PERSONALLY SPEAKING

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311 U.S. BANK FAILURES SINCE THE START OF THE RECESSION
829 OTHERS ARE IN TROUBLE

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Information supplied by the Federal Deposit Insurance Corporation provides insight into the severity of the recession and its differential geographic impact across the United States that is not gleaned directly from data on GDP and is not so dramatically demonstrated by employment and unemployment figures.

From January 1, 2008 through November 12, 2010, a total of 311 FDIC-insured commercial banks and savings institutions failed. More than half of the failures took place in Georgia (48), Florida (43), Illinois (38), and California (34). All but 19 of the 311 failed banks were acquired by other financial institutions. See table below.

In sharp contrast, there were no failures during this period in Alaska, Connecticut, Delaware, Hawaii, Maine, Montana, New Hampshire, North Dakota, Rhode Island, Tennessee, or Vermont.

Between 2002 and 2007, there were only 19 bank failures in the United States. In two of those years – 2005 and 2006 – there were none at all.

Currently there are 829 banks officially listed by the FDIC as problem banks. None of them are identified publicly for fear that disclosure would trigger a bank run. In 2006 there were only 50 problem banks. The sheer number of troubled banks points to a slower recovery for the U.S. economy as those banks work off their holdings of nonperforming loans.

At the end of June 2010 there were a total of 7830 commercial banks and savings institutions with deposits insured by the FDIC. These depository institutions at the end of June 2010 held domestic deposits of $7.685 trillion of which $5.439 trillion were insured. The reserve ratio (deposit insurance fund balance as a percent of insured deposits) is -0.28 percent due in part to the increase in standard deposit insurance coverage to $250,000 but in the main to the heavy drain on the resources of the deposit insurance fund. At the start of the recession in December 2007, the reserve ratio was 1.22 percent. The deposit insurance fund balance turned negative in July-August-September 2009.

The FDIC website lists more than 1700 real estate properties across the United States that were acquired by the FDIC from failed banks and are currently for sale. A total of 311 of those properties are located in Michigan, with another 183 in Florida. There are 5 FDIC properties for sale in Louisiana and only 1 in Tennessee. Proceeds from those sales are returned to the deposit insurance fund.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 requires the FDIC to maintain a minimum designated reserve ratio of 1.35 percent of insured bank deposits by

FAILED COMMERCIAL BANKS AND SAVINGS INSTITUTIONS INSURED BY FDIC

	2010	2009	2008
Alabama	1	3	------
Arizona	4	5	------
Arkansas	------	------	1
California	12	17	5
Colorado	------	3	------
Florida	27	14	2
Georgia	18	25	5
Idaho	------	1	------
Iowa	------	1	------
Illinois	16	21	1
Indiana	-----	1	------
Kansas	3	3	1
Kentucky	------	1	------
Louisiana	1	------	------
Maryland	4	2	------
Massachusetts	1	------	------
Michigan	4	4	1
Minnesota	7	6	1
Mississippi	1	------	------
Missouri	6	3	2
Nebraska	1	1	------
Nevada	4	3	3
New Jersey	1	2	------
New Mexico	2	------	------
New York	3	1	------
North Carolina	------	2	------
Ohio	2	2	------
Oklahoma	1	1	------
Oregon	3	3	------
Pennsylvania	------	1	------
South Carolina	4	------	------
South Dakota	------	1	------
Texas	1	5	2
Utah	3	2	------
Virginia	1	1	------
Washington	11	3	------
West Virginia	------	------	1
Wisconsin	1	1	------
Wyoming	------	1	------
Puerto Rico	3	------	------
TOTAL	146	140	25
Not acquired	8	11	0

2020 and to begin paying assessment dividends at 1.50 percent. The 1.35 percent target is to be reached by imposing higher assessments on FDIC-insured depository institutions with an offset for those institutions with less than $10 billion in assets.

The latest information regarding FDIC operations raises once more the moral hazard question. Do commercial banks and savings institutions take on additional risk in their lending activities and in the end put themselves at greater risk of failing because they know that their depositors are protected by the FDIC safety net? By signing into law the Dodd-Frank Act was President Obama wise to permanently increase the limit from $100,000 to $250,000, or was he foolish?

Does it make sense to possibly put at even greater risk of failure the very banking institutions that supply the credit – the fuel – that drives the entire U.S. economy?

Was the new upper limit on deposit insurance determined to be best for the FDIC and the banking institutions it serves? Or was that limit necessary in order to rationalize setting $250,000 as the upper limit on middle-class income that President Obama repeatedly has pledged would not be subject to higher taxes when the Bush tax cuts expire in January 2011? Put differently, to be logically consistent with his middle-class base, how could Obama re-set the upper limit on deposit insurance to its pre-recession level of $100,000 when he has defined the upper limit on middle-class income at $250,000?

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