The Flow Of Liquidity, Regulation & Email

by Steve Brown

Did you know that statistics by the BLS and McKinsey find most business professionals spend about 637 hours per year managing, writing and responding to emails? Further, research by The Radicati Group finds email is still the most pervasive form of communication in the business world today, as business users on average send and receive an average of 126 emails per day. This all makes perfect sense when you consider you have to have an email account to sign up for pretty much anything on the internet and snail mail is just too darn slow given the alternatives. That is a lot of flow for you and for your customers.

In the banking world, regulatory flow also continues to run high. Through June in fact, the FDIC alone has pumped out 25 financial institution letters already. Even when you sort out the notifications around storms, call reporting and other more rudimentary items, bankers still have to deal with roughly 11 different notifications that add up to a whopping 469 pages of detailed reading. That will certainly keep banking teams working hard for months to come as they seek to absorb, incorporate and comply with all of these significant changes (keep in mind also that this is just the FDIC and does not include any other regulatory agencies).

Most community bankers we talk to say they also expect the Fed to raise rates sometime this year (and perhaps a couple of times as they work to get market levels back to normal). This isn't expected at this point to be that big of a deal, though, as bankers have been preparing and most think rising rates will generally help their profitability and performance. So, now that you are feeling good, we will throw a small monkey wrench into that thought - at least as it relates to liquidity and flexibility perhaps.

Consider that given all the changes in rules around funding (Basel III, lessons learned from the crisis, changes to what is brokered and what is not, etc.), the options for most community bankers on the funding front are local deposits and some listed deposits. On the collateralized front, community bankers have primarily the FHLB and the Fed Discount Window.

So, that is why we jumped right on the notification from the Fed as to changes they have just released around the types of collateral they will accept and the haircuts they will apply in this latest adjustment (kicks in on Aug 3). Our hope is that knowing this will help you determine how much liquidity flexibility you have in this channel so you can make plans and then won't be surprised once rates move and funding potentially begins to start moving around again.

Changes include - less collateral required for: BBB-AAA rated foreign government guaranteed (foreign denominated); BBB-AA rated corporate bonds; BBB-AA rated asset backed securities; AAA rated private label CMOs; credit card receivables (jumped from 56% to 76%); and subprime credit card receivables (went from 53% to 71%).

Other changes: CDs now can be for all duration buckets (previously only short term); student loans will be accepted as individually deposited loans (previously only group deposit) and individually deposited loans for various sectors moved both up and down (so check for your bank to be sure).

We hope you enjoyed this email and now you only have 125 more to review, so have fun!

BANK NEWS

M&A Activity

1) First Merchants Bank ($5.9B, IN) will acquire Ameriana Bank ($480mm, IN) for about $68.8mm in stock. 2) The HC of The Juniata Valley Bank ($468mm, PA) and Liverpool Community Bank ($44mm, PA) will acquire The 1st National Bank of Port Allegany ($96mm, PA) for $13.2mm in cash (15% to 25%) and stock (75% to 85%) or approximately 1.3x tangible book.

No EXIM

Congress is on vacation now, so the Export Import Bank will sunset at the end of June. Congress may pick this back up when they return in July.

Windows 10

Research by IT firm Spiceworks finds 73% of businesses plan to upgrade to Windows 10 in the first few years after it becomes available. Enhanced security, no cost to upgrade and an easier process were all cited as reasons.

Greek Tragedy

Once Greece's prime minster failed to close off negotiations with ECB lenders and said he would take it to the people, turmoil ensued. A vote of the people of whether or not to accept further cutbacks and higher taxes is coming on July 5, but in the meantime Greek bond yields have jumped to 14% and the banking system has been closed to limit runs on the banks. Greece owes way more than it can pay and the political issues in the country are ugly, it would appear.

Puerto Rico Problems

As if the issues in Greece weren't enough for investors to deal with, the governor of Puerto Rico announced the territory cannot make payments on its $73B in debt. The territory is close to a default, so is deferring debt payments and seeking concessions from creditors.

No Fees

FNMA announced it will no longer charge fees on its Desktop Underwriter automated underwriting system and Desktop Originator tool.

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