasurer's Primary Activities

- Manage Securities Portfolio
- Manage Liquidity and Interest Rate Risk
- Obtain Wholesale Funding
- Maintain Adequate Collateral

Security Type

U.S. Treasury Bills/Notes/Bonds	Lowest credit risk/lowest yield of all securities. Only acceptable form of pledging collateral
Agency Bonds	Issued by Federal Government Agencies Implicit U.S. Guarantees FNMA: slightly lower credit rating and slightly higher yield than Treasuries GNMA: Mortgage Backed Securities ("MBS") Higher yield due to prepayment risk Qualify as "mortgage related asset" for FHLB advance eligibility
Municipal Bonds ("Munis")	Bonds issued by State and Local Governments Varying degrees of credit risk Tax Free interest Tax Equivalent Yield = Yield / (1-Tax Rate) When available, Purchases limited to 10% of Par Value Outstanding

Security Type (cont)

Asset Backed Securities (ABS)	Securitized loans pools Credit Card Car Loan Outstanding bonds of various terms and credit ratings Fixed rate Variable rate LIBOR Fed Funds

Wholesale Funding

Jumbo CDs	(Fixed or Variable)
FLHLB Borrowings	(Fixed or Variable)
Other Borrowed Funds	• Public Deposits (Demand, Time Deposits)
	• Non Customer Time Deposits

Why Buy/Sell Securities?

- Manage the Bank's Liquidity position
- Improve the Portfolio Yield
- Realize Capital Gains or avoid future Losses
- Manage Collateral supply
- Mitigate Credit and Prepayment Risk
- Adjust the Bank's Interest Rate Risk

Purchase/Sale Decision Factors

- Yield Curve Changes
- Interest Rates/Economic Cycle
- Duration
- Collateral Needs
- FHLB Borrowing Eligibility
- Bank's Asset Yield/NIM Impact
- CRA Needs
- Credit Risk
- Balance Sheet Structure

Duration

Duration is impacted by Coupon and Maturity	All things considered equal, a Bond will have a higher Duration the: ▸ *Smaller the Coupon* ▸ *Longer the Maturity*
Duration of a Floating Rate Instrument	Equal to the Rate Adjustment period
A higher Duration portfolio will have greater volatility	Rising rates will result in lower market value and unrealized losses
You can rapidly change the Bank's Asset Duration by selling high Duration bonds and replacing them with low Duration bonds (and vice versa)	

Bond Price See Saw