US bank profits back to pre-crisis heights

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US bank profits returned to their pre-crisis heights in the second quarter of this year, according to a report released Tuesday by the Federal Deposit Insurance Corporation (FDIC), the regulatory agency that insures consumer deposits at commercial banks.

Profits reported by the 7,830 banks overseen by the FDIC totaled $21.6 billion for the three months to June, compared to a $4.4 billion loss in the second quarter of 2009. It was the banks' highest quarterly profit since the third quarter of 2007, when the subprime mortgage market began to collapse.

The profit surge went disproportionately to the nation's big banks, which have been the main beneficiaries of the bailout policies of the Bush and Obama administrations. The same FDIC survey reported a further increase in the number of failed banks and those at risk of failing, overwhelmingly from among small and mid-sized banks.

During the quarter, the number of banks on the FDIC's "problem bank" list hit the highest level in 17 years, rising from 775 in the first quarter to 829 by the end of June. More than a tenth of US banks are now on the list.

Thus far in 2010, 118 banks have failed, well ahead of last year's pace of 140 banks seized by regulators. There were 104 fewer banks in the second quarter than in the first quarter of this year.

The surge in profits at the big banks occurred during the same quarter that saw a sharp slowdown in US economic growth and a deepening of the social crisis confronting tens of millions of working Americans. Over the past three months the housing market has collapsed, manufacturing has weakened and jobless claims have climbed.

Last month the Commerce Department revised downward its estimate of gross domestic product growth in the second quarter from 2.4 percent to 1.6 percent—an anemic rate that all but guarantees a further rise in the official jobless rate, presently at 9.5 percent.

The fact that the banks are raking in bumper profits in the midst of this economic miasma testifies to the single-minded focus of both the Bush and Obama administrations on protecting the financial elite from the consequences of the financial breakdown precipitated by its own recklessness and criminality.

Hundreds of billions of dollars in public funds have been handed over to the banks—the bulk going to the biggest Wall Street firms—while the Obama administration and both political parties claim there is "no money" for government job-creation programs or relief to the unemployed and those facing such disasters as foreclosure, the shutoff of utilities or the loss of health insurance.

The bank rescue operation was designed and presided over by Wall Street insiders, such as Bush's treasury secretary, former Goldman Sachs CEO Henry Paulson, and Obama's treasury secretary, former New York Federal Reserve President Timothy Geithner. They have deliberately worked to increase the concentration of the financial system by favoring the biggest firms and pushing smaller ones over the edge.

The government engineered and subsidized the takeover of Bear Stearns and Washington Mutual by JPMorgan Chase, Merrill Lynch by Bank of America, and Wachovia by Wells Fargo. It allowed the Wall Street icon Lehman Brothers to collapse. As a result, the top five banks control more deposits and assets than ever before.

At the same time, the Federal Reserve has kept its key interest rate near zero, allowing the big banks to borrow money virtually for free and then lend it back to the government at a higher rate, guaranteeing huge profits. Moreover, the precedent of government bailouts of firms deemed "too big to fail" has enabled the biggest banks to borrow on the financial markets at substantially lower rates than those paid by smaller institutions.

The Treasury handed over taxpayer dollars to the banks with no strings attached. The banks were allowed to use the money as they saw fit, and were not even required to inform the government as to how its cash was being used.

The banks have chosen to use the money to increase their speculative activities, resume paying top executives multimillion-dollar bonuses, and amass a cash hoard above their required capital reserves estimated at $1 trillion. They have sharply reduced their lending to consumers and small businesses, thereby contributing to the weakening of the economy and the deepening of the jobs crisis.

The FDIC reported that in the second quarter, the banks' aggregate loans and leases fell by $95.7 billion, or 1.3 percent, amid big drops in construction and credit card loans. Commercial real estate loan balances fell 8.3 percent and credit card balances declined by about 2.5 percent. Mortgage loans were also down.

Much of the increase in profits at the major banks came from reducing their capital reserves, thus increasing the risk of future crises. The FDIC reported that big banks cut back the money allocated for reserves by $11.8 billion during the quarter.

The US stock market celebrated the bank profit report with a splurge of buying. The Dow Jones Industrial Average soared 254.75 points on Wednesday, a gain of 2.5 percent. The Standard & Poor's 500 index and Nasdaq composite index both rose even more, in percentage terms.

The S&P 500 financials index rose 3.9 percent, with Bank of America surging 6.1 percent, Citigroup gaining 3.7 percent, and JPMorgan Chase rising 3.8 percent.

The financial press largely attributed the stock market surge to manufacturing reports for both China and the US that were somewhat better than anticipated. The markets evidently chose to ignore the monthly survey by Automatic Data Processing Inc. (ADP), which showed a net decrease of 10,000 private-sector US jobs in August, the first monthly decrease since January.

The ADP report said goods-producing companies cut 40,000 jobs, more than offsetting the 30,000 jobs created by service companies.

A separate survey by the Commerce Department reported a 1 percent fall in construction spending in July to the lowest level in ten years. Spending was 10.7 percent below year-earlier levels.

Also on Wednesday, US-based auto companies reported sharply lower sales in August. Auto sales fell an average 21 percent as compared with a year earlier, and 5 percent from the level in July. General Motors sales declined 24.5 percent from August 2009 and Ford sales fell 11 percent.