ANOTHER MISSED OPPORTUNITY FOR BANKS?

by Steve Brown

As if this financial crisis couldn't get more complicated, the Obama Administration announced a new program that would consolidate US debt into a single, monthly payment. The irony, of course, is that the very subprime lending practices that Congress derided back in 2008 are now saving our future. "My fellow Americans, we have just taken the first step toward regaining control of our finances," said President Obama at a press conference. "Thanks to a joint arrangement between the Treasury Department, the Federal Reserve and Check N' Go, we can finally reduce the amount of late fees, high interest rates and harassing creditors."

In a follow up meeting, Press Secretary Robert Gibbs said that the US is in the process of signing a loan that would bring together all $12,693,181,208,437.87 and combine it into one easy payment of $33.4B per month. Gibbs praised Check N' Go's service and said, "They even came in, sat down with the entire Cabinet and gave us a free quote."

Under the terms of the agreement, Check N' Go will have a first priority lien on the Capitol, the National Mall, the Grand Canyon, not to mention the states of Alaska and Utah. When asked why those assets during the Q&A session, Gibbs responded that Check N' Go wouldn't take CA or FL and that the White House was already under negotiations for a mortgage modification through the HAMP Program. When asked if pledging AL and UT was politically motivated, Gibbs declined to comment, but added that those states could be part of a contingency plan sale that could be invoked prior to 2012 if the economy doesn't improve.

The Administration first came up with the idea back in July of last year when Chief of Staff Rahm Emanuel became aware of Check N' Go while watching late night television. Apparently, after failing to structure a consolidation deal with a series of banks, the Administration had little choice. One banker that asked not to be named for this article said that while his bank was invited to the syndicate meeting, this deal was "a no-go from the start." The banker went on to say, ""When home improvement companies [Lowes] are trading at better levels than the US Gov't, you have to really stop and consider the risk you are getting your shareholders into. Besides, we have an exam next month and I am scared to even think about what type of loan loss reserves we may have to hold. No matter how good the cash flow, we fear what the regulators could say about an appraisal on the US."

The move helps explain why non-banks are not slated to be included in the upcoming financial reform bill and we hope to be able to offer participation from Check N' Go soon for banks that are looking to take on more credit risk.

At the risk of stating the obvious, we wish our readers a happy April Fools and say for the record not to believe anything above this line. We will be back tomorrow with some serious insight. Until then, we look forward to hearing stories of bankers wrapping co-workers desks in aluminum foil, gluing caps on their pens, modify their Word auto correct feature to change a common word to something embarrassing and, our favorite, making them fill out fake TARP forms.

BANK NEWS

Rescue Details

After much legal wrangling, the FRB has released documents detailing "toxic" investments it holds that were at the heart of the financial crisis and tied to the bailouts of AIG, Bear Stearns, Countrywide and Washington Mutual. Assets held were broken into 3 major groups and priced at between 39 cents to 44 cents per dollar of face value.

HAMP

The Home Affordable Modification Program will now allow some underwater home owners to refi into an FHA loan. These borrowers will need to have a FICO above 499, be current on payments and meet FHA guidelines. The bank or lender then must writedown at least 10% of the loan and maintain an LTV threshold of 115% or under after the refi.

Payment Preference

According to a Packaged Facts' report, 54% of adults select cash for making payments, while 68% own debit cards and 67% hold a credit card. However, only 53% have used their credit card in the last month. As for snail mail or the internet, over 25% or 61mm consumers used online bill pay last year.

Supervision

According to the FDIC, the latest data shows that by regulatory agency, 62% of banks are state chartered, 18% are OCC, 11% are FRB and 10% are OTS.

Millionaires

According to Spectrum Group, the number of households in the US with a net worth of $1mm or more rose 16% to 7.8mm in 2009 from 6.7mm in 2008. Households with at least $5mm rose 17%.

Didn't Need It

In an interesting admission, JP Morgan Chase CEO Jamie Dimon said in his just released shareholder letter that he regrets using the FDIC Guarantee Program for issuing $40B in debt during the height of the financial crisis. As an aside, the 36-page letter is a recommended read for all bank management and boards, as it hits the right notes and tones, as he talks about what the Bank is doing for succession, compensation, risk management and general strategy.