

As of Friday, August 14, 2009, the FDIC is now Bankrupt

Dear A-Letter Reader,

That's right, friend.

Read that headline again. Commit it to memory. Unlike the JFK assassination and the 9/11 attacks, most Americans won't remember where they were when they first heard the news.

Most Americans won't even hear the news...

Even though it could have a much greater impact on their lives and livelihood than either of the other two catastrophes...

"The DIF is Toast"

But it's the truth...as Mike Shedlock points out, "If indeed US\$641 million was all that remained of the DIF [Deposit Insurance Fund] the FDIC is now bankrupt. Of the US\$641 million left, Community bank used up 781.5 million and Colonial Bank US\$2.8 Billion."

And we checked his math.

From a starting point of US\$53 Billion in 2008 – through the 77 bank failures this year alone – the DIF has dwindled to zero.

Just in case you're having trouble, your first reaction should be a mixture of shock and disgust. How – after being paid decades of insurance premiums from all of America's deposit-taking institutions – could the FDIC go bankrupt after the first wave of bank failures?

How is that even possible?

Well, first...they haven't exactly been "collecting premiums" per se.

That's right, in good times the FDIC has one job. To bother banks for comparatively tiny insurance payments. But for most of the time between 1995 and 2006, they collected nothing. Zero.. Apparently they had no authority to force banks to pay their premiums, so they simply disregarded the job.

Then, as soon as the crisis broke in American banks, the FDIC more than doubled its liabilities...taking their maximum coverage from US\$100,000 per account to US\$250,000.

Was there a corresponding crackdown on premiums? Did they start charging banks twice as much for the insurance, or at least collect the missing premiums from the past decade?

Of course not.

Instead, they were comfortable with what dwindled to a .014% coverage on their assets. That is to say that for every dollar the FDIC covered, they had 1.4 cents in reserve to insure that dollar..

Now the 1.4 cents is gone.

As an Aside...

At the risk of taking us off track for a moment, I can say that the “War on Offshore Banking” makes even more sense now. It’s a great way to distract individuals, keeping them from realizing the reality of the situation...

After all, on the one hand you have a network of highly regulated, fiercely competitive financial centers. Most of these offshore guys have clean balance sheets and coherent government management...plus a track record that makes American banks look like payday lenders...

For example, during the last rash of bank failures in Switzerland – that’s right, banks even fail in Switzerland – some 200 small, regional banks ended up shutting their doors. At the same time, the FDIC was liquidating nearly a thousand of thrifts and S&L’s in the U.S. How many banks did the Swiss ultimately liquidate?

One. They liquidated one bank.

Now flash back to the U.S...

On our side of the pond, you’ve got a relatively crooked financial system that’s practically insolvent, kept alive only on emergency government life support, with its traditional safety net – the FDIC – already shredded in the first year of crisis.

It’s quite clear that if the U.S. government *wasn’t* waging a smear campaign against competing financial centers, they’d probably have much bigger problems on their hands than FDIC insolvency.

The FDIC’s True Purpose

At the end of the day, most politicians will probably argue that the FDIC’s bankruptcy doesn’t matter so much.

After all, as we’ve said in past A-Letters, the true purpose of the FDIC isn’t bailing out banks.

Its true purpose is making depositors feel safe. Changing their incentives and keeping them from having a run on fragile, poorly run banks. And it's been successful in that regard...

Just look at the "Roaring '20's," if you need any proof. Look back before the introduction of the FDIC. Some 500 banks failed every year in the 1920's, with most succumbing to panicked runs by depositors.

Politicians and pundits will probably try to defuse concern over the FDIC's sudden bankruptcy.

They'll cite the fact that the FDIC has US\$100 Billion in back-up funding already approved by Congress. That they can tap into those funds, so there's no need for mainstream Americans to worry about their bank's solvency.

And maybe they're right

Hell, we put a man on the moon.

Our guys invented the Internet and the personal computer. And a recent study by Joseph Lazzaro concluded that the United States' total wealth was somewhere between fifty and sixty *trillion* dollars. Lazzaro goes on to claim that, "no nation has ever created and amassed more wealth in absolute terms than the United States."

So perhaps it's possible...

Perhaps we can spend away our mistakes and live to see another day. Maybe we pay the piper in inflation...maybe our stock portfolio takes a hit...but the endless wealth machine hammers on, and your money in the bank is as safe as...well...money in the bank.

But remember the FDIC's purpose...that it's a psychological "security blanket" for the rank and file. Remember the simple fact that you can't go on forever spending money that you don't have. Remember karma's favorite lesson; that all debts are paid by someone, by hook or by crook.

And remember what I'm about to tell you...

If the FDIC loses its status as a "security blanket" for the average American...well, by then it'll already be too late to prepare for the fallout.

Yours in Personal Sovereignty,

Matthew Collins, A-Letter Editor

P.S. The FDIC is unfolding *exactly* as John Pugsley predicted in his special Liars report released late last year. [Click here to read it now, and prepare yourself for all three of the lies that pose a clear and present threat to your savings.](#)

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Had enough of the lies yet? Then you need to read this...

Last year, the FDIC launched a national media blitz trumpeting its record of protecting depositors money.

At the same time, noted economic and political commentator John Pugsley published a report saying they were broke.

This week, the FDIC's "misinformation" has been exposed. They are broke.

And the lies don't end there.

He outlined 2 more specific lies the government has been spreading. Lies that could directly impact your personal wealth and your entire future.

We are living in historic times... with historic threats to far more than just your wealth. If you are...

Frustrated with the amount of your future earnings the government's been willing to bet on trash securities no one else will touch with a 10 foot pole...

Tired of the never-ending empty promises and bald-faced half-truths that gush from the mouths of our so called "public servants" who serve every interest but yours...

Worried about how much of your retirement is really at risk from government meddling...

Pissed-off at the rampant spend, borrow and print deficits that continue to devalue your dollars, your standard of living and your future, or just plain...

Fed-up with "spread-the-wealth" talk after you've already played by the rules and created your own wealth and prosperity...

...then you need to read this report now. [Download it here.](#)