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The Fdic Can't Bear Many More Crosslands

By Tim Smart

(Bloomberg Businessweek) -- American auto makers aren't the only ones having trouble selling their product. The Federal Deposit Insurance Corp. signaled just how poor the market is for failed banks on Jan. 24, when it rejected two bids for Brooklyn-based Crossland Savings, with \$7.4 billion in assets. Rather than accept what it deemed lowball offers, the FDIC itself took over the thrift.

It's a scenario that could prove more common if the economy continues to stagnate and more banks and thrifts teeter on the edge. FDIC auctions are no longer attracting eager bidders, and the most likely buyers, financially solid banks, don't want to take on additional assets when government regulators are stressing the need for stronger capital ratios. In Crossland's case, only Chase Manhattan and Republic National Bank made bids, despite the FDIC's offer to take over the savings bank's bad loans. "We have a supply-demand imbalance," acknowledges Harrison Young, the FDIC's director of resolutions. "We have fewer people making bids, even on smaller banks." On Jan. 10, regulators sold Perpetual Savings Bank of Alexandria, Va., with \$2.6 billion in deposits, for a mere \$7.8 million to Washington's Crestar Bank.

BLUNT MOVE. All of this is ominous for the FDIC, which estimates that more than 200 banks, with total assets approaching \$100 billion, will fail this year (chart). The agency says the Crossland move was necessary to blunt the trend by bidding banks of offering a meager premium for choice deposits and branches. But fewer, and less eager, bidders could still sharply raise the government's eventual bailout costs.

The FDIC's hands also may be tied somewhat by the banking bill Congress passed in late November. The law specifies that regulators must choose the "least costly alternative" in dealing with troubled institutions. Sometimes, as in the case of Crossland, it may prove cheaper--over the short term if not over the long term--for the government to take over a bank rather than liquidate it or sell it at too cheap a price. The size of the bids for Crossland wasn't disclosed, but the FDIC says it has set aside \$1.2 billion to deal with the bank--\$400 million to boost capital and \$800 million to resolve problem loans.

For now, the FDIC can play hardball with bidders, thanks to the \$70 billion Congress injected into the bank insurance fund last year. Crossland, says the FDIC's Young, "ought to cause some people to realize we don't have our backs to the wall. We have plenty of money."

The FDIC's tough talk rests on its ability to work some magic on Crossland, especially its real estate problems, thereby making it a more attractive acquisition. But bankers say the government is underestimating the task. "It's pure speculation in real estate and interest rates that the FDIC is engaged in," says one New York banker. Then, there is the cost. At \$1 billion a pop, holding on to failed banks could quickly put a major dent in the insurance fund. Ultimately, without eager banks waiting to acquire deposits and assets, the FDIC might have to delay closing troubled institutions.

While some analysts think the real estate free-fall is over and that banks may have seen the worst, the nation's economy remains stalled. If it doesn't improve soon, Crossland may be just the beginning of a long, tough, and, above all, costly year for the FDIC as it tries to go it alone in cleaning up the debris left by the persistent banking crisis.

Tim Smart in Washington, with bureau reports