

# The Risk Professional: 100th bank failure proves grass-roots woes are not over

## US Bank Failures

**100+**  
Jan - Oct 2009

Yesterday, as US banks closed for the weekend, Partners Bank, Naples, Florida gained ignominy as the 100th bank to fail in the USA this year. But within minutes regulators announced that they had intervened in a further six banks that day. It's evidence of a deep malaise in the US economy.

A full list of failed banks is at [BankingInsuranceSecurities.Com](http://BankingInsuranceSecurities.Com).

The pace with which US banks are failing is startling. In 2002, dealing with the aftermath of the dot-com collapse, 11 September and SARS, only 12 banks failed. In 2005 and 2006, there were none.

The carnage in the US banking industry is epic, yet the focus has been on the problems of the few, largest banks.

Yet the problems at small banks evidence a deeper malaise within the US economy.

The fate of the small banks is closely linked to two things:

1) the quality, or perceived quality of their loan books. Unlike the large banks, they do not have the shield of high credit ratings on their lending, which is ironic because it was lending by banks such as these that was packaged and traded with high, sometimes even AAA credit rating by the big banks. The vast majority of the banks that have gone out of business this year - almost 85% - have not even issued notices saying they are looking for outside capital, and of those that have, less than one-third were able to raise it.

2) they were not, directly, part of the so-called economic support / stimulus packages which hampered their ability both to support existing borrowers and to grant new credit. As a result, they were squashed as defaults grew and new lending shrank.

The total number of failed banks in the US this year now stands at 106. In 2008, when it is often assumed the crisis was at its worst, 26 banks closed in the full 12 months. In 2007, when attention was turning to housing loan defaults (which had manifested themselves in 2006) only three banks failed. 2000 had just two bank failures and 2001 only four.

The importance of those years is to demonstrate that the dot com crisis had an impact on major banks and investment banks, but had little direct impact on the wider banking community. In the present crisis, the focus has been on the large, and investment, banks - and that focus is clearly misplaced.

Clearly, the lending support and stimulus package is missing its target.

Given that the retail banking units of the large banks have shown huge losses, this surely evidences that in the real world, real people are still in real trouble.