

Agency that insures bank deposits may need help

by STEVENSON JACOBS
Associated Press

NEW YORK – The government agency that guarantees you won't lose your money in a bank failure may need a lifeline of its own.

The coffers of the Federal Deposit Insurance Corp. have been so depleted by the epidemic of collapsing financial institutions that analysts warn it could sink into the red by the end of this year.

That has happened only once before – during the savings-and-loan crisis of the early 1990s, when the FDIC was forced to borrow \$15 billion from the Treasury and repay it later with interest.

On Thursday, the agency reveals how much is left in its reserves. FDIC Chairman Sheila Bair may also use the quarterly briefing to say how the agency plans to shore up its accounts.

Small and midsize banks across the country have been hurt by rising loan defaults in the recession. When they fail, the FDIC is responsible for making sure depositors don't lose a cent.

It has two options to replenish its insurance fund in the short run: It can charge banks higher fees or it can take the more radical step of borrowing from the US Treasury.

None of this means bank customers have anything to worry about. The FDIC is fully backed by the government, which means depositors' accounts are guaranteed up to \$250,000 per account. And it still has billions in loss reserves apart from the insurance fund.

Last Thursday, Bair also updated the number of banks on the FDIC's list of troubled institutions. That number shot up to 305 in the first quarter – the highest since 1994 and up from 252 late last year.

Because of the surging bank failures, the FDIC's board voted Wednesday to make it easier for private investors to buy failed financial institutions.

Private equity funds have been



In this Sept. 17, 2008 file photo, Federal Deposit Insurance Corp. (FDIC) Chairwoman Sheila Bair reviews her notes on Capitol Hill. Hit by an epidemic of bank failures, the Federal Deposit Insurance Corp. revealed Thursday, Aug. 27, how much is left in its deposit insurance fund, which has sunk to its lowest level in 17 years.

AP Photo by Haraz N. Ghanbari, file

criticized for taking too many risks and paying managers too much. But these days fewer healthy banks are willing to buy ailing banks, and the depth of the banking crisis appears to have softened the FDIC's resistance to private buyers.

Under the new rules, a buyer would need to maintain the failed bank's reserves at levels equal to 10 percent of its assets. An earlier proposal set the requirement at 15 percent.

The new policy also eases the rules on when private investors must maintain minimum levels of capital that might be needed to bolster banks they own.

But the FDIC sought to guard against private equity funds that might want to quickly buy and sell at a profit: It required the investors to maintain a bank's minimum capital levels for three years.

At least in theory, allowing private investors to buy failing banks would mean the FDIC could charge a higher price, shrinking the amount of losses the agency would have to cover.

Bair has not ruled out hiking premiums on banks for the second time this year or asking the Treasury for a short-term loan.

She has said taking the longer-term step of drawing on the Treasury credit line is only for emergencies.

So far this year, 81 banks have failed, compared with just 25 last year – and only three in 2007. Hundreds more banks are expected to fail in coming years because of souring loans for commercial real estate. That threatens to deplete the FDIC's fund.

"I think the public should expect the fund to go negative at some point," said Gerard Cassidy, a banking analyst at RBC Capital Markets, which has predicted that up to 1,000 banks –

or one in eight – could disappear within three years.

Either lifeline for the FDIC carries risks. Borrowing from the Treasury could be seen as another taxpayer bailout. But charging more in premiums would shrink profits at healthy banks, squeeze troubled ones and make lending even tighter.

"The more you levy these assessments on banks, the less money they have to lend to the general population," said Camden Fine, president of the Independent Community Bankers of America, an industry group that represents 5,000 banks.

Last week's failure of Guaranty Bank in Texas, the second-largest this year, is expected to cost the FDIC \$3 billion. The FDIC recorded more than \$19 billion in losses just through March.

The agency figures it will need \$70 billion to cover bank failures through 2013, more than five times the \$13 billion that was in the fund in March. The last time it was that low was during the S&L crisis in 1992, when the fund was down to \$178 million.

Some critics say regulators have taken too long to shut down troubled banks. Chicago's Corus Bankshares, for example, has staggered for weeks under the weight of bad real estate loans.

FDIC spokesman Andrew Gray said the agency seeks to strike a balance between helping troubled banks work through their problems "so there's zero cost to the deposit fund," and intervening quickly if there are no other options. ■

AAJC speaks on the passing of Senator Edward M. Kennedy

WASHINGTON, DC – Karen K. Narasaki, president and executive director of the Asian American Justice Center, made the following statement on the passing of Sen. Edward M. Kennedy (D-Mass.).

"Sen. Kennedy was the Senate's extraordinary advocate for equality. He believed in, and fought doggedly to protect, the civil rights of all Americans. The immigrant community is especially grateful for his years of service and commitment, and for being one of its staunchest advocates.

Asian Americans in particular honor him for his work in 1965 when he led, and won, the battle to pass that year's Immigration Act, which lifted the 1924 racial restrictions on immigration from Asia and abolished immigration quotas. He led the fight for the Refugee Act of 1980, which ensured humanitarian protections for refugees in overseas camps or seeking asylum. The Asian American community would not be as large or as diverse as it is today without his championing of immigrants and refugees.

From the seminal Civil Rights Act of 1964 that attacked segregation, to the Voting Rights Act of 1965 that sought to eliminate minority discrimination in voting, to the 1968 Fair Housing and Bilingual Education acts, Kennedy was an indispensable figure in ensuring that minorities truly be treated as full citizens.

More recently, he was the chief sponsor of the Civil Rights Act of 1991 and was integral to the 2006 reauthorization of the Voting Rights Act. Even while he was battling brain cancer, he never stopped fighting for others. Earlier this year, Kennedy was key to passage of the Lilly Ledbetter Fair Pay Act, which restored the right of employees to challenge wage discrimination and which was the first law President Obama signed. He was in the middle of trying to get long sought hate crimes legislation and immigration reform enacted. Lastly, we are saddened by his absence from the health care reform debate, a cause that he took up early in his career and never dropped.

Our thoughts are with widow Victoria, his family, and his staff. We mourn the passing of this courageous and compassionate champion who was a legend long before today." ■

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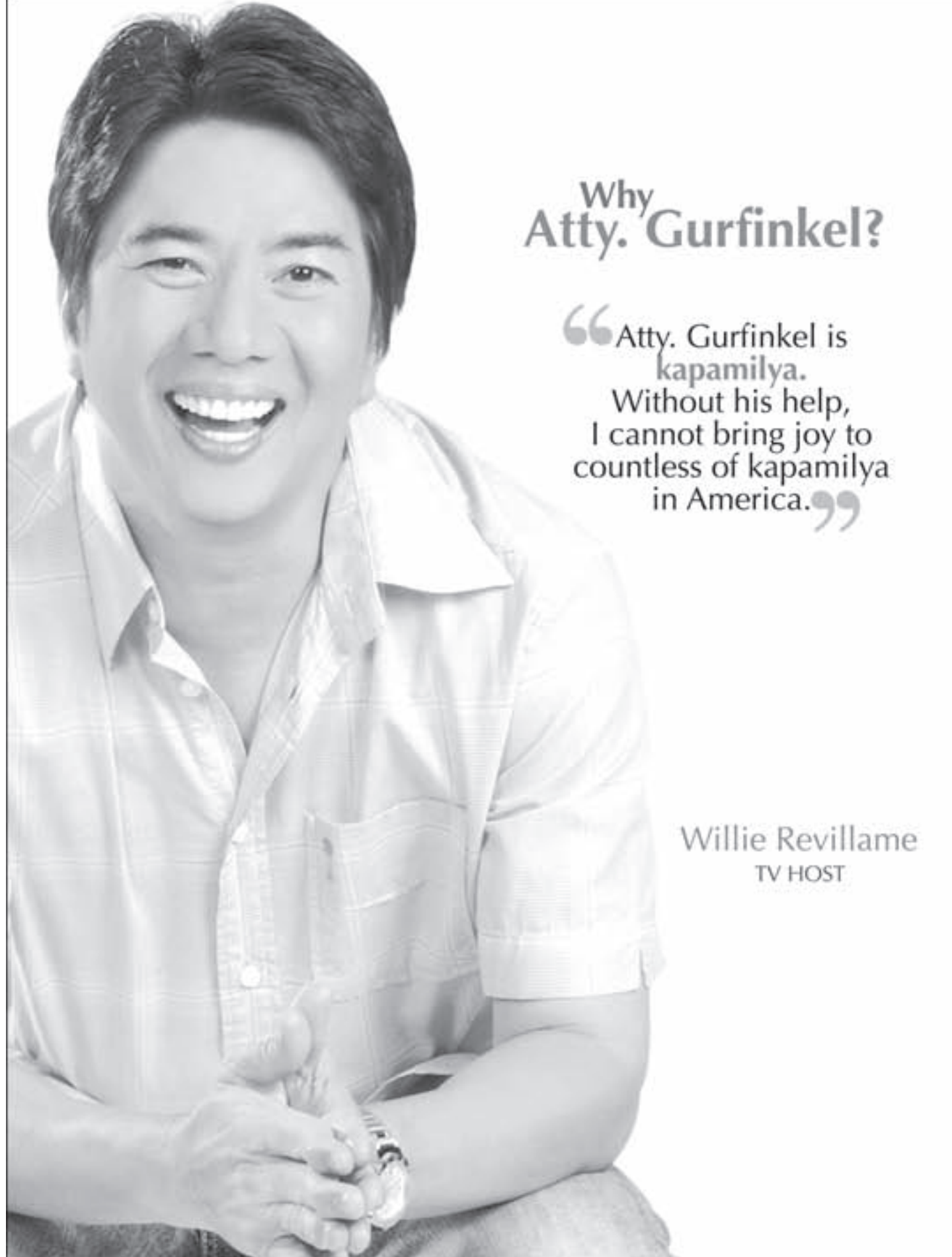
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