

LUCKY STREAK

by [Steve Brown](#)

Every banker reading this knows the most powerful financial group in the world is the Federal Open Market Committee ("FOMC"). To better understand how the FOMC shapes our lives, however, we begin by explaining that the Federal Reserve ("FRB") system was founded by Congress in 1913. It was designed to provide the nation with a safer, more flexible and more stable monetary and financial system. In fact, the official purpose and responsibility of the group that runs the FRB, namely the FOMC, is to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments. That is a pretty broad mandate, but it basically translates into a small group of individuals with lots of power over the U.S. economy. The group is made up of 12 members, including 7 members of the FRB Board of Governors; the president of the FRB New York; and 4 remaining Reserve Bank presidents (who serve one-year terms on a rotating basis). Traditionally, the Chairman of the Board of Governors (Bernanke) is elected Chairman of the FOMC and the president of the FRB of New York is elected Vice Chairman (Geithner). By law, the FOMC must meet at least 4 times each year; however the group has historically held 8 regularly scheduled meetings. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy and assesses the risks to its long-run goals of price stability and sustainable economic growth. Typically, each member expresses their own view on the state of the economy, prospects for the future and on the appropriate direction for monetary policy. Then each makes an explicit recommendation for the coming period and for the longer run, if under consideration. Using three main tools, the FOMC then influences the demand for, and supply of, balances that depository institutions hold at the FRB. In this way, the FOMC alters the Federal Funds rate. The primary method, open market operations (purchases and sales of securities) affects the provision of reserves to depository institutions and, in turn, the cost and availability of money and credit in the U.S. economy. Two other ways include changing the discount rate (the rate charged to depository institutions on loans they receive from their regional Federal Reserve Bank's discount window), or changing reserve requirements (the amount of funds that a depository institution must hold in reserve against specified deposit liabilities). Finally, a few other interesting FOMC facts: minutes of regularly scheduled meetings are released 3 weeks after the date of the policy decision; twice a year the FOMC submits a written report to Congress on the state of the economy and the Chairman is called on to testify on this report (occurs in Feb. and Jul.); member terms run 14-years; Bernanke is paid \$180k per year; the group has a staff of 1,700 and oversees the 12 FRB banks; and after expenses, the FOMC turns over all of its earnings (about 95%) to the U.S. Treasury. So, if you are among those banks that accurately predicted the last set of interest rate moves and are now feeling pretty lucky, congratulations. Hopefully some of the information just provided will help you keep your streak alive in the coming year.

BANK NEWS

Basel

The FFIEC pushed back the date from Jan 23rd to March 26th to receive comments on Basel II and IA implementation. As mentioned before, we recommend that all commercially oriented banks consider adopting IA in order to receive better capital treatment.

Job Cuts

Sovereign Bancorp (\$90B, PA) announced a restructuring that will close its wholesale loan centers in Atlanta, Indianapolis and Concord, CA. The move essentially pulls the bank out of the nationwide mortgage businesses. In addition, the bank looks to reduce operation staff to achieve a total headcount reduction of approximately 300 positions (3% of its workforce).

Don't Try It

A UBS employee received 8Ys in jail and a \$3.1mm fine for planting a "logic bomb" in the Company's computers. The NJ-based employee was disgruntled after he received a \$32k bonus that he felt should have been \$50k. The malware was successful in shutting down 17k workstations throughout the organization.

Crackdown Coming

Barney Frank, the next Chairman of the House Financial Services Committee is warning bankers to increase lending to military and low income people, while providing alternatives to high-cost payday loans. He said addressing economic inequalities will be a key priority of his. Note that statistics show nearly 20% of military personnel took out high interest loans last year.

Accounting Suit

FNMA will sue KPMG for \$2B on allegations that the auditor failed to properly execute its role as an independent party in reviewing FNMA's financial position. The GSE accused the firm of 17 counts of "negligence and breach of contract" in failing to find \$6.3B in accounting errors related to earnings manipulation, compensation, reserves, deferred expenses and other items. KPMG is expected to counter sue.

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