THE EAGLE HAS LANDED

by Steve Brown

Recall that back in Oct. 2008, the Federal Reserve (Fed) adopted a rule that allowed interest to be paid on reserves held at the Fed. The problem with that rule as it existed at that time is that it missed some key components critical to bankers' banks such as Pacific Coast Bankers' Bank (PCBB). The idea of paying interest on excess reserves was a good one from 80k feet, but down in the weeds, Regulation D forced correspondent banks that passed along such reserves through the proverbial meat grinder. Basically, Reg. D required correspondent banks to report customer balances left with the Fed on their own balance sheet, which artificially ballooned assets and resulted in a strain on the leverage capital ratio.

This problem has now been solved, as the Fed has approved final amendments to Reg. D making it much simpler for community banks that use correspondent banks to capture this value, without straining the correspondent banks themselves. It took 231 days from the date interest was allowed to be paid, a visit to Washington DC to see the Board of Governors, lots of Q&A sessions and a bunch of behind-the-scenes legal and technical wrangling/discussion by Fed staff to get this done, but it is finally here and it rolls out on July 2. This really was a collaborative effort by bankers' banks, banking associations and the Fed to fix something that was obviously broken and we thank one and all for their tireless efforts to assist community bankers.

What this all boils down to is that beginning in July, community banks can leave money as usual with PCBB and as your agent, PCBB will automatically reinvest that money on your behalf with either the Fed in excess balances (currently at 25bp) or in Federal Funds (rate can vary), based on your wishes and the structure of the program itself. In short, this ensures community banks get the highest possible rate for overnight funds available in the market on any given day. That is great news for community banks and we are very pleased to say we will be announcing a revised program in the next week or so that will provide more details well in advance of the July 2 launch date.

For the technical folks reading today, the new ruling will no longer have excess balances reported in the FR 2900 report under "Report of Transaction Accounts, Other Deposits, and Vault Cash" as was done in the past. Instead, community banks will report excess balances as "Balances due from a Federal Reserve Bank." The new ruling clearly identifies balances in an excess account as a liability of the Fed to the participants alone and not to the agent, so any credit risk under the structure has also been eliminated.

Another piece of good news as part of the new ruling - when PCBB passes back to our community bank customers interest paid on balances held on your behalf, the payment is not considered a payment of interest on a demand deposit for purposes of Reg. Q.

Finally, for the really technical types, the new ruling also resulted in the Fed making adjustments to its clearing balance policy that it deemed no longer necessary. Changes included: eliminating the "imputed reserve requirement adjustment" to earnings credits, eliminating the "marginal reserve requirement adjustment" and eliminating the adjustment for cash items in the process of collection applied when measuring float costs.

There is some new paperwork that will be required by the Fed to make this happen and some minor nuances to the process, but don't worry about any of it because we'll help ease that burden all the way through.

In addition to these changes, the Fed lifted restrictions on consumer savings account transactions to allow 6 withdrawals or transfers from a savings account in the form of a check. Previously, only 3 checks each month were allowed.

We close by saying thank you to the Federal Reserve for easing the process and allowing community banks to receive this interest. It certainly helps level the playing field with the large national banks.

BANK NEWS

Seattle FHLB

The Home Loan posted a worrisome $467mm capital deficiency at the end of 1Q in addition to a net income loss of $16mm.

GMAC

The troubled lender opened Ally Bank, a new online bank targeted at gathering retail deposits.

BofA

The Bank's CEO, Ken Lewis, said "At Bank of America, we've got enough on our hands right now" and will not be looking for M&A activity in the near future. In addition, the Bank stated that it will look to repay TARP by year-end.

Robbery Website

In an effort to bring down a growing number of bank robberies, the FBI launched www.bandittrackerchicago.com, a website designed to bring more visibility to Chicago bank robbers.

A Retail Eye-Opener

Purchasers of cosmetics have truly opened their eyes about the recession's effect on retail products: lipsticks sales remain stagnate; eye makeup sales, however, are up almost 9% so far this year.