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Banking by John Hoefle

A truth crazier than fiction

The FDIC has announced that it will begin refunding deposit insurance payments.

Whom the Gods would destroy, they first make mad, is a phrase which frequently comes to mind when watching the reactions of the financial and political establishments, to the ongoing economic collapse. The worse things get, the more determined they are, to pretend that all is well.

That point was driven home yet again on Sept. 5, when the Federal Deposit Insurance Corp. (FDIC) issued a statement proclaiming that its Bank Insurance Fund (BIF) had so much money, it would start refunding insurance premiums.

According to the FDIC, the BIF, which contains the funds the FDIC would use for paying off depositors of failed banks, had a balance of $24.7 billion on June 30. That represents $1.29 in reserves for every $100 in insured deposits. As of June 30, U.S. commercial banks held $2.5 trillion in deposits, of which $1.9 trillion were covered by deposit insurance.

"The FDIC has determined that the Bank Insurance Fund was fully recapitalized at the end of May 1995 and that the fund balance reached $24.7 billion at mid-year," the agency said in its Sept. 5 press release. "As a result, the agency will begin making refunds to banks in amounts equal to insurance overpayments for the months June through September. The FDIC expects the aggregate BIF assessment refund to total $1.49 billion, plus $19.9 million in interest."

The FDIC will also dramatically cut the deposit insurance premiums it charges banks. On Aug. 8, the FDIC board voted to cut the premiums paid by most banks to 4.4¢ per $100 of insured deposits, from the current rate of 23¢.

Under the FDIC's so-called risk-based premium schedule adopted in 1992, the amount of money paid by banks varies between 23¢ and 31¢ per $100 in insured deposits, according to their financial ratings.

That the government would begin drawing down the bank deposit insurance fund on the eve of the greatest banking crash in 650 years, is an instructive example of the insanity which pervades officialdom. The amount of money involved is insignificant; the $1.5 billion won't make a bit of difference when the system disintegrates. What is important is what it shows about the mindset of regulators, their determination to adhere to the policies which brought us to the precipice.

Faced with choosing reality, and abandoning the axioms which have failed so utterly, the policymakers have chosen to stick to the temporary comfort of their delusions, no matter what the consequences for humanity.

To bolster their delusions, the banks and their regulators have created a universe of phony statistics, a set of seemingly hard facts which pretends to prove the solvency of the system.

With $12 billion in profits for the second quarter, the U.S. banking system "has never been stronger," FDIC Chairman Ricki Helfer said in a Sept. 12 press release announcing the release of the agency's latest *Quarterly Banking Profile.*

That $12 billion is a record for a quarter, beating the previous high of $11.8 billion in profits for the third quarter of 1994; combined with the $11.1 billion in profits for the first quarter of 1995, it gives the banks a record $23.2 billion in profits for the first six months of the year.

The banks have now claimed profits in excess of $10 billion for each of the last ten quarters, dating back to the beginning of 1993.

"In large part, of course, these record earnings were the result of continuing extraordinarily favorable conditions — a strong economy, high loan demand, and relatively few problems in asset quality," Helfer said.

What is extraordinary, however, are the delusions under which Helfer and her cohorts are operating.

Take asset quality, for example. Assets have not improved, they've actually declined; it is the accounting tricks which have improved. It started with the virtual no-such-thing-as-a-bad-loan policy imposed upon federal bank examiners by the Bush administration in 1992, under which examiners were told their job was to "promote economic growth" by giving banks "the benefit of the doubt" about bad loans. By redefining bad loans as good, the banks were able to roll them over at the lower interest rates the Fed provided as part of its bailout of the banking system. The result: no bad loans, and no bad banks. Bank failures dried up, and profits soared.

Through such tricks, and through the rise of the derivatives bubble, the banks have kept their doors open, but the day is coming soon when they will have to pay the piper. The merger of Chemical Banking and Chase Manhattan Corp. will create a bank with $300 billion in assets, and $5.2 trillion in derivatives. That's 25% more than the $4.2 trillion of assets in the entire U.S. banking system.

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