

# BUYING U. S. TREASURY SECURITIES DIRECT VS. USING A BROKER

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More and more associations are investing in U. S. Treasuries, primarily T-Bills and T-Notes. The associations are generally avoiding the longer term, and much more interest rate sensitive, T-Bonds. Based on my own observations, such investments have usually been made through the association's investment advisor, generally an account representative from one of the large brokerage houses.

**The Treasury Direct Program** - Recently, however, I am seeing associations taking advantage of the Treasury Direct program, bypassing the broker. Why? Perhaps for some minor fee savings on transactions. Perhaps to hold the securities in their own name, rather than through a brokerage house. Perhaps to maintain total control over their own investments. Or even, perhaps, just to maintain confidentiality.

**Three types of U.S. Treasury securities are available.** **T-Bills** are sold in 6 and 12 month maturities, and are available in \$1,000 increments from a minimum of \$10,000 to a maximum of \$1,000,000. **T-Notes** are sold in 2 and 5 year maturities, and are available in \$1,000 increments from a minimum of \$5,000 to a maximum of \$5,000,000. **T-Bonds** are sold in maturities ranging from 2 to 30 years, and are available in \$1,000 increments to a maximum of \$5,000,000.

**Buying and selling securities** - T-Notes and T-Bonds may be purchased directly from the Federal reserve bank, or by writing the Bureau of Public Debt, simply by issuing a certified or cashier's check. T-Bills require a little more effort, as you must establish an account with the Federal Reserve (Fed). Treasury Direct, however, is trying to be as user friendly as possible. The Fed just made it a little easier by creating a single "tender" form to purchase any of the three types of investments, once an account has been established. You may also opt for an electronic transfer of funds

## Executive Summary

*"It's easier than ever to invest in U. S. Treasuries direct, but is it the wisest action for the association? This article attempts to examine the benefits of investing 'direct' versus using the services of an experienced investment advisor in making association investments."*

from your bank or brokerage account to pay for your securities purchase, thereby eliminating having to issue a check. No fees are charged for this service. You may also have interest and maturities of investments directly deposited to your account. You will receive a notice of maturity of securities in time to allow you to make a decision to rollover your investment or accept the maturity. If you decide to rollover the security, you are given a code so you may do it simply by entering the code on a touch-tone phone. If you don't decide to roll the security over, the maturity will be deposited directly to your specified account. If you want to sell prior to maturity, simply send a form to the Chicago Federal reserve bank. They will get three price quotes from brokers, accept the highest, and deposit the proceeds to your account within two days. A \$34 fee is charged for securities sold. An alternate method is to use the below listed web site to sell securities.

**To open a Treasury Direct account**, you must submit a completed "Treasury Direct Tender Package." You may obtain one by calling your nearest (or any) Federal Reserve Bank (Los Angeles' telephone number us (213) 624-7398) or calling the automated telephone service at the Bureau of Public Debt at (202) 874-4000. You may also download the forms from the Treasury Direct web site at [www.publicdebt.treas.gov](http://www.publicdebt.treas.gov). **Using an Investment Advisor** - When asked, I have generally urged my association clients to use the



## **Buying U. S. Treasury Securities Direct vs. Using a Broker (continued)**

services of a professional investment advisor who is very familiar with the industry. My goal in doing so is not to curry favor with an investment advisor, or create income for an investment advisor, and certainly not to imply that an investment advisor could perform better than a particular member of the association's board or finance committee. Rather, the simple reason is to provide the market knowledge, industry knowledge and experience, safety, and continuity of an independent investment advisor for the association.

I have encountered board and finance committee members who are very qualified to perform this service free of charge for their associations. But what happens when that person is no longer able or willing to do this for the association? Is there anyone equally qualified to perform this task? Unfortunately, I have also encountered individuals who believe they are, but don't measure up to the task. If that person makes a mistake that costs the association money, who can you turn to?

Using an independent advisor minimizes the risk of a mistake, and also gives the association at least a hope of recourse against a third party.

The professional advisor is generally someone who knows the investment market, and generally has a listing of appropriate investment vehicles for associations, which may include a list of banks who are considered "safe" for purposes of Certificate of Deposit investments. The professional advisor is generally familiar with laws affecting community association investments, and will review the association's controlling documents to make sure that investments meet any criteria specified in the documents. The professional advisor will also review the association's reserve study to make sure that any investment maturities meet the cash flow needs of the study. Finally, the advisor will make sure that the investments are within the limitations of the association's

investment policy. If the association does not have an investment policy, a good advisor will help the association create one, to provide appropriate limitations and continuity.

**The Auditor's Perspective** - As the auditor for the association, my responsibility is to obtain sufficient competent evidential matter supporting investments held by the association. When an independent brokerage house is used, obtaining evidence is a relatively simple matter; I simply request written confirmation from the broker of investments held at year end. This is generally considered to be the highest level of audit evidence that can be obtained. When the association uses the Treasury direct program, I have been not been successful in obtaining confirmation from the Fed of the account balance at year end. This is not the end of the world, as I can examine the actual securities and transaction slips for purchases of securities. Documentation (the security) obtained from a third party (the Fed) is considered to be the next best level of documentation.

**Summary** - The association should carefully consider the option of using Treasury Direct. While Treasury Direct may be an appropriate option for some, using a professional investment advisor may be more appropriate for others. The association should compare the benefits of each option, and determine which is best for them. The association should also keep in mind that things change over time. For example, a board member may be qualified to use and enjoy using Treasury Direct. But when the task is turned over to his successor, who is not qualified to make investment decisions and does not enjoy using the direct method, it may be time to change to a professional advisor.

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