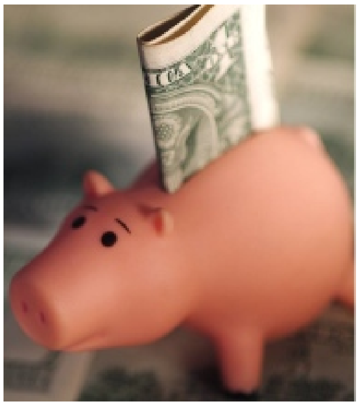
FDIC wants pension funds to prop up failed banks | Raw Story

Over 140 U.S. lenders folded in 2009 alone. To remedy the financial void left in their wake, the Federal Deposit Insurance Corporation wants public pension funds, which safeguard the retirement funds of millions, to buy in part or in whole the banks that couldn't manage to keep their depositors' funds.



"Direct investments may allow funds such as those in Oregon, New Jersey and California to cut fees for private-equity managers, and the agency to get better prices for distressed assets," anonymous sources reportedly told Bloomberg News.

In a speech to the National Association for Business Economics Washington Policy Conference, FDIC Chairwoman Sheila Bair outlined what she called "a pre-funded resolution mechanism," but did not specify what exactly that is. She instead said it would be "similar to the FDIC's receivership authority for failed banks," exposing only shareholders to risk, as opposed to the bank bailouts that saw billions of taxpayer dollars funneled into a near-crippled financial system.

"Shareholders and creditors would bear the losses, not the public," she explained. "But, the process would be orderly and help prevent a catastrophic collapse of other firms."

"From this speech, it's a little unclear whether or not Bair has a more simplistic view, where a resolution authority would just close troubled firms," wrote The Atlantic's staff editor, Daniel Indiviglio. "Right now, most banks are just wound down by the FDIC with failure looming. While that's one option, if the market could be saved from some additional losses associated with outright failure without taxpayers bearing the cost of keeping a firm going, then I don't see why regulators wouldn't want to include that option as well."

Bloomberg News notes that pension funds in Oregon, New Jersey, California and New York may participate. The wire service also reported that firms being targeted for the plan control over $2 trillion in retirement funds.

"Investing in distressed banks doesnâÂ€Â™t always pay off, as the U.S. Treasury Department learned with the Troubled Asset Relief Program," Bloomberg added. "At least 60 lenders skipped some of their promised dividends to the TARP fund, according to SNL Financial, and a $2.33 billion stake in CIT Group Inc. was wiped out last year when the lender went bankrupt."

"The House has approved a bill to create a $150 billion fund, while the Senate is considering a measure that would first use taxpayer funds to dismantle an institution, with those funds later recouped from banks," MarketWatch noted.

A total of 26 U.S. banks have failed so far in 2010.

The FDIC holds about $40 billion of assets from seized banks and expects to gather more as institutions continue to collapse after the worst U.S. recession and real-estate slump since the Great Depression, according to agency officials," iStockAnalyst reported. "Real estate loans at U.S. banks that are at least 90 days overdue or that are expected to default almost doubled in 12 months to 7.1 percent, according to December FDIC data."