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MarketWatch

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FDIC: Number of troubled banks rises to 416

By MarketWatch

BOSTON (MarketWatch) -- The Federal Deposit Insurance Corp. reported Thursday that the number of distressed banks rose to the highest level in 15 years as its insurance fund continued to shrink.

More lenders ran into financial trouble during the second quarter with recession saddling banks with soured loans, according to the report.

The FDIC said that the number of troubled banks rose to 416 at the end of June from 305 at the end of March. This is the largest number of banks on its "problem list" since June 30, 1994, when 434 banks were on the list, which isn't disclosed by the FDIC.

Assets at troubled banks totaled \$299.8 billion, the highest level since Dec. 31, 1993, the agency said.

Banks insured by the FDIC swung to a total quarterly loss of \$3.7 billion from last year when they reported a total profit of \$4.8 billion.



Reuters
Sheila Bair.

Total reserves of the Deposit Insurance Fund stood at \$42 billion, with the contingent loss reserve falling to \$10.4 billion from \$13 billion over the second quarter. Some analysts have been warning that growing bank failures could put pressure on the FDIC fund.

"While challenges remain, evidence is building that the U.S. economy is starting to grow again," said FDIC Chairman Sheila Bair in a press release.

"The banking industry, too, can look forward to better times ahead," she added. "But, for now, the difficult and necessary process of recognizing loan losses and cleaning up balance sheets continues to be reflected in the industry's bottom line."

Bair said the FDIC has "ample resources" to protect depositors. "No insured depositor has ever lost a penny of insured deposits ... and no one ever will," she asserted.

More than 28% of all insured institutions reported a net loss in the second quarter, compared with 18% in the year-ago quarter.

"Deteriorating loan quality is having the greatest impact on industry earnings as insured institutions continue to set aside reserves to cover loan losses," Bair said.

The quarterly report "makes clear that banks are neither at the beginning or the end of the problems presented by a difficult economy," said James Chessen, chief economist at the American Bankers Association. "They are in the middle and significant challenges still remain."

The FDIC's insurance fund balance has dropped from over \$50 billion to around \$10.4 billion over the past year, according to Mark Calabria, director of financial regulation studies at the Cato Institute. "With further losses in the

construction lending and commercial loan sector, it is almost certain that the remaining insurance fund balance will be depleted," he said.

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