# FDIC chief expects 2010 bank failures to exceed 2009

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Reacting to President Barack Obama’s recent proposal to impose limits on the size and scope of banks **Federal Deposit Insurance Corp.** Chairwoman Sheila Bair said during a visit to Miami on Monday that institutions should wall off their non-bank financial activities from their insured deposits.

On Thursday, Obama said he wants to prevent financial institutions that own a bank from also owning, investing in or sponsoring a hedge fund, private equity fund or proprietary trading operations that are not related to serving their customers. The president also said that large financial firms could not increase their national market share of assets other than insured deposits beyond a certain point.

Just before speaking to the **Florida Bankers Association** on Monday night, Bair said she hasn’t seen enough details of Obama’s proposal to say whether she supports it or not. She said financial institutions could do a better job of walling off their FDIC-insured banks from some of their more risky financial activities so the banks aren’t hurt by losses in those areas.

“The bulk of these problems actually occurred outside the insured deposit banks," Bair said. "Just look at Lehman Bros. and AIG."

She noted that large institutions should have a self-liquidation plan filed with regulators in case they need to be wound down.

Bair, who plans to leave office after her term expires next year, said the number of bank failures this year should exceed the 140 failures that occurred in 2009. Fourteen of those bank failures occurred in Florida. The FDIC has projected that bank failures would cost its insurance fund about $100 billion from 2009 through 2013.

Since some of the troubled banks are fairly small, Bair said the FDIC might package them to attract more bidders.

The FDIC reported 522 banks holding $345.9 billion in assets on its “problem list” as of Sept. 30. Bair did not know how many were in Florida, but acknowledged that this state has been hit harder than many others.

“In any of the boom markets [of the country], they suffer the most when the boom becomes a bust,” Bair said. “But, there are a couple of positive trends in Florida.”

Bair pointed to increased home sales volume and slightly better employment numbers as reasons Florida might fare better than other former boom states this year. On Monday, **Florida Realtors** reported statewide existing home sales rose 31 percent, year-over-year, in 2009.

Just as Florida’s economy is hurting more than in most states, so are its banks. Florida is home to 15 banks considered “undercapitalized” by FDIC capital ratio guidelines based on their Sept. 30 reports.

On Friday, Miami-based **Premier American Bank** became the first Florida bank to fail this year. This was the first time that a “shelf charter” set up by a private equity fund specifically to buy a failed bank won a bid. Bair noted that these private equity deals have special conditions: They have heightened capital requirements at the bank and they can’t sell the institution for three years. They must follow the same community reinvestment rules as other banks, she noted.

Bair said the FDIC has increased the frequency of bank examinations and it has placed an increased emphasis in analyzing whether banks have properly reserved to cover future loan losses. In December, the FDIC said it would increase its staffing level to 8,653 this year from 7,010 in 2009.

“There are some sad cases of long-standing community banks that had to be closed,” Bair said. “It’s not a happy thing to close a bank, but we’ve learned the hard way that if you put it off, it will only cost more later.”

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