AMERICAN BANKER

Morning Scan: The Bombshell Bill That's Neither a Bombshell Nor a Bill

by Kevin Wack

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Receiving Wide Coverage ...

Unsurprising Housing Finance Plan Manages to Surprise Investors: The legislative outline for housing finance reform released Tuesday by Democratic Sen. Tim Johnson and Republican Sen. Mike Crapo was relatively short on details. But its broad strokes were familiar to anyone who's been paying attention to its progenitor, a bill authored by another bipartisan pair on the Senate Banking Committee. Still, many investors were seemingly caught off guard. Fannie Mae's common shares plunged by 27% Tuesday, while Freddie Mac's dropped by 31%. (Preferred shares, which have been scooped up by hedge funds that are now preparing for a fight with the federal government, fell by much less.) "For investors, the most important part was in a bullet point on Sen. Crapo's website: 'Wind down and eliminate Fannie Mae and Freddie Mac,'" writes the *Wall Street Journal*'s John Carney. "This comes as a blow to those who hoped record profits at the companies would soon lead the government to turn control of them, and their earnings, over to the private sector. But it shouldn't be a surprise." No one expects the Johnson-Crapo measure to become law in 2014, and Tuesday's legislative outline is not even a bill yet. Still, it establishes an important marker in the long game of GSE reform. *American Banker*'s Victoria Finkle has three key takeaways about the still-gestating legislation. *Wall Street Journal*, *Financial Times*, *New York Times*, *Washington Post*

Bitcoin Bits: The pack of scribes that converged outside Dorian Satoshi Nakamoto's home in Temple City, Calif., last week has dispersed and discovered there are lots of other Bitcoin angles to pursue. The *Times* reports, for example, that New York Superintendent of Financial Services Benjamin Lawsky is asking for proposals to create regulated virtual currency exchanges, while at the same time the Financial Industry Regulatory Authority is warning investors about the risks associated with Bitcoin. The Grey Lady also finds that Bitcoin is the hot topic at Austin's South by Southwest conference. The *Journal* reports that a federal judge in Chicago froze the U.S. assets of Mark Karpeles, the chief executive of defunct Tokyo-based Bitcoin exchange Mt. Gox. Buried inside an *FT* story about the Commodity Futures Trading Commission is news that the commission's staff is studying whether virtual currencies fall under its jurisdiction regarding manipulation in commodity markets. With so much talk about regulation, there's also a report that the Bitcoin Foundation has hired Jim Harper of the Cato Institute as global policy counsel. And, yes, OK, not every journalist is off the Satoshi Nakamoto beat just yet. A *Times* reporter in Tokyo finds that at least 28 Satoshi Nakamotos have listed phone numbers in Japan, including a "shoe repairman," a "tour bus operator" and "the president of a company that makes food sterilization devices." But which of these suspects puts two spaces at the end of a sentence?!? That important question goes unanswered.

Carney Vows Changes at Bank of England: In the midst of a review about what the Bank of England knew about manipulation of the foreign exchange markets, Governor Mark Carney was hauled before a parliamentary committee Tuesday. Carney said the central bank would create a new deputy governor job to oversee markets and banking, and he pledged to restore the Bank of England's reputation. But Carney and a colleague faced tough questioning from members of Parliament, who accused the central bank of being complacent, the *FT* reports. Another *FT* story concludes that the Bank of England "is struggling to strike a balance as it attempts to stay abreast of markets via regular dialogue with traders and bankers, while avoiding any hint of complicity in dubious practices."

Citi's Mexico Problem: Both the *Times* and the *Journal* examine how a $400 million fraud developed at Citigroup's Banamex unit in Mexico. The *Times* concludes that the fraud grew out of "the challenges of finding solid lending clients in a country where the line between big business and political cronyism can become blurred." The *Journal* focuses more on the scandal's impact on Manuel Medina-Mora, the one-time chief executive of Banamex who has risen to become Citi's co-president.

The Italian Job: Here's a neat trick, pulled off Tuesday by Italian bank UniCredit: announce a $21 billion quarterly loss, and watch your share price rise by 7% on the day. The market's positive reaction was likely driven by the bank's expectations for future profitability. But hitting those targets "requires a lot to go right," the *FT*'s Lex column argues. *Financial Times*, *Wall Street Journal*, *New York Times*

Europe's Wind-Down Plan: It's hard to reconcile a pair of stories from the *FT* and the *Times* about the status of the European Single Resolution Mechanism, which is being negotiated in Brussels this week. The outcome of the talks hinges on how much say member countries will have in the decision to close banks. The *Times* suggests that the negotiations are likely to end in an agreement, but the more deeply reported *FT* piece offers a much more pessimistic view.

Wall Street Journal

The head of China's central bank said Tuesday that he expects to allow the country's banks to compete on deposit rates within a year or two. The move is another step in the country's go-slow liberalization of financial markets. The Heard on the Street column advises China to continue to move deliberately, warning that the U.S. savings and loan crisis grew out of the discontinuation of interest rate ceilings in 1980.

U.S. businesses are still paying half of their bills by check, a finding that suggests banks are not the only culprit for our failure to keep up with other countries on payment speed. One example cited in the *Journal* article is Goodyear Tire & Rubber Co., which explains that it writes so many checks because that's the only form of payment easily accessible to all of the company's business partners.

Financial Times

Fixed income divisions at Wall Street banks will report revenue declines of up to 25% in the first quarter. New regulations, including the Volcker Rule, are fingered as a major culprit. "Effectively, the casino is empty this quarter," one analyst is quoted as saying.

Washington Post

Here at Scan, one long-standing pet peeve is the Obama administration's use of the term "permanent modification" to describe mortgage mods that actually last five years. This *Washington Post* piece points out that a lot of mortgages in the Home Affordable Modification Program, or HAMP, will reset to higher interest rates in 2014 and beyond, after the five-year modifications end. The median monthly payment will rise by about $200 nationally, and by more in states with expensive housing.