

Prediction: More than 300 bank failures in America

Financial analyst Meredith Whitney

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Meredith Whitney, the analyst who predicted that Citigroup Inc. would cut its dividend last year, said the number of U.S. bank failures will quadruple as lenders struggle with bad loans.

“There will be over 300 bank closures,” Ms. Whitney said in an interview with Bloomberg Television from Jackson Hole, Wyo. “The small-business owner on Main Street continues to see liquidity come away.”

Unemployment has risen to the highest since the early 1980s and Americans are falling behind on mortgage payments at a record pace, forcing regulators to seize 77 lenders in 2009, the most in 17 years. Colonial BancGroup Inc. was closed by the Federal Deposit Insurance Corp. and taken over by BB&T Corp. on Aug. 14 in the biggest failure since Washington Mutual Inc. collapsed in 2008.

The FDIC plans to ease rules to allow private-equity investors to acquire insolvent banks, the New York Times reported Friday, citing unidentified people briefed on the situation. The move would help reduce the number of failed banks the FDIC needs to support as their number increases, the newspaper said.

Ms. Whitney said that even though the panic of the financial crisis has passed, investors have been “overzealous” in estimating bank profits for the next few years. Analysts polled by Bloomberg project earnings for the industry will surge more than ninefold this year and 57% in 2010 as lenders recover from the worst crisis since the Great Depression.

“Many banks may be OK for a while, but the real driver for the economy, which is consumer spending, I don’t expect that to come back anytime soon,” she said.

Financial companies in the Standard & Poor’s 500 Index have collectively rallied 135% in the past five months after falling to the lowest level since 1992.

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