

## PUTTING THE MYRRH IN SECURED FED FUNDS

by [Steve Brown](#)

The 3 Wise Men got lucky. Like most men, they waited until the last minute to do their holiday shopping. As fortune would have it however, they were able to pull it off. While last minute shopping can be effective, when it comes to gift giving, we suggest CFOs do a little more planning. One thing to put on your shopping list is getting our Secured Fed Funds program approved.

Priced at Fed Funds + 20bp, this is a extra gift that will surely make your shareholders happy with extra earnings. This successful program is in its 9th year with us and has been reviewed by countless banks and entities. This program allows your bank to invest on an overnight basis in Fed Funds are guaranteed by an investment-grade bank and secured by conditional U.S. government receivables (tax refunds).

Each year, households that could use a little extra cashflow, get their taxes done early (either by a tax professional or by one of the popular tax software applications). After the tax return has been submitted, accepted and fraud checked, these households are then eligible for a loan against this refund. One of our client banks, Pacific Capital (\$8B, CA) provides loans for 8 to 15 days and is repaid by the IRS. The size of the funding and the resulting liquidity needs for Pacific Capital is where the Program comes in.

To this end, we invite any of our bank readers to participate on a first come, first served basis (you don't have to be a member of PCBB). The Program will start during the middle of January and run until March (borrowing days are intermittent). On days when Pacific Capital is borrowing, banks either wire their investment into PCBB or have their account automatically debited. We then allocate that day's overnight Fed Funds borrowings on a pro rata basis among participants. Collateral is reported online each borrowing day and will be a minimum of 102% above any outstanding borrowing. This collateral is a conditional receivable from the U.S. government (the pending IRS refund) and a UCC filing perfects investor security interest. The collateral is self-liquidating (automatically paid by the IRS without request) usually within 7 days.

If your bank is one of the 60+ that were in the program last year, you will automatically be sent an Offering Memorandum and an Uncommitted Line form today. If not, but your bank is interested in bringing happiness to your shareholders, then send us an e-mail for the information and kick 2007 off to a profitable start. At a current 4.45% overnight rate, it is the equivalent yield of purchasing a 2Y callable agency.

This year, don't wait until the last minute to secure the gift of gold. Be proactive and get this program approved in order to earn a little extra on your liquidity at the start of 2008. Besides, shareholders really don't know what to do with frankincense and myrrh anyway.

## BANK NEWS

### Prime

As expected most banks announced a change in their Prime reference rate to 7.25% effective at the end of yesterday (which basically means today).

### FNMA

As expected, FNMA followed FHLMC and announced that it will change its historic practice of purchasing mortgages from securitizations after they become delinquent more than 120 days. Under the new guidelines additional conditions will need to be met (like delinquency for 24 months). The move is in recognition that practices need to be aligned with accounting and that a majority of mortgage delinquencies cure themselves instead of thru foreclosure.

### **Financial Turmoil**

The CEO of Bank of America said he expects credit writedowns will increase and characterized earnings expectations through the 1Q of 2008 as "weak." He also called eventual writedowns of CDOs "unknowable" at this point. Meanwhile, Wachovia said it would double its loan loss provision for the 4Q to \$1B to cover credit deterioration.

### **Interest Rate Prediction**

The 3 best interest rate forecasters from last year predict the Fed Funds rate will be cut to 3.50% by the 2Q of 2008. The group indicated higher loan losses, lower loan origination and choppy credit markets would continue to be the primary drivers for the rate cuts.

### **Short-Term Liquidity**

The latest research finds asset-based commercial paper has fallen by 30% since August, as buyer interest remains limited. This is putting a stress on corporations and financial companies, seeking to raise short-term liquidity.

### **Housing**

News remains ugly in the housing sector, with the number of Americans behind on their mortgage payments now sitting at a 20Y high of 5.59% and 3Q housing prices in major cities falling by their largest amount in history.

### **WaMu For Sale?**

Some Wall Street analysts are predicting JP Morgan Chase could buy Washington Mutual, a move that could finally bring the banking giant into CA and FL.

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