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Banking by John Hoefle

The Bank Insurance Fund disappears

The only thing backing bank deposits now is certain bankers' ability to keep looting the public.

The myth that there is a bank insurance fund which protects bank depositors from losses was shattered on June 2, when the Federal Deposit Insurance Corp. admitted that its Bank Insurance Fund (BIF) ended 1991 with a deficit of $7.0 billion.

According to the FDIC's preliminary financial results, the BIF lost a record $11.1 billion in 1991, taking in $5.8 billion in revenue against expenses of $16.7 billion. Of that revenue, $5.2 billion came from insurance premiums paid by the banks, and $471 million came from interest on U.S. Treasury obligations. On the expense side, $284 million was for administrative expenses, $49 million for actual insurance losses, $15.4 billion for unresolved losses, and $1.1 billion for interest payments and other expenses.

Losses at the Bank Insurance Fund are nothing new. Losses due to failed banks have exceeded premium revenue every year since 1983, and the BIF has posted an overall loss every year since 1987.

Since the end of 1987, when the Bank Insurance Fund stood at $18.3 billion, it has lost a staggering $25.3 billion. In 1988, the BIF lost $4.2 billion, dropping to $14.1 billion. In 1989, it lost $851 million and ended the year at $13.2 billion. In 1990, the BIF lost $9.2 billion to close at $4.1 billion, and 1991's $11.1 billion in losses put it into the red by $7.0 billion.

Another way to gauge the level of bank insurance protection is to measure the size of the BIF relative to the amount of insured deposits. In 1987, when the BIF was at its peak, it had $1.10 in funds for every $100 in insured deposits. By 1989, that figure had dropped to 70¢ per $100, and by 1990, to 21¢ per $100. In 1991, according to the FDIC, the BIF had a deficit of 36¢ for every $100 in insured deposits.

According to federal law, the BIF is supposed to maintain a minimum of $1.25 of insurance funds for every $100 in insured deposits.

While the Bank Insurance Fund has disappeared, the banking crisis has not. The assets of the commercial banks on the FDIC's "problem list" stood at $535.4 billion on March 31, 1992, compared to $528.0 billion at the end of 1991, and $341.6 billion at the end of 1990. While the assets have been increasing, the number of banks on the "problem list" has dropped slightly, to 981 at the end of the first quarter from 1,016 at the end of 1991 and 1,012 at the end of 1990. This means that bigger banks are now failing.

Comptroller General Charles Bowsher, head of the General Accounting Office, told the Senate Banking Committee on June 9 that "problem banks now hold nearly 17% of the total assets of banks insured by the fund," and expressed concern that banks were covering up the extent of their losses. "We believe there is a reluctance to value non-performing loans at values reflecting fair value conditions," Bowsher said. "This leads to overstated asset values and capital."

Robert Reischauer, the director of the Congressional Budget Office, told the Senate Banking Committee on April 1 that the CBO projects that the BIF will lose $14.5 billion in 1992 and $17.3 billion in 1993, and will lose $43 billion between 1992 and 1995. To cover these losses, the CBO projects that the FDIC will have to borrow between $45 billion and $50 billion. The CBO expects an additional 700 banks to fail during the 1992-95 period. These are "baseline" figures, Reischauer said, which are based upon the assumption of a "recovery" in the economy.

The White House's Office of Management and Budget has projected that the FDIC will lose $72 billion during the 1992 to 1995 period.

Late last year, the Congress authorized the FDIC to borrow up to $70 billion from the taxpayer to cover losses. Thirty billion dollars of that would come directly from the Treasury to cover losses at insured banks, and another $40 billion would come from the Treasury's Federal Financing Bank for working capital. That money is for both the BIF and its savings and loan insurance fund sister, the Savings Association Insurance Fund (SAIF). So far, the FDIC has not tapped any of the $30 billion, but has borrowed $12 billion from the Federal Financing Bank. In theory, this money will be paid back out of bank insurance premiums. In reality, the taxpayers will pick up the tab.

To facilitate the appearance that this money will be paid back, the FDIC has announced a boost in deposit insurance premiums. Starting Jan. 1, 1993, banks will have to pay 28¢ in premiums for every $100 of domestic deposits, compared to the current rate of 23¢ and the 8.3¢ rate in 1989.

Due to the presidential elections, the FDIC has dramatically slowed its bank closings this year. One can expect a rash of post-election bank closings in November and December, with the taxpayers eventually picking up the multibillion-dollar tab.

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