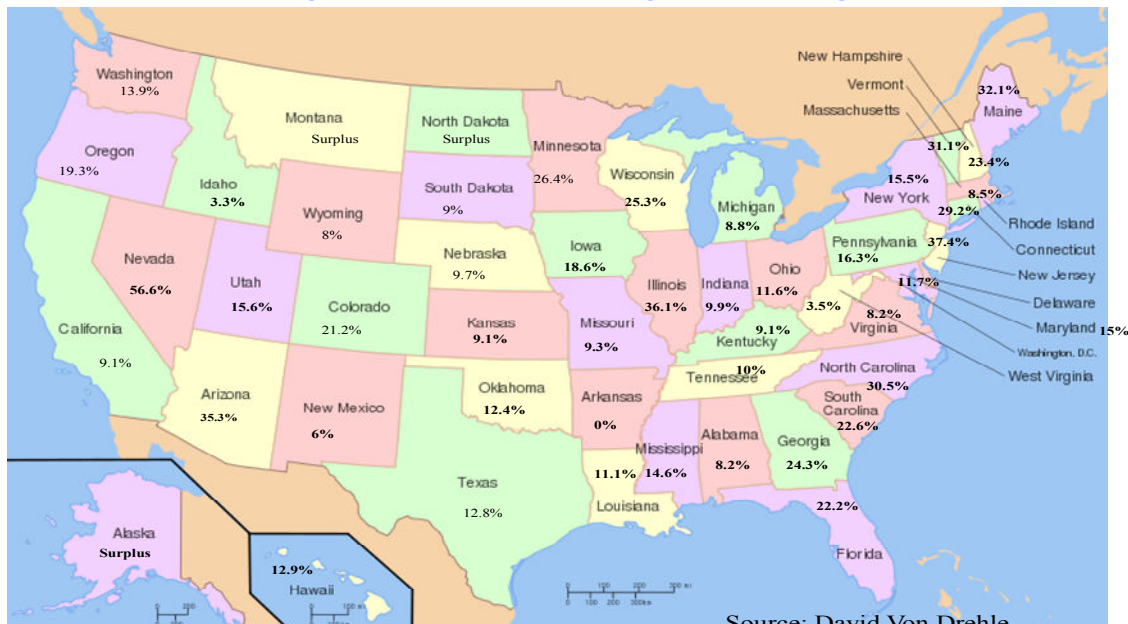




Many states are facing substantial budget deficits for fiscal year 2011. The following map documents the estimated budget situation across the U.S. Note that Alaska, Montana and North Dakota expect surpluses. Other states expect deficits ranging from a low of 3.3% in Idaho to a high of 56.1% in Nevada of 2010 budgets. Many states are attempting to cut their deficits by reducing payments to local governments. For example, Wyoming's governor has proposed cutting these payments by more than 50%. Many states and localities are eliminating jobs with an estimated 231,000 jobs lost from August 2008 through May 2010. How is your home state doing? What will happen to real estate values and retail sales? When will this trend be reversed?

Estimated Budget Shortfall as a Percentage of 2010 Budget

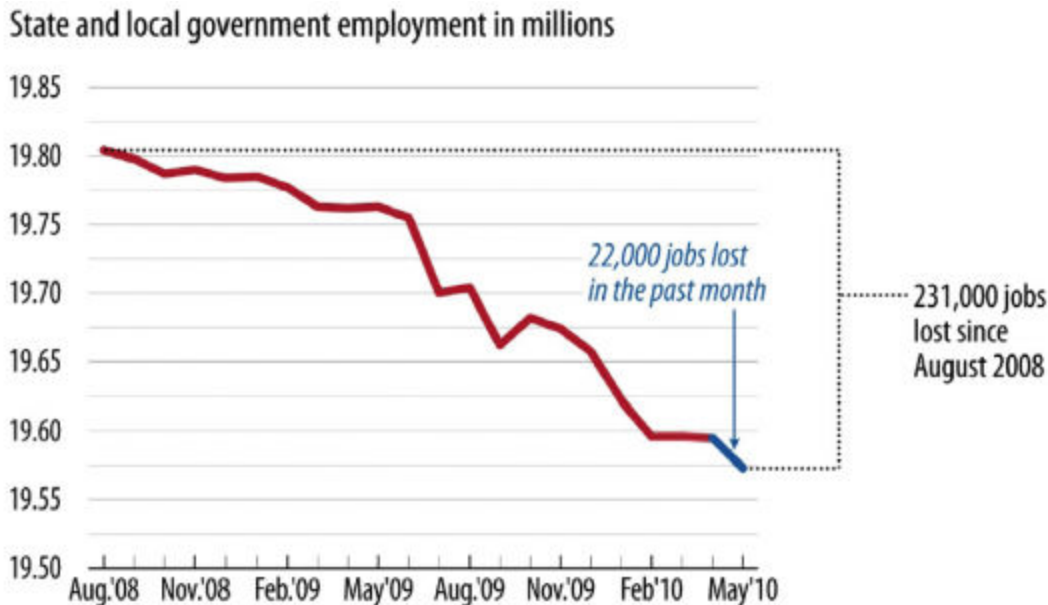


Source: David Von Drehle, Time, June 28, 2010

Alison Felix and Jason Henderson, economists at the Federal Reserve Bank of Kansas City, argue that rural communities suffer disproportionately more when states cut their budgets. Consider:

- Local governments receive, on average, 31% of their revenues from the state.
- Intergovernmental transfers account for 55% of revenue in rural counties that experience persistent poverty and high unemployment.
- Medicaid cuts affect rural residents more than residents in metro areas with the cuts especially damaging in areas with persistent poverty.
- In 2008, states and localities accounted for 14% of employment and 18% of earnings in rural areas compared to just 10% for each in metro areas.

- The solution appears to be for rural governments to cut spending, raise local taxes or become more efficient in providing services (increase productivity).



Breaking News

- Regulators closed six institutions Friday bring the total to 96 to date for 2010. Three of the institutions were in Florida, two in South Carolina and one in Michigan.
- Effective August 6, customers of Bank of America can choose to open an eBanking account with no minimum balance requirement and no monthly fee. The catch is that they do not get a mailed monthly statement and cannot visit a teller. If they make a deposit in a branch, they will be charged \$8.95 that month.
- Neil Barofsky, special inspector general for TARP, reported that the Treasury Department did not adequately incorporate the cost of job losses associated with closing Chrysler and General Motors dealerships. Congress now requires arbitration for closed auto dealerships.
- Consumer prices fell 0.1% in June, the third consecutive month of price declines.

Deal of the Day

The media is full of stories that banks are cutting services and raising fees in response to passage of the Dodd-Frank bill. Many bankers argue that they have subsidized checking account services with overdraft and interchange fees. Customers who choose not to 'opt in' for overdraft protection may see some ATM and debit transactions declined. How will they respond? With new regulations sharply lowering these fees, banks will look elsewhere. Some banks will impose monthly maintenance fees that vary with the size of a customer's deposit and whether the customer uses direct deposit. Who are the winners with these reforms and who are the losers? Where will the unbanked do their banking now?

Upcoming Events

- On Tuesday, the Commerce Department releases the number of housing starts.
- Bank of New York, Goldman Sachs and State Street release earnings on Tuesday.