

Hi Everyone,

If you think banks are getting safer then you need to read Brian's Email today, it will give you a clearer perspective. Remember, Brian was in the banking business for over 20 years before coming to CFG and so he understands banking very well.

Val

### **MORE BANK FAILURES LEAD TO . . . ?**

Hello CFG clients . . . Brian here. You've probably noticed my bi-weekly emails seem to be focused on banking, housing and/or unemployment. I will most likely stay in this vein of writing since I consider all three of these sectors key indicators as to the overall health of the US economy.

For this weeks email, I'm back to commenting on the banking sector. Last Friday (07/31) while many of us were enjoying an evening at Fifth Third Ballpark watching our beloved West Michigan Whitecaps tumble to a 5-3 loss, our beloved FDIC was hard at work tumbling (i.e. closing) 5 more banks in a matter of 3 hours (ironic, isn't it; 5/3<sup>rd</sup> ballpark, 5-3 loss, 5 banks in 3 hours). While I won't provide a recap of the ballgame, I will provide you with a recap of bank closures since I last wrote about it in my 06/08/09 email.

In that 06/08/09 email, I provided you with a table outlining certain information from the *FDIC's Quarterly Banking Reports*. In that table, I included a column showing the number of bank failures reported for each quarter going back to 03/31/01. The last entry in that table was for the first quarter of this year ending 03/31/09 and the number of bank failures reported for the first quarter was 21. The footnote for that figure included a comment that 21 was the highest number of bank failures reported in a quarter since 1992.

Last Friday's closure of 5 more banks brings the total Bank closures this year to 69. Subtracting out the first quarter figure of 21 means 48 banks have been closed since 03/31/09. This means that when the FDIC's Quarterly Banking Report for 06/30/09 is released (sometime in August), the number of Bank closures for the second quarter will top the first quarter, **thus becoming the new highest number of bank failures reported in a quarter since 1992**. In light of all the "green shoots" being identified and reported on by mainstream media, it seems the accelerating number of bank failures this year would justify equal news coverage.

I wonder how many of you folks saw these two newsworthy items:

## **Big Texas bank on verge of failure**

**Guaranty Bank, which counts Carl Icahn as one if its backers, is teetering on the edge of insolvency. But it may not be easy for regulators to find a buyer.**

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By Colin Barr, senior writer

Last Updated: July 31, 2009: 1:53 PM ET

NEW YORK (Fortune) -- Guaranty Bank is hardly a household name. But the Austin, Texas-based thrift's looming failure is shaping up as a big headache for bank supervisors -- not to mention a black eye for Carl Icahn and others in the smart money set.

Guaranty ([GFG](#)) could be soon seized by the government in what would be the biggest bank failure in a year that has already had 64 of them. Last week, the bank warned investors to expect a federal takeover after regulators forced a write-down of its risky mortgage investments and a bid to raise new capital failed.

Guaranty has \$13.4 billion in assets and operates 160 branches in Texas and California -- two of the three best banking markets in the nation, thanks to their size and population growth.

**AND THIS MORE ALARMING ARTICLE:**

## **Bair: Bank Failures Ahead 10 Times Worse**

Thursday, July 16, 2009 2:40 PM

**By:** Greg Brown

FDIC Chairman Sheila Bair is predicting that the bank failure rate will increase tenfold, according to a U.S. Senator. Bair said up to 500 more banks could fail, Sen. Jim Bunning, R-Ky, said in a meeting, reported Dow Jones Newswires. That would put the current crisis close to the level achieved during the late-1980s savings and loan crisis,

when 745 thrifts were shut. "She told us that unless something dramatic happens, we could lose up to 500 more banks," Bunning said. "That means that people who make mortgages in local places .... people that could really help in a foreclosure will not be there," Bunning said.

Val and I were discussing this a couple of weeks ago; just how quietly and out of the mainstream news this is. Every Friday, another 3, 4, or 5 banks are shut down and the coverage of this typically get's buried by the weekend's sports, entertainment and travel & leisure news coverage. Since the closings always happen on Friday (and the news is buried over the weekend) by Monday it's all but forgotten and we're on our way to another week of "green shoots" news coverage. Why would accelerating bank failures not get more coverage . . . is this somehow intentional to not have it covered?

Now, let's tie in a few things that we also know are happening in our economy that will contribute to the acceleration of bank failures.

Our elected officials have admitted that unemployment will continue to rise throughout the remainder of this year and will most likely continue into next year. Since this means employers continue to shed jobs, those already unemployed will be extremely challenged to find a replacement job. And those folks already unemployed for a year or more will begin to see their unemployment benefits run out. That means, we can expect consumer loans (ie. auto loans, boat loans, motorcycle and motor home loans), credit cards, student loans and home mortgage delinquencies and defaults will increase. This will also lead to less consumer spending at retail malls and specialty stores, which will lead to more retail stores having to close. This will lead to loss of rents for the owners of these malls and commercial stores, which will lead to mall owners having a harder and harder time making their bank loan payments.

In summary, all of this will lead to more loan write-offs for banks and inevitably a continued acceleration in bank failures. Mainstream media comments claim "the recession is over" and "the worst is behind us" . . . unfortunately, I feel these comments to be a bit premature.

My next email in two weeks will focus on the how the FDIC's insurance fund is holding up with all of these failures and just how much is left in the fund.

Valerie Holcomb, Shari Hooper & Brian Harris  
Cascade Financial Group

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