Healing

It was seven years ago that the global financial system almost suffered a complete freeze. The level of bad mortgage debt in the US had pushed housing prices to a level where those prices and making the mortgage payments exceeded what people could afford to pay. This started an avalanche of bad debt that impacted many banks and a few investment banks in the United States. Since then, how do you think the banks in the FDIC system have done? It might be good for us to check in on something that is not front page news.

The Before

The FDIC keeps a “Problem Bank List” of troubled institutions throughout their system. These are banks where the capital or assets are considered weak and there is some risk of failure. The historic low for the list was **47** banks in the third quarter of 2006. As a frame of reference, in the decade prior to the banking crisis the average number of “Problem Banks” was less than 100.

The During

The number began to increase gradually in 2007 and then swelled quickly during the financial crisis, reaching a peak of **888** in the 1st quarter of 2011. During this period bank assets such as mortgages and mortgage backed securities went down in value, as both residential and commercial property values decreased. The increased weakness of these assets impacted more and more banks until 888 banks were on the List.

The Workout

To gain ground, the painful repair process got started. We had to get out from under bad mortgage structures, lending on overpriced properties, and mortgage payments that were just too large for many owners. Short sales, bankruptcies, defaults, workouts and for some just biting the bullet and making the payments were all part of the process. Banks and property owners alike have taken difficult steps to repair the damage that resulted from less than responsible purchase decisions and lending practices.

The After

We are not out of the woods yet, however our banking system and our real estate markets are in much better shape than they have been for years, which is very good news for all of us. The health of our economy, our standard of living and our financial futures are all tied closely to a healthy banking system and real estate market. At last count, according to the

FDIC's Quarterly Banking Profile report on the second quarter of 2015, we are down to only **228** (out of 6348) banks being listed on the "Problem Bank List". As importantly, it is the first time that only one bank failed during a quarter since the fourth quarter of 2007, almost 8 years ago.

Bottom Line

The markets often react in the very short term, while economic trends tend to playout over many years. Investors often do well to keep their eye on longer term trends for their longer term investment returns. A healthy banking system is one key to improve economic and investment results. That our banking system is on much better footing should be very comforting for all of us. Even more comforting is the knowledge that the FDIC Insurance Fund is now larger than the assets of the problem banks and continues to improve. This was not the case for most of the past 8 years. "And you can take that to the bank!"

Your Feedback

I would love feedback on this newsletter. Future issues may include a host of good ideas, insights, specific steps to take financially, life insights and of course "Wit and Wisdom". Most importantly, I'd like it to be of value to you and to encourage an exchange of great ideas and insights. Please send your feedback to:

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