FDIC Running out of Cash: No Bank is Safe in this Alarming Atmosphere

By Global Research

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Be very, very careful. There are reports the US Federal Deposits Insurance Commission is running out of money. Chairman Sheila Blair has been forced to issue a statement. "US banks are overwhelmingly safe and sound and the Government fund used to cover insured deposits will be adequate to absorb any losses, even high losses," she says.

But Brian Bethune, US economist at consulting company Global Insight, said: "Additional failures of large banks or savings and loans companies seem likely, and that could overwhelm the FDIC's insurance fund."

Christopher Whalen, senior vice-president and managing director of Institutional Risk Analytics, said: "We've got a … retail bank run forming in this country."

On Monday, US Treasury Secretary Henry Paulson said the nation's commercial banking system "is safe and sound", and that "the American people can be very, very confident about their accounts in our banking system".

FDIC officials say 98% of US banks still meet regulators' standards for adequate capital.

Associated Press reported that the FDIC was down to $US45.2 billion ($A57 billion) – the lowest level since 2003.

Whalen then wrote that reports the FDIC was running out of cash had no basis.

His statement said: "It is essential that people realise the US Treasury will advance whatever cash is needed by FDIC to address bank failures and make good the deposit insurance guarantee. There is no issue regarding the bank insurance fund, but unfortunately most of the public do not understand this. The FDIC needs to make this clear in all of its public statements."

IRA has been constantly in contact with the FDIC and other regulators and knows more about this situation, I would suggest, than the US Government.

The situation may not have been helped by a report from American Banker concerning the deal by Bank of America, the FDIC's biggest customer, with 10% of the nation's deposits, to take over Merrill Lynch saying "it is unclear how much that acquisition would increase B of A's risk profile".

It is an intricate game, with the stability of the nation's finances on the line. American Banker says regulators will meet the Senate Banking Committee, which is "increasingly worried about the FDIC's ability to pay for the growing number of bank failures, and relaxing the barriers between banks and the riskier affiliates is likely to raise some concerns".

It said the Federal Reserve board had waived long-standing limits designed to prevent commercial banks from bailing out affiliates, including their investment banking units. The waiver, which will last until January, was seen as helping B of A make the Merrill deal.

"That's specifically so that no one will question Bank of America's ability to capitalise Merrill Lynch because it allows B of A to use its deposit base, which is enormous, to capitalise the broker-dealer," said Chris Low, chief economist at First Horizon National Corp's FTN Financial Capital Markets.

"The initial worry for the FDIC is that deposits will be used to backstop investment banking operations, which in and of itself is risky."

This sort of statement has the potential to roil troubled markets. Statements to the effect that there is no cause for alarm, although accurate in the immediacy, can cause the public to consider the opposite. But the genie is out of the bottle.

These developments draw attention to how close we are to widespread alarm, and in that environment no bank is safe.

Paul Craig Roberts was assistant secretary of the Treasury in the Reagan administration. He was associate editor of The Wall Street Journal editorial page and contributing editor of National Review. He is co-author of The Tyranny of Good Intentions.

He wrote on Tuesday: "Most Americans, including the presidential candidates and the media, are unaware that the US Government today, now at this minute, is unable to finance its day-to-day operations and must rely on foreigners to purchase its bonds.

"The Government pays the interest to foreigners by selling more bonds, and when the bonds come due, the Government redeems the bonds by selling new bonds. The day the foreigners do not buy is the day the American people and their government are brought to reality. This is not the financial position of a superpower … Will what happened to Lehman Brothers today be America's fate tomorrow?"

Hopefully, tomorrow is a long way off.

Meanwhile, RSG Monitor, a creation of Professor Nouriel Roubini and other top international economists and policymakers, reports: "The biggest US savings and loan, Washington Mutual, might be close to a bust. Dozens of other banks could be near bankruptcy and the beginning of a silent bank run is looming as depositors are nervous about their assets.

"Indeed, panic is mounting in financial markets: the CDS market is frozen because of the collapse of Lehman and fears of the collapse of AIG, WaMu and other financial institutions. At the same time, many hedge funds are now teetering as their losses are mounting. Investors in fixed income – including preferred stocks – have also experienced massive losses."

David Hirst is a journalist, documentary maker, financial consultant and investor. His column is syndicated by News Bites, a Melbourne-based sharemarket and business news publisher.

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