

## THE BRAIN ZAP AND NUMEROLOGY OF REGULATION

by [Steve Brown](#)

Today is 12-12-12 and the next time three numbers will repeat like this will be on Jan. 1, 2101 (1-1-1) or about 88Ys. Numerologists say the numbers are lucky and some suggest you buy or sell something to take advantage of that luck. That seems particularly odd right now, when you consider we are only 9 days from the end of the Maya calendar's 5,000 year cycle and the end of the world. If that happens, you unfortunately won't get to enjoy the luck this day brings with any investment you might make. All we can say is there is no sense fighting the numbers, so enjoy the charge it gives your brain this morning. Speaking of things might zap your brain; it isn't your imagination that regulatory agencies have been keeping up a strong current of rules, regulations, notices and other information bankers have to know this year. In fact, we did some analysis on this and think you will find the results quite interesting indeed. To begin, we hit the FDIC website because it is easy to use. We looked at all of the rules and regulations that hit the tapes in the first 6 months of the year. We counted 30, so on an annual basis that would take it to about 60. We then reduced this total by removing any notices around relief efforts, as well as any that were regional in nature. This took our total down to 24 or about 48 in total for the year. After this initial set of sorting, we then went deeply into the numbers, looking closely at all of the rules, notices and regulations. This is where things began to spiral quickly out of control. We found that when you take into account all of the rules, notices or regulations AND add in all supporting or attached information referenced in them that you are also supposed to read, the pages go exponential. For 2012, our rough math finds the average banker must read and understand about 8,252 pages. That is a whopping job for any banker and it shows just how much change the industry is currently undergoing. Looking at this another way, each wrapped ream of copy paper is about 500 sheets. Assuming you print all notices and any referenced rules so you can then highlight and route critical sections to others in your bank, you are going to use more than eight reams of paper each year. We aren't sure exactly how you do things, but most banks seem to assign different people to review different critical portions of any new rule or regulation, so that number probably balloons 2 or 3 times. As if that weren't enough for any community banker to deal with, consider what happens when you include all the research, presentations, interpretations and other written reports from industry experts you also receive (about each one of these pending, proposed or new regulations). Our guess is that it bumps things up by probably 5x the regulatory flow by itself. That means community bankers are probably reviewing a whopping 40,000 to 120,000 pages of material each year. No wonder you feel tired, your eyes are giving out and you seem to mutter strange regulatory words in your sleep (well at least that is what we have heard, anyway). For those needing a visual, picture someone rolling a dolly into your office and piling up 8 to 24 full boxes of copy paper (they hold about 10 reams or 5,000 pages each). The stack virtually blocks out the sun, which is one key reason we work to keep you up to speed with bite-sized analysis in this publication all year. As you wrap up 2012 and prepare for 2013, our advice is to strap on a metal helmet. Doing so may help protect your brain from getting zapped by the strong electrical current of rules and regulations flowing through the industry these days.

### BANK NEWS

#### **TAG Update**

To the chagrin of large banks and mutual fund companies, the Transaction Account Guarantee (TAG) bill extending the guarantee program for 2Ys passed a critical procedural vote (76 to 20) yesterday. It now heads for a final Senate vote Thursday and the White House has added its support to full passage.

### **M&A**

Amerasia Bank (\$291mm, NY) will buy Great Eastern Bank of Florida (\$48mm, FL) for an undisclosed sum.

### **SEC Charges**

The SEC charged 8 former board members of Morgan Keegan operated mutual funds with failing to properly value securities in some funds. The SEC said the board members did not know how valuations were being completed and did not ask and said the funds "did not use any reasonable analytical method to arrive at fair value."

### **Callable Agencies**

Analysis finds about 70% to 80% of callable agencies have been redeemed on their call date over the past year.

### **Gift Cards**

Square has entered the gift card market through an app that runs on Apple and Android devices. The app allows merchants to sell and redeem gift certificates worth up to \$1k. Meanwhile, TowerGroup reports about \$2B value of gift cards went unspent last year.

### **ALM Short Term**

Fed research reminds banks measures used to quantify a short-term impact to earnings from a change in interest rates (over a 12- to 24-month horizon) include repricing gap and earnings-at-risk analysis.

### **ALM Long Term**

Fed research points out banks should simulate the impact to long-term net income (up to 5Ys) due to a change in interest rates, by using economic value of equity and long-term earnings-at-risk analysis.

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