A Banner Year for Bank Failures

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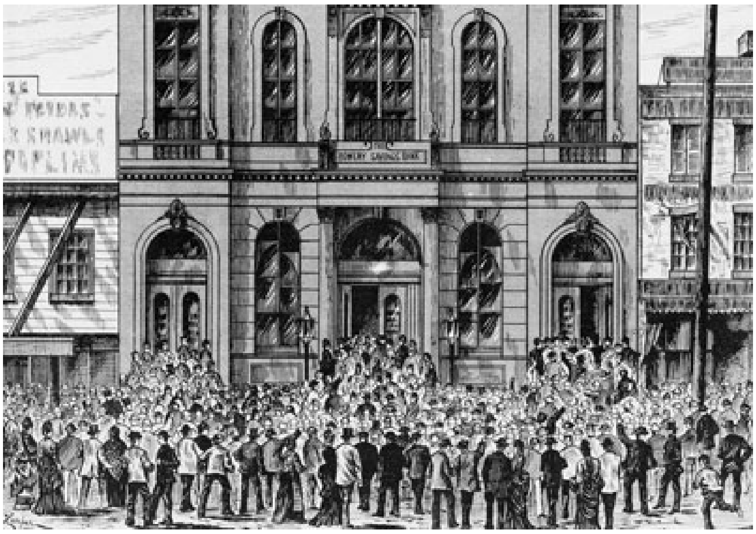

While the government spent zillions trying to prop up its swine flu propaganda campaign in order to grab unprecedented new powers by putting the populace under the spell of a doomsday crisis, duplicitous public officials who paint catastrophic landscapes with pink ribbons and teddy bears are obscuring the real calamities. The blighted landscape before us has been glossed over with a swarm of lies and appeasements. What's coming down the pike is a crush of oncoming bank failures.

One notable item appeared recently on *Money & Markets*, courtesy of Martin D. Weiss, Ph.D.: "200 Bank Failures Expected in 2010." Some of the views of Martin Weiss are problematic in many ways, but he has been learning bits and pieces from the Austrian school of economics. For instance, in the span of a few months, he went from being a rabid deflationist to an overt inflationist. Gary North has written about this. Here's Weiss in his latest piece on bank failures:

Washington has so thoroughly botched its supervision of the banking industry that 200 banks are likely to fail this year - easily surpassing last year's 140 bank failures ... inevitably involving the greatest bank losses in history ... and already costing the FDIC ten times more than the great S&L and banking crisis of the 1980s did.

Weiss points to the recent testimony of FDIC Chairwoman Sheila Bair (he says "Blair," but that's an easy-to-make typo). Make no mistake - Bair is a raging statist and has been selling a pack of lies to the public since her appointment to the FDIC. Her solutions for current financial crises are always centered on the necessity of more federally mandated reforms. If you are an advocate of the free market, don't read the portion of Bair's testimony that attempts to explain, "Why market discipline failed" - it will make you bonkers. On the contrary, she did blast Greenspan for causing the housing bubble and she condemned Washington for enabling Wall Street's shadow banking system. In his article, Weiss has this to say about the magnitude of the current banking meltdown:

Worse than the 1980s:

If you're among those who think today's banking crisis isn't nearly as bad as the great S&L and banking crisis of the 1980s, think again. The average bank failing today is six times larger than it was back then, producing far greater losses. Moreover, each bank failure is costing the FDIC about TEN times more than it did in the 1980s crisis, according to the Meridian Group of Seattle. As a result ...

Worst FDIC losses of all time:

The FDIC lost more money in bank failures ($36 billion) than it lost in the ENTIRE five-year banking crisis from 1987 through 1992 ($29.6 billion). And in 2010, with the number of failures likely to increase, the losses will be even larger.

The size of the banks that are blowing up is an important point to make - one that federal fibbers and media bobbleheads continuously brush aside. And while the mainstream business organs keep reminding us that the recession (Depression?) is over, and the banks are making profits again (yoo-hoo!), Weiss notes:

What most Wall Street bank analysts still don't seem to recognize is that the giant trading profits they've been so enthusiastic about are generated by the same low-interest Fed policy that created the housing bubble - and is now in the process of creating MORE bubbles.

Even ex-Federal Reserve Governor Mark Olson spoke to FOX News about the doomsday, saying that 200 bank failures is a "reasonable number." As of today, for the first eighteen days of 2010, there have been four bank failures. Here is the "official" FDIC "Bank Failures in Brief."

Additionally, financial strategist Richard Suttmeier thinks that "500 to 800 banks will fail into 2012 and 2013." The FDIC has required that banks prepay $45 billion in premiums for 2010 through 2012, but hold on - much of that is already spent, as Suttmeier notes:

The Deposit Insurance Fund will pick up $45 billion from members by year-end. This inflow is a pre-payment of regular fees for 2010 through 2012. FDIC Vice Chairman Martin Gruenberg says that this money will be enough to cover bank failures for the next three years, but I say, no way!

The FDIC Deposit Insurance Fund is $16.8 billion in arrears, so 37% of the $45 billion has already been pre-spent. With $5.3 trillion in insured deposits, the DIF needs to exceed $54 billion at the end of June 2013 to be above the 1.15% ratio required by law.

Since June 2008, insured deposits are up $168 billion per quarter. Given this growth rate, insured deposits could top $9 trillion in mid-2013, which requires the Deposit Insurance Fund to be above $100 billion, and is what the FDIC projects to be the total cost of failures. This money will have to come from the FDIC's lines of credit from the US Treasury.

Remember that less than a year ago, Sheila Bair stated, "Without additional revenue beyond the regular assessments, current projections indicate that the fund balance will approach zero." Is it possible that Bair was hinting that the FDIC was insolvent? Indeed, the FDIC levied the premium payment on banks in order to stave off a financial holocaust. This was a forced bailout from the banks that got bailed out from a government that stole the money from its captive taxpayers. Moreover, Bloomberg's Jonathan Weil noted, a month ago, that the FDIC's

insurance fund's liabilities exceeded assets by $8.2 billion as of Sept. 30. That marked the first time since 1992 that the industry-financed fund had shown a deficit." That's because the FDIC has been underestimating its losses ever since the financial crisis began, which is another way of saying it has consistently overstated its insurance fund's capital position. At the rate it's going, the FDIC soon may have no choice but to borrow money from taxpayers by tapping its $500 billion credit line with the Treasury Department, an option it so far has avoided.

We are only in the initial stages of this crisis. The FDIC has been claiming that its Treasury credit line is for the purposes of a short-term, emergency cash flow; however, the scheme has the look and feel of a long-term lifeline that will snap when the weight of additional banking failures are added to a financial system that is already obese with failure and fraud.

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