



America's Banks: Safe, Sound, and Serving Their Communities

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There has been a glut of bad news concerning the financial sector recently. Over the past nine months, there have been nearly constant reports concerning the subprime mortgage crisis, the equity market turmoil and the banking "crisis." Reports concerning the banking industry intensify on the rare occasion that a bank fails.

Let's set the record straight on the condition of the banking industry. The banking industry – which includes traditional federally insured, federally regulated depository institutions, your local commercial bank, thrift or savings bank – is not in a crisis. The industry is operating in a safe and sound manner. Despite a slowing economy, banks in the United States posted \$24.2 billion in earnings in the first half of 2008. While the banks' earnings during the time period were lower than earnings in the first half of 2007, the returns were noteworthy.

Also, the banking industry's capital is at historic highs. Banks use their capital and their loan loss reserves as a buffer against any potential operating losses. As of August 2008, the industry held \$1.35 trillion in capital, plus \$144 billion in reserves, for a total buffer of almost \$1.5 trillion. Banks are well positioned to continue helping their communities grow and prosper.

Minnesota is fortunate to have an especially robust and strong banking industry. We have the third most bank charters in the country, which means Minnesota consumers have many good banking options. From family-owned local banks to the large regional banks, the Minnesota banking industry is strong, well managed and well capitalized. Our banks continue to be a source of financial stability and an engine for economic development.

At the same time, it is true that there are challenges in today's economy. And yes, some banks will fail. But you have to put that statement and put today's banking environment into the proper context. So far in 2008, 11 banks in the United States have failed. That pales in comparison to the number of bank closings that occurred during the height of the Savings & Loan crisis in the late 1980s and early 1990s. There truly was a crisis at that time. A whopping 534 banks closed in 1989 alone. Since 1995, ten or fewer banks have failed every year prior to 2008, a rate which remains at low levels historically.

The recent decisive action by the government to take over Fannie Mae and Freddie Mac also was admittedly tough for the banking industry, but was necessary to bring confidence and certainty to the housing markets.



The recent Chapter 11 filing by Lehman Bros., an investment bank, and Bank of America's acquisition of Merrill Lynch underscore that these are extraordinary times that call for extraordinary solutions. It is vital to note that commercial banks are subject to more regulation than investment banks such as Lehman Bros. and Merrill Lynch. Commercial banks are also FDIC insured. There is even a chance that some of those employees who were victims of the investment banks on Wall Street could find their way to Minnesota for work. The state's financial sector added 1,250 jobs in July alone.

The federal and state banking regulators closely monitor the financial health of every bank. When needed, the regulators actively work to improve the health of banks that are struggling. In the vast majority of cases, the regulators are able to improve the condition of these troubled banks without a failure occurring. If a bank does fail, a resolutions team employs a well-established process that protects the bank's customers with as little disruption as possible.

Bank depositors are protected from a financial standpoint as well. When a bank failure occurs, FDIC insurance covers your account in a commercial bank, thrift or a savings bank. Your individual account in a federally insured bank is protected up to \$100,000, with additional protection for joint accounts, and your retirement account is protected up to \$250,000. I urge you to contact your banker if you have questions about the specifics of how FDIC insurance works.

In reference to a failure situation, sometimes the FDIC insurance fund is portrayed as the equivalent of a federal government bailout. That portrayal is false. The banks and thrifts that benefit from FDIC insurance protection pay for that protection. Banks and thrifts capitalize the insurance fund through FDIC insurance premiums. Currently, the FDIC insurance fund contains more than \$45.2 billion in assets and earns an additional \$2.4 billion in interest annually to protect depositors like you.

This economic slowdown will pass, as all the other ones have. Know that your local bank is open for business, doing what it does best: helping meet their customers' financial needs and building strong communities.

