FINISH LINE IN SIGHT

by Steve Brown

Yesterday, community bankers took one step closer to the finish line in the race against the 20bp FDIC special assessment. Already suffering from a severe economic downturn, community bankers had been losing lots of sleep as they watched and waited for Congress to decide on additional FDIC funding. That news came yesterday in the form of Senate passage of S. 896. Inside the Helping Families Save Their Homes Act of 2009, the Bill increased the FDIC borrowing limit to $100B. That gave the FDIC room to reduce special assessment to a much less onerous 10bp (hasn't officially happened yet, but is now expected given the passage of this legislation).

On behalf of bankers everywhere, we cheer the passage of this critical legislation, as the 20bp fee would have been disastrous for so many community bankers and their communities. We are glad the Senate stepped up and delivered bankers this small victory. For its part, the Bill now moves on to the House, where it is expected to be quickly accepted, passed and then signed into law by the President.

Here are the pieces of this legislation that bankers will want to know. First, the Bill expands the FDIC's borrowing authority to $100B, from its current $30B. This stroke of the pen and expanded borrowing authority gives the FDIC room to not reduce the special assessment fee, but also to shutter some larger institutions some would certainly say have been the "walking dead." We would expect action on both fronts shortly, once the legislation is passed into law.

Next, the legislation extends the temporary deposit insurance coverage increase of $250k through 2013. This increase has allowed community banks to capture and hold onto small business clients even as industry tumult has increased, so we also see this change as a positive one.

Third, the Bill extends the time period for restoring the FDIC insurance fund from 5Ys currently to 8Ys. This change gives banks adequate time to replenish the Fund, without exorbitant fees. At 20bp, bank lending, deposit pricing would have climbed (to absorb the cost) and performance would have tanked. Given the expected change to 10bp, this part of the Bill is also positive.

In an interesting twist, the Bill gives the FDIC temporary borrowing authority of up to $500B to deal with systemic issues. While this action could only be triggered with a two-thirds vote of the FDIC Board, a two-thirds vote of the Federal Reserve and the agreement of the Treasury secretary, it pounds a stake in the ground that further deterioration of any large scale can be dealt with in a straightforward manner. This should help support bank equity prices, as it essentially puts a floor on any issues and gives regulators the authority to move relatively quickly in the event that is needed to solve a systemic issue.

In another change, the Bill gives the FDIC the authority to levy bank holding companies for systemic special assessments if they would benefit from government actions such as the debt guarantee program. This we do not see as positive, in that many bank holding companies (BHC) already have issued TRUPs and may have BHC loans outstanding. By allowing assessments at the BHC level, cashflow is reduced and debt service of some of these instruments could be strained in some situations.

Finally, the Bill gives more authority to the FHA to modify loans and shields servicers from liability for implementing mortgage loan modifications or loss mitigation plans (if they are in compliance with fiduciary duties required by the Truth in Lending Act). The Bill also authorized HUD to establish a 2nd lien on properties, for the purpose of facilitating payment of closing or refinancing costs by a state or locality using funds.

These changes are nearly all good for community bankers, so this morning we begin the day with a spring in our step, as we cheer for this Bill on its way to the finish line.

BANK NEWS

Stress Test Release

After many delays, the results of the Gov't managed stress test will be released at 5pm ET today. At least 6 of the 19 institutions examined will be directed to raise capital. This list includes Bank of America, Citigroup, GMAC, Morgan Stanley, Regions Financial Corp and Wells Fargo.

Risk Council

FDIC Chair Sheila Bair gained traction for the "risk council" concept. Instead of the consolidation of regulators, some, including Bair, propose that an advisory committee of different regulatory body be composed as an oversight addition.

TARP Repay

For banks wishing to repay TARP, word has it that one of the Treasury's conditions is for firms to demonstrate an ability to issue non-FDIC guaranteed debt to investors.

Cutting Costs

As part of its $5B cost reduction plan, Wells Fargo has laid off 548 employees in Charlotte NC and frozen its cash balance pension plan.

SBA Volume

Temporary fee reductions and an increased maximum guarantee helped push weekly approvals for 7(a) loans higher by over 25% and 504 loans up by 33% from Jan. to mid-Mar.