NEW COMPETITION

by Steve Brown

Less than 24 hours after the Department of Treasury expanded its powers, the Federal Reserve issued another expansion that essentially puts it in competition with retail banks. Starting July 2nd, the Fed will provide liquidity to the market by originating residential and closed-end home equity loans. Delivering another speech in the Treasury's ornate, and aptly named "Cash Room," Secretary Henry Paulson explained, "The Fed is tired of cleaning up everyone's mess - The President wants Americans to start thinking of the Fed as the lender of FIRST resort." Paulson further elaborated, "Since the U.S. Gov't is quickly becoming the largest holder of residential mortgages, it was decided we should have some say in our destiny and control the underwriting process." Analysts say the Fed has a point since, as a bank, excluding government assets, their loan portfolio now ranks 3rd behind Wells Fargo.

After summer, home buyers can apply directly to the Fed for mortgages up to 80% of the value of their homes or the cost of their iPhone, whichever is greater. The Fed will offer 30Y, 15Y, 10Y balloons, and 30Y ballooning inverse-variable rate jumbos with 15-day resets thru those Internet banner ads with moving targets and dancing babies. In a controversial move, the Fed also said mortgage servicing will be done overseas in an effort to save costs. Paulson agreed that it was ironic that the best places to exploit workers are the world's communist nations, but he argued that the labor arbitrage was just too appealing. Since 401k plans, "flextime," sunlight and clean air aren't required; the Fed estimates that its servicing costs can be reduced by 30%.

Like other banks, deposit gathering will also be an issue, since the Treasury market and CD issuance will now be kept separate. CD's will be marketed under the slogan "the other AAA rated investment" and will be mainly distributed via the Fed's Internet site www.myfedbank.com . Ross Kimpilton, the newly named VP of Marketing, acknowledges that the Fed will have to pay higher than normal CD rates because of its lack of a branch network. "This short coming will be rectified in the future and is one of the reasons the FDIC just increased its enforcement staff. We think we will own an impressive branch network by the end of the year."

Pundits like Larry Kudlow of CNBC's Kudlow & Company raised an interesting point - the Fed will now have to figure out the "awkwardness of examining the very banks for which it is in competition with." Kudlow concluded that while his comments and sentence structure were unusual, the Fed had a solid business strategy. He pointed out that such action would be one of the fastest ways to restore the U.S. dollar. Kudlow also stated, "Listen, the Fed made $37B last year in interest revenue without even trying, think what it could do with a little marketing and better customer service?"

At the risk of stating the obvious, we wish our readers a happy April Fools and say for the record not to believe anything you read in this publication today. We will be back tomorrow, with some serious insight.

BANK NEWS

M&A

Not to be outdone by the Fed, the OCC forced a combination last night of JPMorgan, Citigroup and Bank of America. Comptroller John Dugan said, "You want too big to fail - I'll give you too big to fail." The combination would allow for less regulation and improved capital levels. The move creates a $4T mega bank that is expected to go on a global buying spree, as soon as they can figure out who is in charge.

Bank of England

This morning, the British central bank announced that it will offer free checking to its member banks as a means of providing additional relief to beleaguered institutions such as Northern Rock and the EC. Sir John Gieve, the Deputy Governor of Financial Stability, commented that unlike other banks, our account will be "totally" free.

Really Quasi GSE

After the ex-CEO of Countrywide started up Penny Mac based off the success of Freddie Mac, we are starting two bank funds called BIG Mac and David Mack.

Lehman Brothers

In addition to raising convertible preferred equity, the investment bank announced a debt consolidation loan from MoneyTime,Inc. The I-bank will make single monthly payments of $1.2B for the next 10 years.

Tortured Analogies

Usually as sharp as a 5-blade Gillette razor, we have been lacking. If you Google "tortured analogy,Ã¢Â€Â" 149,000 citations appear. Unfortunately for us, 148,246 of those refer to articles, stories and other fodder contained in previous issues of the Banc Investment Daily.

Expense

In a remarkable feat of expense account wizardry, an Atlanta loan officer turned an expense for a local strip club into a charge for "client sales materials" from a copy shop. The SVP was caught, as the charge of $375.35 for color copies seemed low for Kinko's and merited additional investigation.

Copyright 2021 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.