US government list of “problem banks” tops 400

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Figures released Thursday by the Federal Deposit Insurance Corporation (FDIC) show that the banking crisis continues to deepen in the US. At the same time, a handful of mega-banks have increased their control over the financial system and are posting rising profits, due to the policies of the Obama administration.

The number of firms on the FDIC’s “problem list” grew to 416 this quarter, up by 111 since March. A total of 81 institutions have failed so far this year. The list of banks in danger of failing now amounts to 5 percent of all banks in the US.

“Problem” banks—those deemed to be at high risk of insolvency—held nearly $300 billion in assets at the end of June, up from $80 billion in 2008. Institutions whose deposits are insured by the FDIC lost $3.7 billion in the second quarter, mostly because banks wrote off $48.9 billion in bad loans and set aside $66.9 billion to cover potential future losses. The $48.9 billion in loan write-offs was nearly double the figure for the second quarter of 2008.

Delinquencies on business loans doubled from a year earlier, and the total percentage of all loans and leases that were delinquent hit a new record of 4.35 percent, up from 3.75 percent in the first quarter.

The FDIC report showed how the “toxic asset” crisis has spread beyond residential mortgages. In the second quarter, defaults on commercial and industrial loans more than doubled from the previous year. Write-downs on credit card loans increased by 84.5 percent, as a record 9.95 percent of all credit card debt became delinquent.

Banks are holding $332 billion in loans that are more than 90 days past due and therefore at high risk of default. That is up by $41 billion since the end of March and the highest level since the FDIC began collecting data 26 years ago.

The FDIC report noted that its deposit insurance fund, which protects the bank deposits of consumers, fell to its lowest level since 1993. Deducting funds earmarked by the FDIC for institutions likely to fail, the total deposit insurance fund fell to $10.4 billion, down from $45.2 billion in 2008. The fund guarantees $6.2 trillion in consumers’ deposits.

Gerard Cassidy, a bank analyst at RBC Capital Markets, told the *Wall Street Journal* in an article published Friday, “We think there are hundreds of failures to come.”

The state of the banks underscores the fragility of the economic situation. Not only are job losses mounting and the wages and benefits of working people falling, there is a real possibility of a new financial implosion.

As banks have set aside more funds to cover potential defaults, their available lending pools have declined, and the banks have cut back their lending to consumers and businesses.

In response to rising default rates, banks have compensated by sharply increasing interest rates and fees on loans to consumers and small businesses. The *Wall Street Journal* reported Friday that banks in the second quarter collected $22 billion in service charges and other fees, more than double the first quarter. These predatory practices are exacerbating the economic difficulties of millions of indebted Americans.

Despite the worsening of the economic situation for the banking sector as a whole, many of the largest banks are continuing to post profits and expect to pay out record bonuses. While the crisis is weeding out smaller and weaker banks, the larger institutions are flourishing amid a plentiful supply of cheap government credit and implicit assurances that they are “too big to fail.”

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Banks with $100 billion or more in assets are borrowing money at interest rates on average 0.34 percentage points lower than their smaller rivals, according to the *Wall Street Journal*. That advantage was only 0.08 percent in 2007.

An article Friday in the *Washington Post* ("Banks 'Too Big to Fail' Have Grown Even Bigger") noted: "The crisis may be turning out very well for many of the behemoths that dominate US finance. A series of federally arranged mergers safely landed troubled banks on the decks of more stable firms. And it allowed the survivors to emerge from the turmoil with strengthened market positions, giving them even greater control over consumer lending and more potential to profit."

The newspaper reported that JPMorgan Chase, Wells Fargo and Bank of America now each hold more than 10 percent of all deposits in the country. These banks, plus Citigroup, issue half of all mortgages and two-thirds of all credit card loans. In the past year alone, the ten largest banks have increased their share of bank deposits from 40.6 percent to 48.2 percent.

The large banks are taking advantage of their monopolistic control over the market to drive up fees. The *Post* noted that in the past quarter these banks raised their deposit fees by an average of 8 percent, while the smaller banks lowered their fees by 12 percent.

In 2008, during the height of the crisis, the government mediated a large number of high-profile bank mergers and takeovers, ostensibly in the interest of preventing a crisis of confidence. These mergers violated the government's own rules and regulations.

The *Post* reports: "JPMorgan Chase, Bank of America and Wells Fargo were each allowed to hold more than 10 percent of the nation's deposits, despite a rule barring such a practice. In several metropolitan regions, these banks were permitted to take market share beyond what the Department of Justice's anti-trust guidelines typically allow, Federal Reserve documents show."

Since these mergers, the Obama administration has, through a number of schemes, made available trillions of dollars in cash and cheap credit to ensure that these banks are "made whole."

"The oligopoly has tightened," Mark Zandi of Moody's Economy.com told the *Post*. "There's been a significant consolidation among the big banks, and it's kind of hollowing out the banking system," he added.

The *Wall Street Journal* quoted Ed Najarian, head of bank research at International Strategy & Investment Group Inc., as saying that major banks which received billions of dollars in government bailout funds are "chomping at the bit" to buy failed banks from the FDIC. Referring to the FDIC's dire report on the state of the banking system as a whole, he said the big banks were "looking at it as more opportunity to acquire banks."

This restructuring of the banking system, in which unprecedented economic power is concentrated in the hands of a few mega-banks, is the result of a deliberate policy by both the Bush and Obama administrations. The crisis precipitated by the speculation and profiteering of Wall Street is being exploited to increase the dominance of the most powerful sections of finance capital. Those overseeing the process, such as former New York Federal Reserve President and current Treasury Secretary Timothy Geithner, were themselves deeply involved in the practices that led to the deepest slump since the Great Depression.

The term "financial oligarchy" used by the *World Socialist Web Site* to describe the nature of American society here acquires a very concrete meaning. With the active collaboration of the federal government, the largest banks are consolidating their grip on the financial system and on society as a whole.

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