THE GAME OF TAG

by Steve Brown

We were recently about simpler times, when suddenly the game of "tag" popped into our thoughts. What a great and simple game to play. Just punch your older brother or push them and then run away

reminiscing

shouting "you're it." Sure, eventually that same older brother will catch up to you with a penalty to pay, but in the meantime, what fun it was just to run for your life laughing with giddy enthusiasm. Ah, we miss the simple things in life like the game of tag.

Speaking of tag, we thought that given all the changes related to Financial Regulation (Dodd-Frank Act) and all of the phone calls and email it has generated from bankers as of late; the TAG program might once again be of interest to our readers.

The first thing to know is that the Dodd-Frank Act (DFA) provides unlimited FDIC insurance for noninterest-bearing transaction accounts in all banks effective 12/31/2010 through 12/31/2012 (it will expire on 1/1/2013, unless it is extended by Congress).

Next, the FDIC TAG Program is not changed by the DFA. Under that program, the FDIC can extend the TAG Program into 2011, but given the new law, that is unlikely to happen. Therefore, the DFA coverage begins where the current FDIC TAG program likely will leave off - namely at the end of this year. Basically, banks that are currently operating under the FDIC TAG program still have the same coverage under that program through the end of this year, while banks that opted out previously will not have any coverage of noninterest-bearing transaction accounts above the $250k level until next year (note that the DFA permanently increased FDIC deposit-insurance coverage to $250k retroactive to 1/1/2008).

The next big nuance to understand is that while the DFA provides FDIC coverage for all noninterest-bearing transaction accounts in all banks for 2011 and 2012, it is not identical to the FDIC TAG program. That is important to know, since the FDIC TAG program provides unlimited insurance coverage for noninterest-bearing transaction accounts and NOW accounts (where the interest rate is< or = to 0.25%) and Interest on Lawyers Trust Accounts (IOLTAs). The DFA, in contrast, only covers transaction accounts that do not pay interest and does not include any interest-bearing NOW accounts or Interest on Lawyers Trust Accounts.

Yet another nuance to understand relates to disclosure requirements. For example, after the FDIC TAG program expires later this year, banks will not need to post notices in their lobbies or on their websites stating that they are or are not participating in the program. Instead, every bank will need to amend their standard disclosures so it is clear FDIC insurance is provided up to $250k on all accounts and from 2011 through 2012 it is unlimited for noninterest-bearing transaction accounts.

Finally, the DFA allows banks to pay interest on all DDA accounts effective 7/21/2011. Therefore, customers that used to sweep money in excess of the $250k limit from a noninterest transaction account to an interest bearing DDA account may not need to do this unless the fee structure warrants (yet to be set) or if additional deposit insurance is required (and allowed). There is more rulemaking coming from the FDIC around this one given the depth of the sweep market, so stay tuned and we will let you know when we hear more.

Now that the finer points of this regulatory game of "tag" are out there for your consumption, we proudly shout "you're it," as we run away to do other things.

BANK NEWS

Beige Book

Lending remained stiff with economic activity posting a marginal rise through June and mid-July. 5 of the 12 regional districts noted an improvement in the job market.

Covered Bonds

A bill promoting the issuance of covered bonds got approved by the House Financial Services Committee. This would bring more liquidity to the mortgage market, as banks would be able to issue debt backed by originated mortgages (like a securitization with guarantees).

FHA Guarantees

The House passed a bill that would allow $20B from the Treasury in 2010 to be used for FHA multifamily guarantees. This is important, as FHA is projected to run out of multifamily allocation funding by Sept.

CA

The State declared a state of emergency over its finances, as its budget is short some $19B. Starting next week, some 200k employees will need to take an extra 3 days off per month without pay until the budget is approved.

Banking On Gambling

A bill is being finalized that would make online gambling legal (and subject to tax). Should this occur, it could be a boon for bank transactional transfer revenue streams.

Deleveraging

A report by FHLMC finds consumer borrowed the lowest amount of home equity in a decade, despite historically low borrowing costs. In addition, 22% of people with borrowings outstanding paid down principal, the 3rd largest contraction since records began back in 1985.