U.S. banks continue to close at record pace

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As many Americans began celebrating the 4th of July weekend, another rash of U.S. banks failed and were closed by authorities at the Federal Deposit Insurance Corporation. According to CNN, 52 banks have closed in 2009, more than double the number from last year. Banks have been hit hard with dropping home values. The recession has increased unemployment, which has caused consumers to default on their loans.

Six family-owned banks in Illinois and one bank in Texas closed Thursday costing the FDIC $343.3 million. The banks were acquired by the FDIC then sold to other institutions and will now reopen. The FDIC said the Illinois banks followed a business model that "created concentrated exposure in each institution." The agency said that the six failures stemmed from the banks' investments in collateralized debt obligations (CDOs) and other loan losses.

Despite President Obama's efforts to rein in banks, the carnage continues. This has included billions in aid to banks in return for preferred stock. As I reported here in June ,10 banks began to repay $68 million in federal aid. However, financial experts attending the Wall Street Journal Future of Finance Initiative meetings in March predicted 1,500 U.S. bank branches would close by 2010. The Obama administration has tried to stimulate overall lending by backing assets like credit cards and mortgages.

A new ABC NEWS report says new credit cards are down 38%.That's discouraging for those who want to see banks pumping liquidity into the economy. "The credit engine needs a tune-up," says Jim Powers, an Equifax assistant vice president. Equifax is a credit rating agency that provides financial data for consumers.

With leaders in Congress committed to enacting regulatory reform by the end of the year, on June 30th the Obama Administration delivered a bill to Capitol Hill that would create the Consumer Financial Protection Agency. The new agency is designed with the specific goal of "looking out for American families when they take out loans or use other financial products or services – with a mission to promote access and protect consumers from unscrupulous practices across the market." The CFPA would also enforce the new credit card bill signed into law by President Obama and Congress and have authority to deal directly with conflicts in the mortgage markets.

President Obama recently signed a law imposing far-reaching restrictions on credit cards, which will likely take effect in February 2010. Financial experts say fewer banks will offer credit cards with the new, stricter enforcements. Typically when market conditions are very good or drastically bad, banks offer more credit to consumers. "What's remarkable is the very sharp decline in lending," says Mark Zandi, chief economist at Moody's Economy.com.

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