ANOTHER PROBLEM WITH DODD-FRANK

by Steve Brown

In the past, we have stated the belief that banks must honor checks written on the sides of cows was an "urban myth." It turns out we were wrong. A little-known provision in the Dodd-Frank Act requires all FDIC-insured institutions to honor checks "written on any living animal." Legislators aren't certain how the provision made it into the final bill, but believe it was an intentional slight by an analyst, in response for having to put the Durbin Amendment in.

Whatever the explanation, banks aren't laughing. "This has become a real headache," says Fred J. McGuffin, President of First Savings of Oak Falls, Nebraska. "At first, it was just a few cows, but when folks here got wind of it, they started bringing in whole barnyards. Right now we've got four cows, twenty-one chickens, seventeen hogs, three mules, and a goat."

The problem isn't limited to rural institutions. "We're seeing more and more of it," said James Johnson, President of Hoboken Savings in New Jersey. "Dogs, cats, hamsters, snakes-you name it. Sometimes these animals shed their skins and some eat each other. Then what do you do?" Fraud has also been a problem. "We had to cash a $1,200 check written on a bird," said Mr. Johnson, "The first chance the pigeon had, it then flew right out the window."

This still small but growing practice has also impacted check clearing, as banks are increasingly paying up to ship check-bearing animals to Federal Reserve Banks for processing. Fed Chairman Ben Bernanke addressed the problem in his recent Humphrey-Hawkins testimony, stating "The Federal Reserve System was not designed with animal husbandry in mind." The Chairman told Congress that stockyards and zoos located near regional Fed banks were running out of room, leaving the Fed to clear room in vaults to house and care for the animals. "Several Federal Reserve Bank Offices have become virtual menageries," said Bernanke, who added that a recent shipment of chimpanzees posed a particular problem. "I hope Congress will address this issue promptly," he told the Senate Banking Committee. "When people walk into an Open Market Committee meeting, they do not expect to find a room full of monkeys."

At the risk of stating the obvious, we wish our readers a happy April Fools Day and say for the record not to believe anything above this line.

We will be back next week with more serious insight. Until then, we look forward to hearing stories of bankers having fun today with such pranks as wrapping co-workers desks in aluminum foil; randomly conferencing 2 managers together so it seems they called each other; painting the tips of the CFO pens with clear nail polish; modifying Word auto-correct features to change a common word to something embarrassing and, our favorite - making employees fill out fake TARP forms.

BANK NEWS

Discount Window

Data released by the Fed indicates the biggest borrowers during the credit crisis peak were foreign banks, accounting for at least 70% of the $110.7B borrowed during the week in Oct 2008 when use of the program surged to a record. Wachovia was the only US bank among the top 5 discount-window borrowers as the crisis peaked.

TARP Profitable

The Treasury is reporting that the bank portion of its investment is now profitable, with taxpayers recovering $251B through repayments, dividends, interest and other income - well above the original $245B investment.

Counter Bid

Nasdaq and IntercontinentalExchange (ICE) have offered to buy NYSE Euronext for about $11.3B, countering a previous bid from Deutsche Borse for $9.5B. If the deal goes through, ICE would get the derivatives business, while Nasdaq would take the Big Board in New York as well as exchanges in Paris, Brussels, Amsterdam and Lisbon.

Barclays

The Bank is rumored to be in talks with US regulatory officials saying it is considering leaving the UK and switching its domicile to NY.

Survival

A GAO report finds 401(k) cash-outs due to job changes reached $74B, while hardship withdrawals were $9B and loan defaults were $561mm last year.

Not Enough

The SEC reports they were only able to review 9% of the 11,000 registered investment advisors last year.

Fraud

Javelin reports the number of identity fraud victims fell 28% last year compared to 2009.

Big Banks

A new rule proposed by the SEC would require banks with more than $50B in assets to defer 50% of incentive-based pay for executives for at least 3Ys.