



Financial Reform Bill:

The Senate approved the Financial Reform Bill on Thursday. President Obama is expected to sign the bill into law next week. This legislation has been touted as the broadest overhaul of the nation's financial rules since the Great Depression, yet a recent online poll found over 70% of Americans do not know anything about the bill. Even more astonishing, 38 percent of Americans had never heard of the legislation. Here are some high level notes to ensure you are in the minority that understands the legislation:

- The Financial Stability Oversight Council will be created to monitor risks in the financial system.
- The bill ends "bailouts" by creating an "orderly liquidation" process that the government could use in emergencies to dismantle large firms on the verge of collapse.
- The U.S. Office of Thrift Supervision will be closed and its duties will be shifted to the Comptroller of the Currency.
- The FDIC's deposit insurance coverage would be permanently raised from \$100,000 to \$250,000.
- Hedge funds with assets in excess of \$150 million would have to register with the SEC.
- A new federal office will be created to monitor the insurance industry, while keeping the regulation at the state level.
- The so-called Volcker Rule creates higher capital standards by prohibiting proprietary trading unrelated to customers' needs at banks.
- OTC derivatives (a \$615 trillion market) will be regulated for the first time.
- Greater supervision of firms that settle payments among financial institutions.
- A number of measures have been added to protect investors – such as higher standards for brokers, regulation of rating agencies and increase of SEC enforcement powers.
- Measures to protect consumers – such as the creation of the Consumer Financial Protection Bureau, a separate unit within the Fed, to regulate mortgages, credit cards, and other consumer financial products.
- New limits will be placed on the Fed's emergency lending policy.
- Creation of programs that will help people without bank accounts to open them and improve financial literacy and access to small loans.
- Mortgage reform will ensure mortgage lenders assess the borrowers' ability to repay before making a loan and other protections aimed at putting an end to predatory and abusive mortgage lending practices.
- Finally, the legislation does nothing to address the conservatorship of Fannie Mae and Freddie Mac.

Breaking News:

The dollar fell sharply Thursday on the heels of several reports showing slower than anticipated growth. The euro rose above \$1.29 for the first time in two months.

The FOMC:

A good place to turn to get an idea of when the Fed will begin tightening policy is by looking at prices on futures contracts that deliver federal funds. For well over a year now the Federal Open Market Committee (FOMC) has been targeting the federal funds rate to be between 0.00% and 0.25%. As such, the futures contract rate for the July 2010 contract is slightly less than 0.18%. The futures market does not project this rate to rise above 0.50% until August 2011. This suggests that the FOMC is anticipated to be in a “holding pattern” for the next year. Is your bank prepared for low short-term rates for another year? What are the chances the FOMC raises rates sooner than projected by the futures market? How would that impact your bank? What are the chances that the FOMC stays in a holding pattern for the next two years? What would this mean for your bank?

Global Perspective:

Gloria Morigosa, 30, is waiting in line at the local unemployment office at 7:00 a.m., a full 2 hours before the office opens. She lost her job as a secretary and is struggling to find work. She blames consumer excesses: "People who had not many financial resources spent a lot of money, more than they had; they asked for a lot of credits, and with the real estate boom they thought they could spend a lot of money," she says. Gloria's story sounds familiar. She could be a neighbor of ours. But her local unemployment office is in Madrid, Spain, whose economy was once referred to as the “Iberian Tiger”.

Spain's adoption of the euro currency in 1999 sparked an unprecedented boom. Tourism and construction were the major growth areas. For many years Spain had it all – great weather, incredible cuisine, glitz and glamour. Foreign capital flowed in. In 2006, housing starts in Spain exceeded those in the U.K., Germany, France and Italy combined. During the boom, Spain had a budget surplus for 3 consecutive years and created 5 million new jobs. Until recently, their economy was the chief creator of jobs in Europe's 16-nation single currency zone. But the economic crisis in 2008 was ruinous to Spain. Spain now has the highest jobless rate in the euro zone at 20 percent. The unemployment rate of Spain's youth is twice that of the national average, topping 40 percent. Since 2008, Spain has lost 2.5 million jobs and is sitting on over a million unsold new homes.

And, while Spain can celebrate winning the World Cup, the “loser,” the Netherlands, currently has an unemployment rate less than 5%.

Earnings Reports:

JPMorgan Chase & Company kicked off second-quarter earnings season for the nation's big banks on Thursday with news of a strong gain that exceeded analysts' expectations. Net income rose 76%, to \$4.8 billion, from \$2.7 billion in the period last year. Results were enhanced by a \$1.5 billion reduction in the group's loan loss reserves. Earnings are up to \$1.09 a share for the quarter, from 28 cents in the same period last year. This far exceeded analysts' expectations of 70 cents a share.

According to America's finest news source, the Onion:

“Nation demands tax dollars only be wasted on stuff that's awesome”.