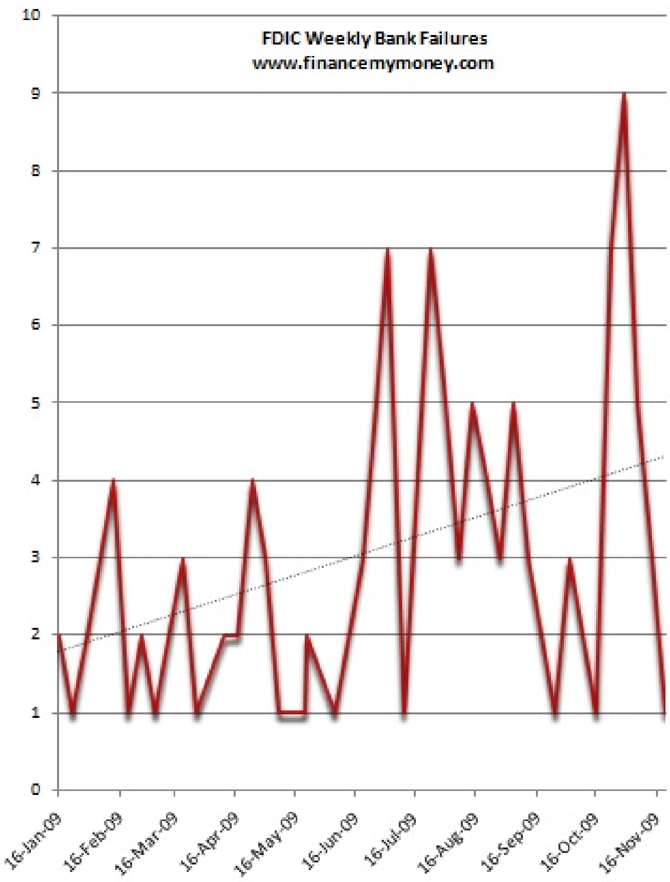
FDIC too broke to Takeover Banks? No Bank Failure Friday on Black Friday. Can 5,300 Employees Deal with $5.3 Trillion in Deposits?

The Federal Deposit Insurance Corporation (FDIC) was hammered this week when a third quarter report demonstrated that the FDIC was running in the red to the sum of $8.2 billion. This is troubling since the FDIC protects deposits in member banks up to $250,000 and funds covered by the deposit insurance fund (DIF) are over $5.3 trillion, this amount is over one-third of our nationwide GDP. The FDIC as of Q1 of 2009 has 5,381 employees. Is that enough to deal with the enormous banking crisis?

The FDIC is proud of saying that since 1934 no depositor has ever lost a single cent of insured funds due to any bank failure. Yet what isn't stated is the trillions needed to prop up the failing banking system. Of course, as time has gone on and the banking system has gotten more fragile the amount of insured deposits has ramped up:

- *1934 – $2,500*
- *1935 – $5,000*
- *1950 – $10,000*
- *1966 – $15,000*
- *1969 – $20,000*
- *1974 – $40,000*
- *1980 – $100,000*
- *2008 – $250,000*

Did you notice how no banks were taken over this week? This definitely bucks the overall trend for the year:



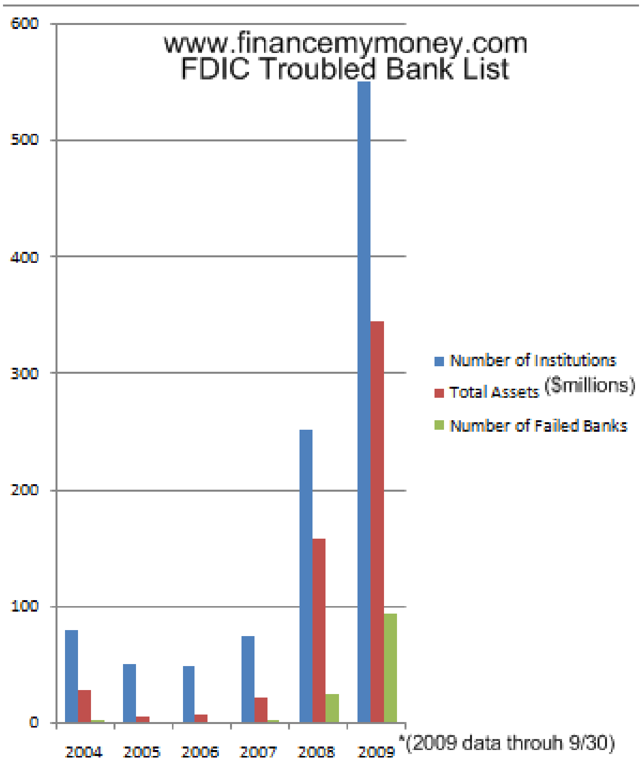
The FDIC has dealt with 124 bank failures in 2009. Yet this week the third quarter report shows the fund in the red, so no banks are taken over? Can it be that the FDIC is so deep in the red, that it is in poor shape to take over any additional banks? On November 20th only one bank was taken over. Maybe this was in anticipation of the quarterly report. Since the third quarter ended, the FDIC has taken over 29 additional banks so the fund is likely to be further in the red than the $8.2 billion announced.

What is troubling, as the fund goes negative, more deposits are now under the DIF purview:

Deposit Insurance Fund Balance and Insured Deposits ($ Millions)

	DIF Balance	DIF-Insured Deposits
3/06	49,193	4,001,906
6/06	49,564	4,040,353
9/06	49,992	4,100,013
12/06	50,165	4,153,786
3/07	50,745	4,245,266
6/07	51,227	4,235,044
9/07	51,754	4,242,607
12/07	52,413	4,292,221
3/08	52,843	4,438,180
6/08	45,217	4,467,849
9/08	34,588	4,545,350
12/08	17,276	4,750,807
3/09	13,007	4,832,921
6/09	10,368	4,817,201
9/09	-8,243	5,308,738

From the second to third quarter, DIF-insured deposits increased by $491 billion yet the DIF balance swung down by $18.6 billion. Where will the fund be at by the end of the fourth quarter? It isn't because banks are doing better. The number of troubled institutions has also increased to 552:



The troubled bank list is made up of banks that are still functioning. Banks like IndyMac and Washington Mutual that ended up costing the FDIC billions didn't even appear on the list. Troubled banks under the FDIC watch now have over $300 billion in assets at risk. So what options does the FDIC have?

If you recall, the FDIC also has a lifeline of $500 billion with the U.S. Treasury:

"(FDIC) Chairman Bair distinguished the DIF's reserves from the FDIC's cash resources, which included $22 billion of cash and U.S. Treasury securities held as of June 30, as well as the ability to borrow up to **$500 billion from the Treasury**. "A decline in the fund balance does not diminish our ability to protect insured depositors," Chairman Bair concluded."

The FDIC instead of tapping into the U.S. Treasury has decided to assess early premium payments on banks. But how long this can go on is hard to say. Politically the nation is getting exhausted with bailouts going to a banking system that is failing and is clearly only taking taxpayer money to protect its balance sheet. In fact, since the major bailouts most lending has decreased in overall size:

TABLE II-A. Aggregate Condition and Income Data, All FDIC-Insured Institutions

(dollar figures in millions)	3rd Quarter 2009	2nd Quarter 2009	3rd Quarter 2008	%Change 08Q3-09Q3
Number of institutions reporting	8,099	8,195	8,384	-3.4
Total employees (full-time equivalent)	2,069,405	2,093,060	2,170,931	-4.7
CONDITION DATA				
Total assets	$13,247,285	$13,301,549	$13,572,987	-2.4
Loans secured by real estate	4,526,678	4,651,631	4,749,530	-4.7
1-4 Family residential mortgages	1,928,497	2,012,172	2,101,972	-8.3
Nonfarm nonresidential	1,089,930	1,086,490	1,043,580	4.4
Construction and development	492,213	535,779	614,730	-19.9
Home equity lines	667,459	672,908	652,106	2.4
Commercial & industrial loans	1,275,647	1,364,766	1,502,746	-15.1
Loans to individuals	1,040,183	1,037,132	1,082,714	-3.9
Credit cards	392,974	398,233	411,627	-4.5
Farm loans	60,014	58,348	59,612	0.7
Other loans & leases	515,034	516,329	597,963	-13.9
Less: Unearned income	2,613	2,903	2,792	-6.4
Total loans & leases	7,414,944	7,625,303	7,989,773	-7.2
Less: Reserve for losses	220,268	211,073	156,445	40.8
Net loans and leases	7,194,676	7,414,230	7,833,328	-8.2
Securities	2,396,639	2,336,976	2,025,434	18.3
Other real estate owned	37,165	33,945	22,460	65.5
Goodwill and other intangibles	425,113	431,398	484,147	-12.2
All other assets	3,193,693	3,085,001	3,207,618	-0.4

This is where you see the real shift. You'll notice that with residential loans, banks are now pushing government backed paper while tapering off their own balance sheet. If this is the case, why doesn't the public just go to the U.S. government for mortgages with the benefit of the Fed's zero bound interest rate? Also, you'll notice that credit card lending has also fallen by 4.5 percent in the last year even though banks have received trillions in bailout funds. Where has the money gone? Take a look at the jump in loss reserves. A jump of 40 percent. Real estate owned has jumped by 65 percent. To be more clear, banks fooled the public by utilizing their spokespeople in D.C. that the money given to banks was necessary to maintain lending. But in reality, the trillions in bailouts were merely a requirement to patch up the balance sheet of banks.

I wouldn't mistake the last couple of quiet weeks in terms of bank failures as good news. It just seems odd that a broke FDIC would be taking over a broke bank. Banks are in deep trouble. We just saw that Dubai, the hyper center of commercial real estate development has requested a pause on their debt payment. They like many homeowners are unable to make their payment. This merely serves as a reminder that problems still sit in the banking system. The FDIC will undoubtedly be using that $500 billion lifeline just like the FHA will be needing a bailout in 2010. How many bailouts will our fragile economy take while the money is funneled to the entrenched banking interests?

http://financemymoney.com/fdic-too-broke-to-takeover-banks-no-bank-failure-friday-on-black-friday-can-5300-employees-deal-with-5-3-trillion-in-deposits/