

## LOOKING TO LAUNCH

by [Steve Brown](#)

The military has a really cool gizmo that attaches to the helmet of a pilot and guides a missile wherever that pilot is looking. We know - wouldn't it be great to have that helmet sitting at the ready in your office right now given all that is going on in the industry? Well, those helmets are probably \$20mm apiece, so banks will have to wait since the loan loss reserve needs that money more right now. Since we were thinking about missiles this morning we decided to look in this direction today, as we fire off a few salvos of our own to keep our readers up to speed on recent industry information we think you will all want to know.

This week, Atlanta FRB President Lockhart warned the recovery is weak and not strong enough to warrant interest rate hikes. He also said the FOMC would likely have a discussion about deflation the next time it meets. Meanwhile, FRB Governor Duke in another speech said the banking sector was continuing to recover slowly and that it may take several years for lending to return to pre-crisis levels. She reminded the audience that during the last large recession it took 3Ys for consumer credit to return, 4.5Ys for home mortgages, 5.25Ys for nonfinancial business credit and 8.75Ys for commercial real estate to recover. Given the recession officially began in Dec. 2007; it may well take quite a bit more time until credit conditions return to normal.

Given so many pundits are talking about deflation lately we thought you might like a brief refresher on the subject. Deflation happens when demand for goods and services declines, prices decline and inflation declines. In essence, no one wants to buy anything, so businesses respond by cutting prices, which results in people waiting even longer to buy (as they wait for an even cheaper price) and even 0% interest rates don't get anything rolling. Deflation is spooky because people hoard money, they don't invest and economic growth grinds to a halt.

The new financial regulation bill is more than 2,000 pages in length by itself. Given much of the interpretation and finer points of enforcing the new law are left to regulators to develop in coming months and years, this change is expected to require banks to deal with somewhere around 5,000 pages of new regulations according to estimates by the ABA.

The Senate will begin debating Small Business Lending Fund in coming weeks that creates a \$30B fund of capital for banks with assets less than \$10B. The House has already passed their version, which would let banks with assets < \$1B receive capital in an amount up to 5% of their risk-weighted assets, while those with assets between \$1B and \$10B could receive up to 3%. Meanwhile, existing TARP banks with < \$10B billion in assets could convert their capital to the new program.

A new study projects 46 states will have budget shortfalls that add up to \$112B by June 2011. In some cities, sales and property taxes have fallen 40%, which analysts say will push municipalities to cut spending and raise taxes.

Research done by Juniper projects mobile banking usage globally will double in the next 3Ys and that the value of goods people buy with their phone will double in the next 2Ys and within 4Ys will account for 5% of all retail sales. Experts say bankers should focus on mobile technology that is built on top of existing customer payment behavior and infrastructure. This format allows customers to choose any

channel, whether it be the branch, online, mobile or phone in order to suit their context at the time of payment.

It will probably be awhile before bankers get helmets that allow them to just look at customers to get them to buy a product or service. Until then, focus and consistency of approach will be important factors to incorporate into the sales process.

## **BANK NEWS**

### **CU Closed (10 YTD)**

Southwest Community Federal CU (\$139mm, UT) was closed by the NCUA with Chartway Federal CU (\$1.6B, VA) assuming assets and liabilities.

### **Call Report Filing**

Regulators put out a notice reminding banks that 2Q Call Report information is due July 30. This report includes some changes for term deposits, TAG, subordinated securities, prepaid deposit insurance assessments and FASB 166/167.

### **Flood Insurance**

The Senate passed H.R. 5569 that will likely get signed today. The Bill extends the National Flood Insurance Program from its current expired state (but makes coverage retroactive) to Sept. 30.

### **Savings Accounts**

While we highlighted this product several weeks ago as part of the goal oriented trend in depository accounts, Citizens Financial surpassed 15k new accounts in less than 1Y with their CollegeSaver accounts (gives a \$100 bonus for reaching goals and allows friends/family to help build the account).

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