

## STEPPING STONES TO A NEW YEAR

by [Steve Brown](#)

Stepping stones can be found stretching across rivers dotted throughout the US. Many community bankers we know say they feel like they have been carefully stepping across stones in a swollen river this past year. As logs swirl by, the river rises and risks abound; many bankers have been worried about falling into the rapids of asset quality deterioration and a lack of revenue. Much has happened this year in banking and we thought many might like to cross the river with us to 2010. Here are some of the most significant financial (and some other) events of 2009.

**Bank Closures:** During the year, the FDIC closed 140 institutions. Four states with double-digit closures were GA (25), IL (21), CA (17) and FL (14). By month, the FDIC was busiest in Jul (24), Oct (20), Dec (16) and Aug (15). Expect the trend of closures to continue in 2010, with an estimated 150 to 350 more projected in the New Year.

**Regulation:** Regulatory agencies were busy throughout the year, pumping out 75 financial institution letters related to new guidance, rules and policy statements. Major areas of note included: RESPA, Reg Z, BSA, interest rate restrictions on CDs, prudent CRE workouts, how to modify mortgages, required ATM disclosures, prepaid assessments, concentration risk guidance, deposit insurance coverage, TLGP, De-novo regulation extension to 7Ys, ALLL calculations on modified residential mortgages, flood insurance, sweep account disclosures, funding/liquidity risk, ID theft red flags, special assessments, risk management of structured investments, how the FDIC will process deposit accounts when a bank fails and risk management for remote capture. Overall, the busiest month for regulatory notifications was Jun, when 13 were released.

**Economy:** Things remained strained, as we saw the largest industrial bankruptcies in history (GM and Chrysler), dealt with the highest unemployment rate in 26Ys, saw a \$787B stimulus, paid \$3B in cash for clunkers, hit the peak of foreclosures and experienced the largest Ponzi scheme in history (Bernie Madoff stole \$65B). On an international front: the banking system of Iceland collapsed: nationalized banks were more common; the G-20 nations agreed to a \$1.1T plan to stabilize global trade and the dollar; the recession unofficially ended in late Oct.; Dubai World shook financial markets after announcing it could not repay \$60B in debt; the price of gold reached new highs; the S&P 500 climbed 25%; and bond yields ended the year about 125bp higher than where they began. Meanwhile, FOMC Chair Bernanke saved the US from the 2nd Great Depression and was strangely criticized for it; AIG received \$170B in taxpayer funds, posted a \$61B loss and paid executive bonuses of \$165mm much to taxpayer dismay; the Treasury stress tested the biggest banks and they passed; many large banks repaid TARP and home prices found a bottom.

**Interesting:** Barack Obama was inaugurated as the 44th President. The Twilight Saga was hot, as were Twitter (went from 4mm users to 60mm) and Hulu. Captain Scully gave us all hope after he ditched his plane into the Hudson River and everyone survived. Microsoft launched Windows 7 to replace Vista.

**Celebrity Obits:** We also bid farewell to famous faces that included: Michael Jackson, Farah Fawcett, Patrick Swayze, Billy Mays, David Carradine, Steve McNair, Ted Kennedy, Roy Disney, Karl Malden and Walter Cronkite.

Unusual: President Obama won the Nobel Peace Prize just months into his first term; the IOC selected Rio de Janeiro to host the 2016 Olympics; Germany celebrated the 20th anniversary of the fall of the Berlin Wall; the swine flu spread rapidly into a global pandemic; someone pulled the old "fake kid in a balloon" trick on the media; a couple somehow got past security and crashed a White House party; the Navy Seals shot some Somali pirates to save an American trapped on a lifeboat and golfing great Tiger Woods admitted he had affairs, wrecking his image and his marriage.

As step over the last stone and arrive on the other side, bankers remain ever hopeful. We will still have to deal with a weak economy, high unemployment, low yields, a weak dollar, a soft real estate sector and an auto industry on life-support; but things are also slowly stabilizing. Happy New Year!

## **BANK NEWS**

### **It Made Us Cry From Joy**

If you want a feel good piece to end the year, check out Move Your Money: A New Year's Resolution at the Huffington Post. The front page article was released yesterday and is a message set against It's A Wonderful Life that implores everyone to move their money to community banks - a great marketing piece.

### **GMAC**

The Treasury is flushing another \$3.8B into GMAC as the company takes on more mortgage writedowns.

### **Business Strain**

Equifax is reporting business bankruptcies nationwide have climbed 44% over the past 12 months.

### **A Piece Of The Pie**

Given the success of a recent test transaction, the FDIC will begin including provisions in some failed bank deals that provides the Agency with equity in the combined, post-assumption bank.

### **What It's Worth**

Over the last 2Y, consumers have lost \$12T in net worth. Household debt to disposable income is down from a high of 129% to 122%, however, still well above the 80% before the housing bubble.

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