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GBR Wants to Make Derivatives Easy for Issuers

By Peter Heap

When GBR Financial Products Co. started trading a year ago, competitors were skeptical. The minority- owned business was being overambitious, other derivatives professionals said. It would never succeed in a sector that required huge reserves of capital or without a taxable derivatives department to help hedge and manage risks.

But now, after 12 months and a recent name change from GB Derivative Products Co., GBR reckons it has proved its detractors wrong.

Don Rice, the firm's president and chief executive officer, says the success has nothing to do with being a minority business and everything to do with giving customers what they want.

Not only has GBR given issuers new ideas and products to help cut costs, he says, it has also provided them with a much higher level of information and explanation than is customary.

As an indication of the new firm's achievements, vice president and principal Juliet Armstrong pointed out that increases in interest rates have caused business to drop off for some competitors. But at GBR, she said, "We are very busy."

Among the achievements highlighted by Rice was a $40 million, seven-year StairStep swap created for the Dade County (Fla.) Water and Sewer Authority in September, which was unusual because the fixed rate increased in steps over the life of the deal.

Another high point was a $35 million deal for the Texas Veterans Land Board that closed last May. Rice said this transaction was the state's first fixed-to-floating swap as opposed to the more common floating-to-fixed exchange.

Don Rice, President & CEO, GBR Financial Products Co.

GBR's fundamental principle is combining technical innovation with service.

Recalling the inspiration behind the firm, Rice said: "We observed the way firms do things in the swap market. We saw ways we could do things better. Some people had very strong relationships with issuers, some had advanced product technology. We saw the opportunity to combine the two."

The firm's principals have plenty of experience. Rice, who did his first municipal derivative deal in 1986, was previously at Bankers Trust Co. and Merrill Lynch & Co. Armstrong worked at the same two companies after a spell at J.P. Morgan & Co. starting in 1988.

Rice and Armstrong teamed up with Grigsby Brandford & Co., a minority-owned investment bank, to launch the derivatives firm.

"We had good relationships with their people," Rice explained. "We shared the common goal of not just being a participant but moving towards being a premier financial products source."

Don Rice chief of GBR: Some people had very strong relationships with issuers, some had advance product technology. We saw the opportunity to combine the two.

The link helps both parties – Grigsby Brandford gains access to derivatives capability, which can be crucial in winning deals, and GBR can draw on the expertise of its investment banking partner. In addition, a triple-A rated insurance company gives credit support.

On top of its math expertise, GBR believes good communications with customers are vital, particularly as derivatives are so poorly understood- indeed, often misunderstood.

"In our view, the most important thing is that the people we work with understand what we are doing," Rice said.

For example, GBR provides a detailed monthly report to clients, even if payments are only due every six months or annually. With most firms, he said, a client doesn't receive a statement until a couple of days before payments are due.

The monthly report lists the most recent information on the deal, showing how the balance, positive or negative, is building up and giving the PSA index or whatever other figure is used to calculate the value of the swap.