JANET YELLEN NOMINATED AS FOMC VICE CHAIR

by Steve Brown

Lots of people walking around think they have game, but the actual odds that a high school basketball player will be drafted by the NBA are 1 in 3,333. Now, we don't know the odds of getting the nod for the Vice Chair position at the FOMC, but they are surely higher. The good news is that President Obama will reportedly nominate Dr. Janet Yellen, who currently serves as San Francisco Federal Reserve Bank President. She is eminently qualified and a supporter of community banking.

By way of background, she is an economist by trade (is coincidentally married to Nobel prize-winning economist) and was a voting member of the FOMC in 2009. She is considered to be an inflation dove, which is someone who promotes monetary policies that favor low interest rates (as a means of encouraging consumer activity to spur growth within the economy) and are less worried about the effects low interest rates may have on inflation. Doves generally worry about unemployment more than higher interest rates. While this is a simple way to try and box Dr. Yellen's thinking up into a sound byte you will undoubtedly see repeated in the press, it is much too simple an explanation for the way we believe she will act as Vice Chair of the FOMC.

She is also plenty smart, having graduated summa cum laude from Brown University with a degree in economics in 1967. She then went on to get her Ph.D. in economics from Yale in 1971.

She has already had a great career that includes teaching (Harvard University, London School of Economics and Haas Business School); research (Massachusetts Institute of Technology, National Bureau of Economic Research) and advisory (Chair of the President's Council of Economic Advisors 1997 to 1999, Brookings Panel on Economic Activity, Congressional Budget Office). She has served on the Federal Open Market Committee in 2009, as well as 1994 to 1997 and has been the President of the San Francisco Fed since 2004.

Dr. Yellen will be focused on fixing the unemployment issue, which is a good thing if you ask us, since few seem to be really doing much on that front. She is also realistic, recently indicating in a speech that the US could continue to see slow employment growth, with an economy that will not operate at full potential until probably 2013. Dr. Yellen also stated in the same speech that full economic recovery isn't just the Fed's job and more will be needed, saying, "monetary policy can't give the same kick to the economy that it delivered in past recoveries."

We have had the pleasure of talking to her directly at various banking functions and can tell you that she is extremely bright, understands many of the issues facing community bankers and is both open and willing to listen. That is a good person in our humble opinion to have on the decision-making board of the Fed, because she truly seems to understand that small business hiring will come from small business lending - ultimately sparked by community banks in local towns and cities all over the country.

We are happy to see Dr. Yellen get nominated to a four-year term as the Fed's 2nd most powerful member, behind Mr. Bernanke himself. We expect the Senate will move quickly to confirm her for the position and know she will do a great job for the economy, small businesses and community bankers across the country. Dr. Yellen certainly has game.

BANK NEWS

Closed (27 YTD)

Stepping away from its regular Friday closure pattern, the FDIC shut down LibertyPointe Bank ($210mm, NY) yesterday. Valley National Bank ($14B, NJ) will assume all deposits for a 0.15% premium and all assets, with $182mm under a loss share agreement. All in all the failure wasn't entirely unexpected, given a 511% Texas Ratio as of 12/31. For more information, go to the bottom right of our BIG Metrics home page: https://biganalytics.bancinvestment.com/

Lehman

A report released by a US bankruptcy court-appointed examiner, shows how the failings of executive management and auditors led to the firm's collapse. The report is a good read for anyone interested in risk management.

Legislation

Discussion in the Senate continues on the FRB maintaining power over the over 20 bank holding companies (those with assets over $100B) that hold nearly 2/3 of all US bank assets. In addition, the FRB may be given power over large nonbank entities that pose a systemic threat.

Fees

With all the talk of overdraft fees, some hard numbers would be useful. If provided the choice, 57% of consumers would opt out of the service according to ACTON Market Intelligence. In terms of banking relationships, Mercatus LLC finds banks with high trust levels hold 38% of their customers business as opposed to 27% for those with low trust levels. As for the big banks, wallet share has dropped to the lowest ranks, averaging 33% and down from 40% in 2007.

Credit Debt

The $93B fall in credit card balances in 2009 were largely a result of write-offs ($83B to be more precise). According to CardHub.com, only in the 1Q of 2009 were consumers actually able to pay down more credit card debit.