

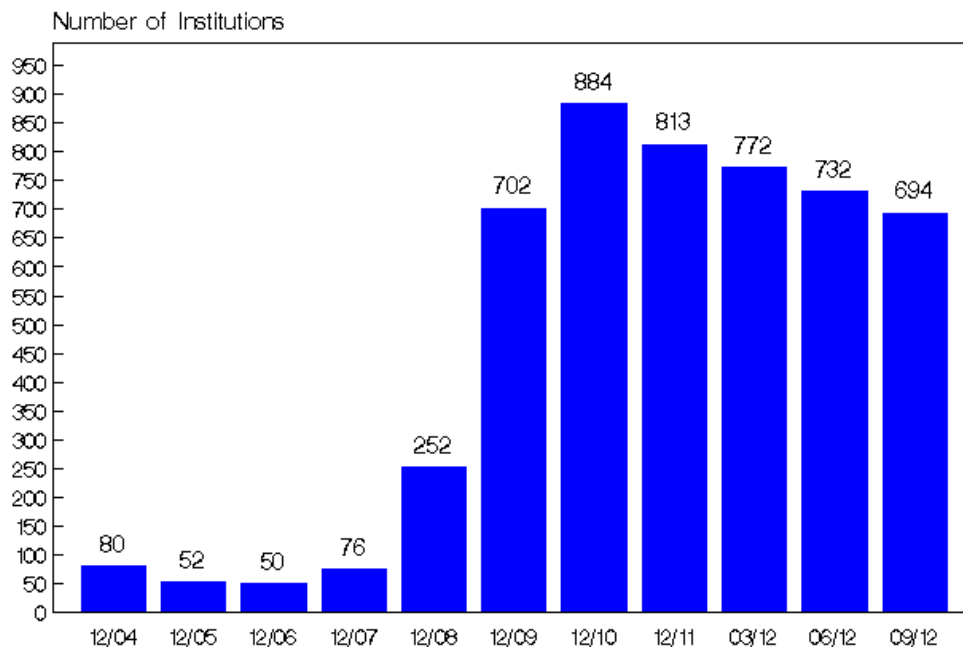
Is Your Bank on the Problem Bank List?

The Federal Deposit Insurance Corporation, the federal agency in charge of safeguarding the nation's bank deposits, maintains a **Problem Bank List**. This list contains the names of institutions that are likely to have weak capital positions that can lead to failure.

The FDIC does not publicize the list for fear of causing a run on the banks involved. An unofficial Problem Bank List is published by calculatedriskblog.com and contains the names of institutions that have been issued enforcement actions by banking regulators. The unofficial Problem Bank List currently totals 856 institutions compared to a total of 694 on the official FDIC confidential Problem Bank List.

The number of banks on the FDIC Problem Bank List totaled **694 problem banks** at September 30, 2012, down slightly from 732 at June 30, 2012. The number of Problem Banks has declined for six quarters in a row from 888 at March 31, 2011. Total assets held by troubled institutions as of September 30, 2012 is **\$262.2 billion**, a decrease of \$20.2 billion from \$282.4 billion in the previous quarter.

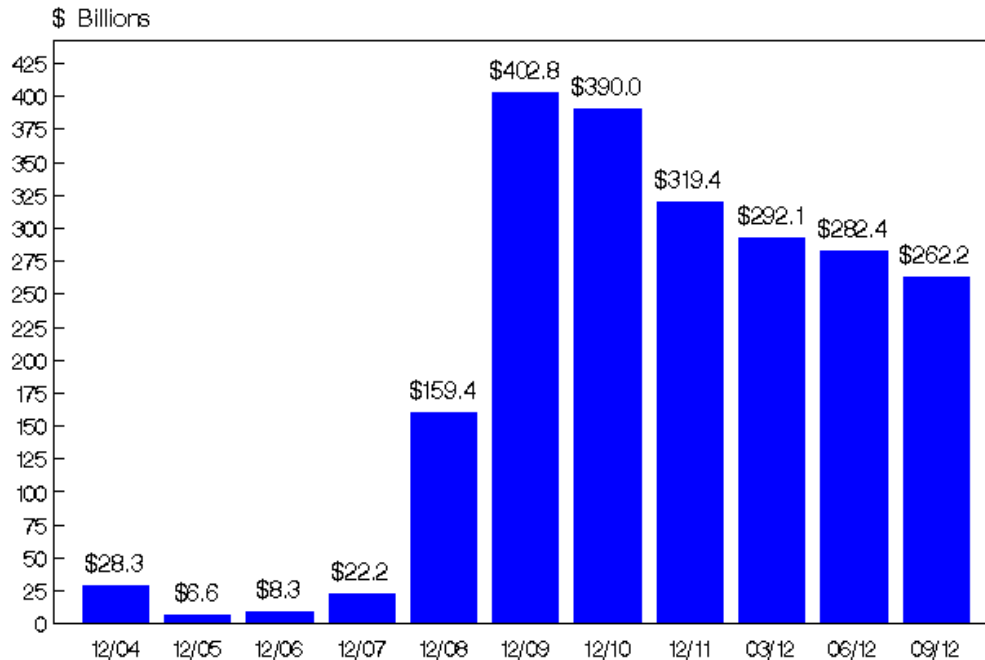
Number of FDIC—Insured "Problem" Institutions
2004—2012



The historic low for the Problem Bank List was reached in the third quarter of 2006 with 47 banks. The number of banks on the FDIC's Problem Bank List remains at historic highs. In the decade prior to the banking crisis that began in 2008, the average number of problem banks remained below 100. Problem Banks now account for 9.7% of all banking institutions. As of September 30, 2012 there were 7,181 FDIC insured banking institutions with FDIC insured deposits of \$7.25 trillion. The FDIC Deposit Insurance Fund, which protects insured depositors from loss when a bank fails, had a balance of only \$25.2 billion at September 30, 2012 for a reserve ratio of 0.35%.

Assets of FDIC—Insured "Problem" Institutions

2004—2012



In general, banks included on the Problem Bank List have serious deficiencies with their finances, operations, or management that threaten their continued solvency. Once a bank is included on the list, they are subject to closer regulatory scrutiny. They can also expect to receive instructions from regulators about what steps must be taken to rebuild their financial strength. The FDIC list of Problem Banks is comprised of banks with a CAMELS rating of 4 or 5. CAMELS stands for **C**apital Adequacy, **A**sset quality, **M**anagement, **E**arnings, **L**iquidity and **S**ensitivity to market risk. The CAMELS rating scale is from 1 to 5, with 5 being the weakest and 1 being the strongest.

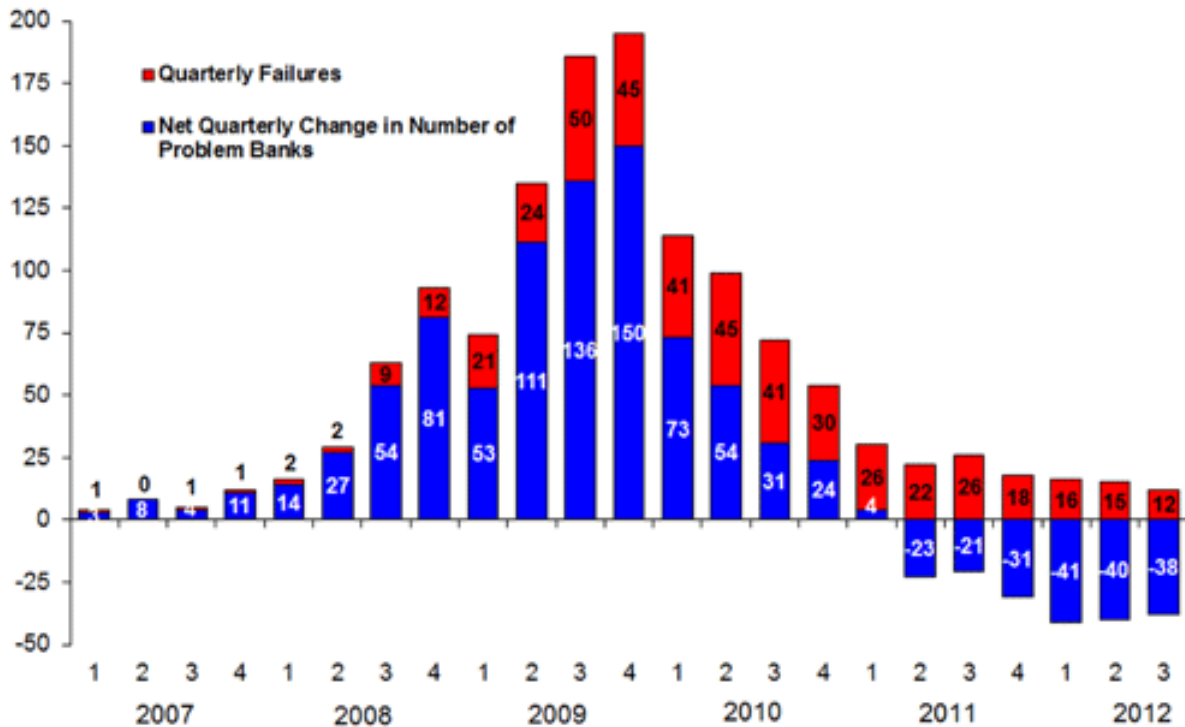
The pace of bank failures has increased dramatically over the past four years. A total of 92 banks failed during 2011, resulting in losses to the FDIC Deposit Insurance Fund of \$7.22 billion. During 2010, a total of 157 banks failed, the most since 1992 when 181 were closed. Banking failures during 2010 cost the FDIC Deposit Insurance Fund \$26 billion, bringing the fund balance to below zero. A total of 140 institutions failed during 2009 compared to only 25 during 2008. There were only 3 bank failures during all of 2007. No banks failed during 2005 and 2006.

For the week ending December 14, 2012, there was one banking failure, resulting in a total of 51 bank failures for 2012. The cost to the FDIC Deposit Insurance Fund for the 2012 banking failures currently totals \$2.5 billion. The 51 failed banks had total assets of \$12 billion.

The number of problem banks remains extremely elevated five years after the banking crisis started in 2008. At the end of 2007, there were only 76 banks on the Problem Bank List compared to 694 as of September 30, 2012. This is a very troubling number of problem banks, considering the amount of aid that was given to the banking industry by the government and the fact that the economy has stabilized since the depths of the banking crisis.

Typically, the number of troubled banks would decline rapidly after a recession as economic conditions improve and insolvent banks are closed by regulators. The chart below shows the quarterly change in problem banks due to bank failures and the net change in banks classified as “problem banks”.

Quarterly Changes in the Number of Troubled Institutions, 2007-2012



Why Are Problem Banks Allowed To Stay Open?

The reason regulators do not close more insolvent banks may be due to the fact that the FDIC Deposit Insurance Fund (DIF) had a **balance of only \$25.2 billion** at September 30, 2012. A number of large banking failures could deplete the entire insurance fund and cause panic among bank depositors. **The DIF reserve ratio at September 30, 2012 was 0.35% percent, far below historical ratios. The FDIC is currently backing every \$1 million dollar of deposits with only \$3,500 of reserves.** The FDIC currently provides deposit insurance on \$7.25 trillion.

<http://problembanklist.com/problem-bank-list/>