

# Seeking Alpha $\alpha$

## A Look at Bank Failures; Backstop With FDIC

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Friday we learned Indymac bank ([IMB](#)) of Pasadena, CA failed. (See [FDIC Failed Bank information for Indymac Bank](#).) The Federal Deposit Insurance Corp. said Indymac would reopen Monday as Indymac Federal Bank. The FDIC has a "problem list" with about 90 banks they worry about but Indymac was not on this list!

The FDIC estimates it will cost \$4B to \$8B to make FDIC insured Indymac depositors whole.



According to [DowJones Marketwatch](#), Indymac bank, with \$32 billion in total assets, is the fifth bank to fail so far this year and one of the largest bank failures ever. Chris Thornberg, of Beacon Economics, says many banks books don't yet fully reflect all the problem loans. RBC capital says as many as 300 banks may fail.

Indymac Statistics:

- Indymac founded in 1985
- \$19B in deposits
- \$1B in uninsured deposits

Major Historical Bank Failures:

- 1 Continental Illinois 1984 \$40B
- 2 Indymac Bank 2008 \$32B
- 3 Bank of New England 1991 \$21.7B
- 4 American S&L 1988 \$5.4B
- 5 First Republic Bank 1988 \$4B

It is a lesson why we recommend you have all your CDs in banks that have FDIC insurance:

DO NOT EXCEED FDIC limits to get the top rate.

If you have more than the FDIC limit, then spread your money between many banks and accept a lower return so that each separate account at each bank has FDIC insurance.

You are not being compensated for the extra risk of bank failure to have more than the FDIC limit for accounts.



**Disclosure: Long XLF**

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I do expect more banks to fail. This is a given as the government simply cannot bail every bank out. But with more and more banks collapsing, FDIC may not have enough funds to cover all the insured accounts. What if the FDIC fails? Oh my.