BASEBALL AND THE FOMC

by Steve Brown

Last night Barry Bonds officially became baseball's home run king, hitting #756 in front of a very loud and appreciative San Francisco crowd. With that swing of the bat, Bonds moved in front of Hank Aaron in the history books. As a fan, whether you love him, hate him, or think he should have an asterisk, it is still an amazing accomplishment when you consider he toiled for 23 seasons to get there. If nothing else, Barry Bonds has certainly been patiently pursuing this endeavor. As with Bonds and baseball, it appears the FOMC is also willing to be very patient. At yesterday's meeting, the FRB left interest rates unchanged at 5.25%, marking the 9th consecutive time they have done that. Overall, the vote was unanimous and while the language was modified to recognize "volatile" financial markets (and that "downside risks have increased somewhat"), it also reiterated the risk posed by inflation (saying "a sustained moderation in inflation pressures has yet to be convincingly demonstrated"). Further, they reaffirmed that the economy is expected to continue to expand at a "moderate" pace over coming quarters. In short, the statement made it clear the FRB was in no rush to cut interest rates in response to issues in the subprime market and that it did not expect losses in the credit markets to hamper the economy's 6th year of expansion. In so doing, the FRB rebuffed Wall Street calls for a more balanced assessment, obviously feeling that such action could have been interpreted as a precursor to a rate cut. The clear signal is that turbulent markets by themselves will not force the FRB's hand and get them to cut rates. The latest GDP projections from the FRB expect the economy to slow to 2.5% for the 2nd half of the year, mostly due to weaker conditions in housing. After the meeting, investors reduced expectations for rate cuts, pushing chances of a rate cut in October down to only a 23% chance, while adjusting December down to only a 41% chance (recall that the December percentage was sitting at 100% just a few days ago). The action produced a strong reaction from some Wall Street firms. Merrill Lynch immediately projected the FOMC would have to cut rates to 3.75% by mid-2008 (as credit market turmoil and falling home prices reduced GDP to 1.5% next year) and Bank of America said the FRB would ease modestly by year-end. Meanwhile, a few other economists took pot shots, saying the FRB is staffed with academics not yet up to speed on the severity of the crisis. For now, however, it is clear that the FRB is content to be patient as it awaits more data on economic strength and inflation before potentially adjusting policy. In so doing, the FRB is clearly indicating it believes it would be more costly in the long-run to allow inflation to stay above trend than market volatility requires immediate action. For bankers, while the strength of the outlook remains relatively good, a flat curve will continue to hurt performance. While volatility will likely continue, it appears that as with Barry Bonds, this is a period where bankers will need to grind it out to improve their hitting percentage.

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registration information

BANK NEWS

M&A

First Guaranty Bancshares, the HC for First Guaranty Bank ($728mm, LA) has agreed to buy Douglas National Bank ($66mm, MO) for an undisclosed amount.

Asset Acquisition

Countrywide will acquire certain assets related to Atlanta-based HomeBanc Corp.'s retail mortgage operations, including 5 branches, for an undisclosed amount.

FDIC Priorities

The regulator released it set of priorities for the 3Q and they include: increased mortgage monitoring, working with the unbanked to bring them mainstream and the finalization of Basel II rules.

Higher Caps

Fannie Mae, the largest U.S. home loan company, asked its regulator to increase the cap on the amount of home mortgages and related securities the company can purchase as a way to increase liquidity in the troubled mortgage market.

Banking Status

A new Harris Poll of the perceived "prestige" of 24 professional jobs ranks bankers 4th; just behind firefighters, scientists and teachers (and just ahead of actors and real estate agents). While most bankers we know don't go in search of ego strokes, it was nice to see the profession ranked ahead of lawyers (13th) and union leaders (17th).

Mobile Banking

Emerging mobile banking services are testing the market. Citigroup Inc. launched a person-to-person (P-to-P) mobile payment trial that allows money to be exchanged through a cell phone. PayPal Inc. is trying out a new service that permits consumers to purchase goods through text messaging. Yodlee Inc. kicked off a new banking service with SMS alerts that give customers real-time financial updates through mobile phones.

CONFERENCE

Join us at the Western Independent Banker's Business Development, Sales and Growth Forum in Sacramento (October 1&2) and Newport Beach (October 17&18). We are among many speakers at this event and are scheduled to discuss "Trends in Deposit Gathering" and "How to Disengage Clients from Big Banks". Bankers can review registration information for this exciting event using the link below.