Saxon Securities Take Aim at Low-Yield Corporate Deposits

FinTech Connect was recently joined by Ned Lucia, Managing Director and Co-Founder at Saxon Securities to get his expert opinion on the impact of alternatives to low-yielding commercial bank deposits, their role as a fiduciary and the next-generation technology platform set to corner the market for non-operational corporate cash investment.

FinTech Connect: Whilst cash deposits traditionally provided a pivotal and secure source of funding and value to banking titans, multi-million dollar corporate depositors have encountered regulatory-led pressures rendering cash the single most risky, business asset in a contemporary corporate finance environment. With corporate depositors accused of pressuring bank margins and heightening liquidity risk concerns; do you envisage banking regulation impinging upon the commercial deposit market?

Ned Lucia: A few central banks have started charging commercial banks for their overnight deposits in the form of negative interest rates on reserves that are in excess of specified levels with the central bank. Negative rates are an attempt by central banks to prod commercial banks to lend more money to businesses and consumers rather than maintain large balances with the central bank.

Pictured above:
Ned Lucia, Managing Director and Co-Founder, Saxon Securities

This policy in turn puts pressure on commercial banks to penalize corporate depositors for placing large deposits with those banks. An alternative to placing one large deposit with a commercial bank is to utilize FDIC-Insured Saxon CD Accounts to distribute smaller (government guaranteed) deposits with many banks.

FinTech Connect: Saxon Securities was founded in 2010 coinciding with the introduction of a complex marketplace for short-term corporate investment. How has the corporate stance on custom-building, yield-enhancing portfolio construction evolved following the global financial crisis?

Ned Lucia: Corporate treasury has continued to rely heavily on money funds, but with the impending regulatory changes to the pricing of money funds, there has been greater interest in cash alternatives. An FDIC-insured certificates of deposit portfolio with built-in laddering to match cash flow requirements is such an alternative.

FDIC-insured Saxon CD Accounts provide an alternative for non-operating cash that meet corporate investment policy requirements for safety and liquidity and may generate higher yields than alternative U.S. Government-backed securities.

FinTech Connect: How does Saxon Securities' technological offering distinguish your capabilities from that of a traditional trading desk?

Ned Lucia: Saxon Securities leverages scale from our technology offering. The Saxon platform has the ability to source and purchase odd-lot CDs flawlessly. Whereas the traditional trading desk and other platforms only buy at the insurance level because of limited or non-existent capabilities to track multiple holdings per bank, our platform has the ability to keep track of the total insurance exposure to one bank for multiple CDs as well as the reinvestment requirements upon maturity. These odd-lot CDs have little market demand resulting in higher yields to the client's portfolio.

FinTech Connect: Both capital preservation and liquidity of cash reserves are cornerstone values for corporate treasurers in a period of economic uncertainty and interest-rate risk. With 'liquidity fees' and redemption gates gaining traction under proposed money market fund reform rules set to be introduced in October, are certificates of deposits are in danger of falling outside of conservative investment policies?

Ned Lucia: No, we believe that the certificates of deposits will continue to be federally insured, with the Dodd-Frank act increasing deposit insurance to $250,000 (principal plus interest) per tax ID.

FinTech Connect: Can you expand on Saxon's role as a fiduciary – are client-specified parameters central to how certificates of deposits are brokered?

Ned Lucia: Saxon Securities provides fiduciary execution to each client. Whereas broker dealers trade their trading desk's inventory, Saxon Securities sources the entire primary and secondary CD market to obtain the best pricing for its clients according to the client-specified investment parameters. Our platform also rebates distribution fees directly to the client's account; trading desks keep these hidden fees for themselves.

FinTech Connect: Saxon Securities are delivering an effective cash management tool for corporate treasuries with security in the FDIC government guarantee, daily liquidity, convenience through the technology platform and historically higher yield than U.S. treasuries. How is Saxon able to guarantee relatively higher yields for corporate deposits in a low-rate environment?

Ned Lucia: Saxon Securities' FDIC-insured CD portfolio utilizes deposits issued by commercial banks that have historically maintained a positive spread over U.S. treasuries. We believe that commercial banks will continue to pay a premium over the same-term U.S. treasury in order to fund the liability side of their balance sheet.

About Saxon Securities

SAXON SECURITIES

Saxon Securities is an SEC Registered Investment Adviser, committed to providing an end-to-end cash management solution to institutions seeking capital preservation. We serve our clients by building institutional-size portfolios of FDIC- insured brokered CDs. Portfolio construction relies on technology to ensure that no client investment exceeds the FDIC insurance limit. We tailor to each client's investment needs by using separately managed accounts held at the client's existing custodian. For more information on Saxon Securities, please visit www.saxonsecurities.com.

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FinTech CONNECT

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