

"It Could Get Ugly Very Fast": Banking Crisis Grows, FDIC's Funds Shrink

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The failure of some of the nation's largest banks in 2008, including Washington Mutual, Wachovia and IndyMac, and scores of smaller banks this year came at a price. The Federal Deposit Insurance Corporation's fund that insures the country's deposits now stands at \$10.4 billion, down from \$45.2 billion the prior year.

Jim Bianco, president of Bianco Research in Chicago doesn't believe depositors need worry, because the government has the power of the printing press to make good on FDIC insurance. But he is troubled. "As a taxpayer you should be concerned because this could be another potential drag and possibly a significant drag on the U.S. Treasury and bloat the already record federal deficit," he says, echoing a [Wall Street Journal editorial](#) on Tuesday, suggesting the FDIC may be the next entity in need of a bailout.

84 banks have failed this year, and the problem list of banks continues to grow, 416 as of the end of June. "They've got a bunch of huge open ended liabilities should the banking system continue to deteriorate and it could get ugly very, very fast for them," Bianco worries. As we learned during this banking crisis, these things can pick up steam in a hurry.

With that in mind the FDIC is forced to raise their insurance fees, putting added pressure on already struggling smaller and regional banks. Community bankers Bianco speaks to, he claims are being punished twofold. "They're livid about it because a lot of these guys are just barely hanging on and their net incomes are pretty much equal to the fees they have to pay to the FDIC." Plus, the troubles facing the FDIC are a result of toxic assets, "that a lot of community banks never, not only trafficked in, but don't understand to this day."

The economic impact is significant: Without local banks lending, hopes of a V-shaped recovery are slim to none. Community banks are the ones "lending on Main Street USA" and Bianco says, if they're stressed the financial system won't return to full health "for the foreseeable future."

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