

DA PLAN, DA PLAN

by [Steve Brown](#)

Back in 1978 there was a popular television show called "Fantasy Island." The show had two main characters, one of which was called "Tattoo." On the show, Tattoo had a tagline he made famous where he would call out "Da Plane, Da Plane," to announce each new group of visitors flying into the island. Since we feel like we have been in a fantasy world lately, we were pleased to see the Senate last night pass "Da Plan, Da Plan." Here are the specifics that community bankers should know, as the legislation now heads to the House.

The Senate approved the legislation by a strong 74-25 vote, with Presidential candidates Obama and McCain voting in favor of passage.

The main portion of the \$849B total legislation package provides the Treasury with access to \$700B in funding allowed in stages. Sweeteners to the package include an additional \$149B package of tax breaks. The first stage of \$250B is available immediately.

Next, the Treasury is allowed to take ownership stakes in companies that participate in the program. The President is also mandated to propose a bill requiring the financial industry to reimburse taxpayers for any net losses on the program after 5Ys.

Further, the Treasury will have to set up an insurance program designed to guarantee troubled assets purchased before March 14, 2008 (Bear Stearns, etc.). It will be funded with risk premiums that will be charged back to the financial services industry.

In addition, the bill reiterates the SEC's authority to suspend FAS 157, which some say has exacerbated the crisis.

It also places limits on executive pay for companies that sell assets or buy insurance from the government.

Finally, it sets up a Congressional oversight panel that will be made up of 5 members appointed by the House and Senate. They will oversee a new committee called the Financial Stability Board (FSB). The FSB would include the Federal Reserve, Treasury, SEC, HUD and the Federal Home Finance Agency.

Sweeteners added to the package in an effort to sway House members included:

1) Temporarily raising the FDIC insurance cap to \$250k from \$100k - this one is great for community banks. Doing this should help keep businesses from moving relationships and allow them to leave more deposits. In addition, while the legislation says the FDIC may not charge banks to cover the increase in coverage, they can raise premiums to cover existing concerns with the insurance fund. The FDIC was also given the power to borrow from Treasury to cover losses as a result of the increased insurance limit.

2) Extending renewable energy tax breaks for individuals and businesses - good for community banks. Customers receive a deduction on purchase of solar panels and other renewable energy installations. This leaves more money in the pockets of small businesses and allows them to be more

environmentally friendly. Good for the economy and good for repayment of loans extended by community banks.

3) Extended expiring tax breaks related to R&D for businesses and the credit that allows consumers to deduct state and local taxes on their federal returns - good for community banks. Anything that strengthens our customers in this environment is a good thing.

4) Another year of relief from AMT - good for community banks. Any tax benefits that could help people save money and start a new business (and take out a loan from a community bank) is a good thing.

In other action last night, the SEC extended its emergency ban on short selling saying the ban would expire 3 business days after the federal bailout bill was enacted, but no longer than beyond Oct. 17.

"Da Plan" now moves to the House for a vote - that is as soon as leaders have enough votes to pass it (tomorrow at the earliest) and have convinced about a dozen members to switch.

BANK NEWS

Harbinger?

We are waiting for someone to notice, but if you mark to market the \$29B of assets (mostly Alt-A mortgage securities) that the Fed guaranteed on Bear Stearn's balance sheet there is an additional \$2B to \$6B loss still to come (depending on how you apply the fair value calculations).

FDIC Premiums

The latest proposal from the FDIC on how to restore the Deposit Insurance Fund includes an additional premium for banks with a heavy reliance on FHLB advances.

Credit Card Limits

62% of banks and credit card issuers have reduced consumer credit lines, with some cuts going as deep as 50%. Delinquencies on credit card payments have mushroomed 12% in 2Q compared to a year ago.

CFO Concerns

A survey by Tower Perrin finds 61% of CFOs worried over access to everyday financing and 65% concerned over long-term financing.

Farmer Mac

The Federal Agricultural Mortgage Corp. took an approximate \$44mm impairment charge on its Fannie Mae preferred holdings, in addition to a \$48mm write down on its Lehman debt holdings. As a result, the GSE faces a capital shortage and is negotiating to shore it up.

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