72 failures so far this year

Three more US banks collapse

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US regulators closed another three banks last Friday: First State Bank and Community National Bank, based in Florida, and Oregon's Community First Bank. The Federal Deposit Insurance Corporation (FDIC) is expected to pay out $185 million to cover closure costs and insured deposits for the three institutions. A total of 72 US banks have collapsed so far this year, up from 25 in all of 2008 and three in 2007.

Recent bank failures have highlighted the financial system's unresolved toxic asset crisis. An estimated $2 trillion in bad debt remains on the banks' books, with banks refusing to write down or sell assets whose real worth is only a small fraction of their nominal value. Compounding many banks' problems is the ongoing contraction in economic activity, which, in turn, is rebounding on the financial sector. A collapse in the commercial real estate market is now widely feared.

At the end of the first quarter this year, the FDIC listed 305 unnamed institutions with a combined asset value of $220 billion as "problem banks" at risk of collapse.

Smaller regional banks have been among the first to go under. Of the latest collapses, Community National Bank had assets of $97 million and deposits of $93 million, Community First Bank had $209 million in assets and $182 million in deposits, and First State had $463 million in assets and $387 million in deposits. These figures pale in comparison to the trillion dollar holdings of the largest US banks.

The elimination of many smaller institutions is in line with the strategy of the biggest banks, aided by the Obama administration, to utilize the economic crisis to engineer a sweeping reorganization of the banking and financial system, concentrating greater market share and economic power in the hands of a few giant firms. The Troubled Asset Relief Program (TARP) and other bailout measures overseen by the Obama administration and the Federal Reserve have enabled firms such as Goldman Sachs and JP Morgan Chase to reap record or near-record profits—and reward their leading personnel with bonuses as big or bigger than the multi-million-dollar payouts that preceded the crash of 2008. This is in part due to the elimination of major rivals such as Bear Sterns, Merrill Lynch, Washington Mutual and Lehman Brothers.

In the banking sector, the FDIC is playing the central role in the consolidation drive that aims at creating a network of mega-banks.

This year's string of bank collapses has cost the federal insurance fund more than $15 billion in insured deposits and other expenses. As a result, the fund is 75 percent under its statutory minimum balance.

To help make up the shortfall, a fee has been levied on member banks, further eating into the limited revenues of many smaller institutions. The *Baltimore Business Journal* recently noted the case of Maryland's Sandy Spring Bank, which on July 23 reported second quarter losses of $1.5 million after paying an FDIC surcharge of $1.7 million. Additional levies are expected later in the year.

At the same time, the FDIC is selling failed banks to larger institutions at bargain prices—and in many cases with a no-loss guarantee on bad debts. "Cleaning up after bank failures is one chore you won't hear bankers complaining about," *Fortune* magazine noted in an article last month, which highlighted the FDIC's so-called loss-sharing agreements. "It's this provision—capping the acquirer's losses at the expense of the fund—that is most alluring."

Throughout the economic crisis, the Obama administration's central imperative has been to protect the interests of the financial elite by placing virtually unlimited public funds at its disposal.

The Federal Reserve has enacted a series of measures—without either public discussion or congressional authorization—to funnel public monies to leading banks and financial institutions. The *Financial Times* last week noted the highly favorable terms granted to securities traders by the Fed, which has emerged as one of the financial sector's biggest customers.

Citing officials and industry executives, the newspaper concluded: "Wall Street banks are reaping outsized profits by trading with the Federal Reserve, raising questions about whether the central bank is driving hard enough bargains in its dealings with private sector counterparties."

Major banks are also set to collect nearly $1 billion in fees from the Fed for their role in breaking up the failed insurance giant American International Group (AIG). The *Wall Street Journal*, which calculated the figure, noted that this "would represent one of Wall Street's biggest pay days." Morgan Stanley, set to collect up to $250 million, is among the largest beneficiaries. Goldman Sachs, Bank of America, and JPMorgan Chase are also expected to cash in through advisory services and underwriting assignments.

AIG stock rose 18 percent last Friday after the insurer and financial services company—now 80 percent government-owned—reported an unexpected second quarter profit of $1.82 billion. The profit was AIG's first since late 2007. Executives reported that it was due to parts of its business stabilizing as well as a favorable accounting change.

AIG also announced that it was paying $249 million in so-called retention bonuses to executives for the second half of 2009. This includes $93 million for its Financial Products division, whose speculation in derivatives led to the company's near-collapse last year and a $173 billion government bailout. The firm's entire retention program is set to cost more than $1 billion over the next three years.

The announcement, made just five months after the public furor over AIG's bonus payments to those responsible for bankrupting the company, bore a provocative character and reflected the brazenness of the financial oligarchy. Late last month, a report issued by New York's attorney general showed that nine leading banks and financial institutions receiving government bailout money paid out bonuses totaling $33 billion last year. Six of the nine paid out more in bonuses than they made in profits. (See: "Billions in bonuses for bailed-out bankers")

One of the firms listed in the report, Wells Fargo Bank, last week announced that it was awarding its four senior executives pay rises of between 400 to 600 percent. CEO John Stumpf will now receive a $900,000 base salary and $4.7 million in company stock. The massive salary increases are designed to evade federal rules limiting bonus payments for companies holding TARP bailout money. These mandated limits, as Wells Fargo has now demonstrated, were never more than token measures promoted by Democratic congressmen as a means of covering themselves in the face of mounting public anger.

The socially destructive activities of the banks and financial institutions are continuing to inflict severe hardship on broad sections of the population.

Credit for consumers and small business owners remains either unavailable or too expensive. The Federal Reserve reported Friday that consumer credit in the US declined in June for the fifth straight month. Banks have also hiked their fees and charges, disproportionately affecting low-income earners.

The *Financial Times* yesterday reported that research company Moebs Services found US banks stood to collect $38.5 billion in customer overdrafts this year. "The crisis has prompted many banks to lift charges on overdrafts and credit cards in order to boost profits," the *Financial Times* noted. "The most cash-strapped customers are the hardest hit by such fees, with 90 percent of overdraft revenues coming from 10 percent of the 130 million checking accounts in the US. Regular use of overdrafts is most common among consumers with low credit scores, Moebs discovered."

While the major banks, bolstered by trillions of dollars in government cash and subsidies, are reporting higher earnings, American workers are suffering a drastic fall in wages. Commerce Department data released August 4 showed a 4.7 percent fall in wages and salaries in the twelve months to June—the largest decline since records began in 1960. Data also showed reduced personal income and consumer spending.

Edmund Phelps, a Nobel Prize-winning economist at New York's Columbia University, responded to the Commerce Department figures by telling Bloomberg Television: "Households are going to have to do an awful lot of rebuilding of their wealth. Even if that rebuilding goes on at a pretty good clip, it will take 12 or 15 years for households to get to the wealth level that they had several years ago."