ap FDIC says bank failures to cost around $100B

FDIC: US bank failures to cost deposit fund $100 billion, seeks prepayment of $45B in fees

- By Marcy Gordon, AP Business Writer
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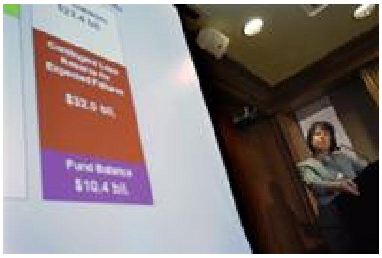
WASHINGTON (AP) -- Federal regulators expect U.S. bank failures to cost the deposit insurance fund about $100 billion in the next four years and the fund to be running at a deficit Wednesday.



AP - FILE - In this Aug. 27, 2009 file photo, FDIC Chairman Sheila Bair speaks to the press at ...

That is higher than an earlier estimate of $70 billion in failure costs through 2013.

The Federal Deposit Insurance Corp. made the projections Tuesday as its board voted to propose requiring banks to prepay an estimated $45 billion in regular insurance premiums for 2010-2012. The proposal could take effect after a 30-day public comment period.

The FDIC is fully backed by the government, which means depositors' money is guaranteed up to $250,000 per account. But it was the first time the agency has required prepaid insurance fees.

"I do think this is a good balance," FDIC Chairman Sheila Bair said. The plan requires the banking industry "to step up" while spreading the financial hit to banks over a number of years, she said.

An insurance payment by the industry of $45 billion "is not going to constrain lending," she said.

The insurance fund has been sapped by billions from a rash of bank failures that began in mid-2008. The banking industry prefers the prepaid premiums over a special emergency fee -- which would be the second this year.

Without additional special fees or increases in regular premiums, the insurance fund -- at $10.4 billion at the end of June -- will become "significantly negative" next year and could remain in deficit until 2013, the FDIC is now projecting.

Ninety-five banks have failed so far this year as losses have mounted on commercial real estate and other soured loans amid the most severe financial climate in decades. That has cost the fund about $25 billion, the FDIC said Tuesday. The $10.4 billion already was the fund's lowest point since 1992, at the height of the savings-and-loan crisis. That is equivalent to 0.22 percent of insured deposits, below a congressionally mandated minimum of 1.15 percent.

Most of the $100 billion in costs are expected to come from failures this year and next, the agency said.

Bair didn't rule out the possibility of the FDIC tapping its $500 billion credit line with the Treasury Department, if the economy unexpectedly worsened. "But today is not that day," she said before the vote.

Some analysts expect hundreds more banks to fail in the coming years. But the FDIC is fully backed by the government, which means depositors' money is guaranteed up to $250,000 per account.

The deficit partly reflects higher reserves the FDIC has set aside for anticipated bank failures. At the same time, the balance of cash and assets of failed banks that can be sold by the FDIC remain positive, the agency said.

An emergency insurance fee on banks, which took effect June 30, brought in around $5.6 billion. Another one would allow the healthiest banks to keep more capital for investment, but could drive weaker banks toward failure, further depleting the insurance fund.

"The prepaid assessments represent money that the FDIC expects to receive from banks anyway over the next several years, but having the cash on hand sooner ... provides more flexibility for dealing with any contingencies over the foreseeable future," James Chessen, chief economist of the American Bankers Association, said in a statement. "Another special assessment would likely do more harm than good as it would directly reduce bank income, hinder capital growth, and make lending much more difficult."

In addition to the insurance fund, the FDIC has about $21 billion in cash available in reserve to cover losses at failed banks, down from $25 billion at the end of the first quarter.

"There's lots of liquidity; there's lots of cash. Liquidity's not an issue for the banking system right now," Bair told reporters.

http://finance.yahoo.com/news/FDIC-says-bank-failures-to-apf-1346316964.html?x=0&sec=topStories&pos=5&asset=&ccode=