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THE WALL STREET JOURNAL.
WSJ.com

REVIEW & OUTLOOK | MARCH 4, 2009

Bank Robbery

Depleting capital when it's most needed.

The Treasury and Federal Reserve continue to cook up creative ways to pump taxpayer money into troubled financial institutions. So we're having a tough time understanding why another federal agency, the FDIC, has announced plans to take $27 billion *out* of the banking system this year.

It's true that the FDIC's deposit-insurance fund has been shrinking, and that since the beginning of 2009 the FDIC has rolled up two banks a week, on average. It took over two more last Friday. The fund is now down to $19 billion from $52 billion a year ago and by law had to be replenished.

But the deposit-insurance fund is itself a legal fiction. There is no bank vault with those billions socked away for FDIC Chairman Sheila Bair to dip into when she seizes a bank. Like the Social Security Trust Fund, the insurance fund hands its money over to the Treasury to spend and draws it down as needed. Even if the fund falls to zero, the FDIC has an existing $30 billion Treasury line of credit, which may soon grow to $100 billion.

Ms. Bair painted Friday's decision to dun the banks for $27 billion this year as an act of fiscal responsibility, noting that unlike other rescue programs, the FDIC might not have to hit up taxpayers or tap that credit line this year. But this is a false economy if the money sucked out of the banking system to pay for deposit insurance drives more banks to the brink of failure.

That $27 billion levy against an insured deposit base of $4.76 trillion may not seem like much. But it could mean $2 million or more this year for a bank with $1 billion in deposits, which could in turn represent a substantial drain on earnings at a time when the economy needs banks to earn their way out of trouble. Money paid to the FDIC can't be leveraged to support new lending, so $27 billion in FDIC premiums could also take $150 billion or so out of lending in the coming year.

To be sure, the law under which the FDIC operates is perverse. For most of a decade beginning in 1996, bank failures were rare and the FDIC collected no premiums from most banks. That forbearance was required under the law, which was designed to make sure that the insurance fund never got too big or too small.

But the parameters are so narrow that, as we are now seeing, a slew of bank failures can force premium increases at the worst possible time. If we are going to have deposit insurance, then by all means let the banks pay for it. But the FDIC needs the flexibility to collect premiums in good times, and not wait until a crisis is under way to step in and start skimming from the banks.

Ms. Bair also has more flexibility than she claims. There is that Treasury line of credit. And Congress could have appropriated additional funds to cover deeper losses last year, as these columns urged. It could do so again now. The real problem here is political. A year and a half into this financial mess, the name of the game in Washington is still cover-your-assets, and neither the FDIC nor Congress wants to own up to the need for more taxpayer help to protect

depositors.

Banks should pay for their insurance over the course of a business cycle, rather than raiding their earnings when they desperately need the capital. President Obama's budget foresees an additional $250 billion in financial-rescue funding, which means bank losses. When we're putting that kind of money into the banks to keep them solvent, why is the FDIC taking billions out?

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