The FDIC's Dilemma

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Pssst? Want to buy a low-interest bond?

That's basically what the Federal Deposit Insurance Corp. is saying to investors, who are understandably not eager to take them up on the offer. The bonds in question are part of the $114 billion in debt obligations that the agency acquired when it took over the failed Silicon Valley Bank and Signature Bank. Included in that overall foreclosure are $12.7 billion in so-called Ginnie Mae project loans, which were made to developers to build and renovate apartments for low- or moderate-income families. Those developers took out those loans before the recent rise in interest rates, which means they are paying investors (in this case, the government) much lower coupon returns than comparable newly issued debt.

Bloomberg has reported that the total pool of these project loans is nearly as large as the average yearly issuance for these types of securities, which means that dumping them on the market will shift the supply and demand equation fairly dramatically, further depressing the bonds' attractiveness in the marketplace. And yet the FDIC doesn't have a mandate to hold the bonds until maturity.

What to do? It's possible that somebody will take these stinkers off the hands of the government. But right now, the lesson is that whenever the government has to take over a bank, there's a good chance the assets it seizes in the process aren't going to be tremendously valuable. That's why the banks went under in the first place.

Source:

https://www.advisorperspectives.com/articles/2023/09/13/us-looking-offload-nearly-13-billion-mbs-seized-svb-signature

If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number (215) 325-1595 or you can click here to schedule a meeting.

Please feel free to forward this article and offer to anyone you know who might have financial questions or need some unbiased advice. Most financial advice is sales advice. In stark contrast, we are fee-only (non-commissioned) fiduciary advisors. We just provide truthful, unbiased advice to our clients.

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