New recession worry: bank fails

Literature, Russian Literature

The article “ New Recession Worry: Bank Fails” by Chris Isidore discusses construction loan problems and negative effects they have on performance of smaller and mid-size banks. The economic impact of loan problem is evident – economic analysts assume that they may result in serious credit crunch. Therefore, the overall financial system is being endangered by instability and possible financial loses. Isidore, the author of the article, stresses that there is a need to fight strong headwinds as the risk of capital shortfalls is rising. If not managed, the situation will definitely lead tofailureof national banks.

The Federal Deposit Insurance Group reports that the number of problem institutions has jumped after the loan crisis of 1980s. More than 75 banks are experiencing serious troubles. During the regular hearing on the state of the baking industry, it was reported that the mentioned 76 banks were likely to be a smaller part of the overall problem which inflicts banking sector. Many banks are really worrying about their financial stability as there is a real chance to go bankrupt. If within the next two years the number of problem institution raises up to 200, the flood of banks will lead to S&L crisis. For example, the years of 1989 was marked by a failure of more than 200 banks. (Isidore 2008)

Jaret Seiberg, financial services analyst, argues that troubled banks should be purchased before they go bankrupt. He says: “ Many of these banks are highly dependent on construction lending, and that's the area of lending that is likely to come under the moststress”. (Isidore 2008) The positive moment is that experts argue that not all banks will fail. For example, in 2007 only 3 banks failed, despite about 50 banks were listed to fail at the end of the previous year. Only Douglass National Bank in Kansas City has failed this year.

Nevertheless, the problem exists and the head of the FDIC decided to hire 25 staffers to deal with increase in bank failures. In such a way, the staff will be increased by 11% improving performance. The idea is to hire retirees who have managed to deal the S; L crisis. Of course, smaller banks are at higher risk to fail, not the global ones. Isidore says that smaller banks are “ big players in the business of construction loans made to homebuilders - loans that were backed by new homes now worth a fraction of the original estimated value”. (Isidore 2008) Economic experts admit that the number of construction loans has spiked. For example, in the past six months 7. 5% of single-familyconstruction loans were violated.

I agree with the author that small and mid-size banks are the most endangered as they have less opportunities to cope with financial crisis and they need more time to restore their current positions. Moreover, credible reputation will be under the question. I think that even non-residential developers, who seem not to be hurt, may suffer from loan problems. Isidore also supports this idea writing that “ the demise of smaller lenders probably won't have as noticeable impact on the national level, but in a lot of local markets around the U. S. it will be felt”. (Isidore 2008)

Further, I want to add that smaller banks are also marked by the greatest economic weakness and they are more likely to fail, but the customers have the chance to save their deposits. I would recommend developing better security policies in case of financial and economic crisis. Smaller banks should be more careful in providing new loans and credit as they may loosemoneyin case of credit crunch or new loan problems.

Works Cited

Isidore, Chris. 2008, March 3. New Recession Worry: Bank Fails. Available at http://money. cnn. com/2008/03/03/news/economy/bank_failures/index. htm? postversion= 2008030316 Accessed March 10, 2008.