PUTTING THE MYRRH IN SHORT TERM INVESTMENTS

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 / Short-term investment program approved.

This holiday season, we introduce our annual RAL Pacific Capital funding program with a positive twist. In addition to the traditional uncommitted Fed Funds line, we have added a committed line of credit in order to put more gold coin into everyone's sack. The uncommitted line is priced at Fed Funds + 50bp and the committed line is priced at 15bp upfront and Fed Funds + 200bp. Both of these tranches will surely make your shareholders happier with extra earnings, as it is a lot better than the current Fed Funds rate, Treasuries, Discount Notes or other short-tem investments. This successful program is in its 10th year with us and has been reviewed by countless banks and entities. This program allows your institution to invest on a short-term basis (either overnight through the uncommitted line or on a short-term basis thru the committed tranche) 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) is rated "A2" by Moody's and provides tax refund loans for 8 to 15 days to tax fliers. These loans are repaid by the IRS within 14 day. 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). While registration starts today, actual borrowing activity starts during the middle of January and runs 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. In the uncommitted line, we then allocate that day's overnight Fed Funds on a pro rata basis among participants. In the committed line, banks are obligated to fund up to their maximum amount. Collateral is reported online each borrowing day and will be a minimum of 105% 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 65+ that were in the program last year, you will automatically be sent an Offering Memorandum and an Agreement form today. If not, but your bank is interested in bringing happiness to your shareholders, then send us an e-mail for the information or contact your Relationship Manager and kick 2009 off to a profitable start. The current return on the uncommitted line would be 1.50% if priced today and the current return on the committed line would be 3.00% plus the 15bp upfront for an effective return of about 20% (since it is short-term borrowing). For comparison, a bank would have to take 5Ys of interest rate risk in bullet agencies to earn a similar return.

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 2009. Besides, shareholders really don't know what to do with frankincense and myrrh anyway.

TEMPORARY LIQUIDITY GUARANTEE PROGRAM

The deadline is this Friday for completing the election form on FDICconnect for both the Transaction Account Guarantee and the Senior Debt Guarantee. Yesterday, the FDIC clarified that non-negotiable CDs (not brokered) purchased by financial institutions will not be assessed the Debt Guarantee assessment unless the issuing amount is over $250k to a single financial institutional holder.

BANK NEWS

OD Study

The FDIC released their study that will most likely result in more regulation around overdraft protection. The study found that 80% of banks offer OD protection and of those more than 75% of banks automatically enrolled customers in overdraft programs. The median OD fee was $27. Some 17% of low income customers had at least 1 charged overdraft compared to 11% for higher income customers. On the positive media note, banks earned less than $2B as an industry on OD fees, far less than many media outlets portray.

Mortgages

According to recent estimates, the number of consumers with mortgages 60 days or more past due will reach 7.17% by the end of next year; nearly double this year's estimate of 4.67%. The major driver is ARM mortgages originated several years back, which are now resetting to higher rates and payments.