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UMB Financial Corporation Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you. (Operator instructions) Your first question comes from the line of Christopher McGratty from KBW. Please go ahead.

Christopher McGratty – Keefe Bruyette & Woods

Good morning.

Mariner Kemper

Good morning.

Christopher McGratty – Keefe Bruyette & Woods

I notice a pretty material widening between the spread on your wholesale borrowing cost this quarter and securities yield, which obviously provide some support to the margin expansion. Wonder if can just comment on the outlook, the sustainability of this trend and then maybe a few comments on the outlook for the margin.

Mike Hagedorn

Yeah, good morning, this is Mike Hagedorn. First, I would say we don't look at those two lines by themselves. We manage the entire balance sheet, and especially our funding sources and our outgo process in its totality. But admitting that, core deposit growth clearly makes us less dependant on wholesale funding, and you can see that when you look at the quarter-over-quarter numbers, they were down almost \$100 million in Fed funds and repo. The yield leverage is basically driven by the Fed funds decrease. So, clearly the yield on our borrowed funds has gone down. But then again I would point out that our loan-to-deposit ratio being where it is today, clearly makes us much less dependant on net interest margin for our total bottom line growth. And so, while sequentially, yes, the investment portfolio was down 19 basis points and funding is down 119 basis points, and that certainly provides some net interest margin leverage. We don't manage it that way. We manage it in its totality, and I think you should look at our other funding sources, especially the way we grew core funding and deposits in the second quarter.

Christopher McGratty – Keefe Bruyette & Woods

Okay. That's helpful. Now, in terms of the reinvestment yields that you discussed (inaudible) of the balance sheet and what the incremental yield pickup or decline is and it seems this is the second

quarter in a row that we have seen securities rolling off at a higher yield and the lower reimbursement yield. Now, obviously, it surprised me in terms of the margin this quarter and the degree of expansion, but is that going to weigh on the margin going forward?

Mike Hagedorn

Yeah, as I mentioned in my comments earlier, clearly it's going to – we are not going to invest at least right now with our expectations for interest rates at the end of the year. To be reinvesting our investment portfolio run-off at yields that even come close to even equating what we had. However, that depends upon what the Fed does with interest rates and whether or not we shorten down to take advantage of potential increase in Fed fund rates in the future.

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