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Tonto and the Big Banks

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Tonto and the Big Banks

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Editorial Essay by Jeffrey Barlow

Given our very broad audience for Interface, I am reluctant to presume knowledge of even an iconic joke on the part of all our readers, so here it is:

The Lone Ranger and Tonto were out righting wrongs on the plains when they were suddenly surrounded by hostile Indians. The Long Ranger said: “Tonto, we could be in big trouble here!” Tonto replied, “What do you mean ‘we,’ White man?”

This is the way I have begun to feel about the large American banks. I know that we are joined at the checking account, the savings account, the CD, my retirement portfolio, the stock market, the social security system, etc., but I am beginning to feel curiously distant from them.

I am, of course, well aware that many large American corporations choose to do some of their banking in the Bahamas, now that the Swiss are ratting out even their best clients. I am thinking such havens might be worth exploring for myself. I am even wondering if perhaps I would rather have a RMB (Ren Min Bi, Chinese currency, steadily appreciating) vs. a dollar account (American currency, steadily depreciating relative to the RMB).

This is a recent phenomenon for me, though I admit to being somewhat prejudiced by my mother’s experience in 1929: Colleen Garrigus very proudly put her first check earned as a beginning teacher into the local bank, which promptly closed its doors—she barely made it out of the bank before it collapsed. She felt, not unreasonably, that the nice man in the three-piece suit who opened the account for her might have quietly advised her to go someplace else.

Colleen, of course, was not the only victim of the Go-Go banking practices of the nineteen twenties. Her father had made a decent living operating a hotel and a local tavern near the railroad depot until prohibition. As a tavern keeper, he had met more than a few highly suggestible men who were willing to join a local social club for which he was a paid recruiter, an office known quaintly as the “Kleagle” by said social organization, the Ku Klux Klan. Granddad, already highly alienated by the loss of his core business selling alcohol, rounded up some of the
satisfied clientele from his sideline, bootlegging.

Colleen, it seemed, was not the only one upset with the nice man at the bank. A drunken mob, some festively attired in white hoods and robes, paid him a visit, toting what Colleen probably preferred to think of as a visual aid—a rope tied in a hangman’s noose. The banker, anxious to avoid yet another heated discussion of his business practices, jumped out the second floor window, breaking his leg. The mob decided he had suffered enough and returned to their social activities, a win-win for granddad.

I am not counseling a return to such local traditions, but simply saying that many of us have memories of earlier economic downturns or recessions (Are we using the “D” word yet?) and may be inclined to view with a jaundiced eye such reports as this one from the January 17 New York Times:

Two weeks after closing its purchase of Merrill Lynch at the urging of federal regulators, the government cemented a deal at midnight Thursday to supply Bank of America with a fresh $20 billion capital injection and absorb as much as $98.2 billion in losses on toxic assets, according to people involved in the transaction.

The bank had been pressing the government for help after it was surprised to learn that Merrill would be taking a fourth-quarter write-down of $15 billion to $20 billion, according to two people who have been briefed on the situation, in addition to Bank of America’s rising consumer loan losses.

The second lifeline brings the government’s total stake in Bank of America to $45 billion and makes it the bank’s largest shareholder, with a stake of about 6 percent.

The program is modeled after a larger one engineered to stabilize Citigroup as its stock price plummeted in late November, but it appears to have had limited success. Under the terms, Bank of America will be responsible for the first $10 billion in losses on a pool of $118 billion in illiquid assets, including residential and commercial real estate and corporate loans, and that will remain on its balance sheet.

The Treasury Department and the Federal Deposit Insurance Corporation will take on the next $10 billion in losses. The Fed will absorb 90 percent of any additional losses, with Bank of America responsible for the rest.

In exchange for the new support, Bank of America will give the government an additional $4 billion stake in preferred stock. It has also agreed to cut its quarterly dividend to a penny, from 32 cents, and accept more stringent restrictions on executive pay. [1]

Even my addled grandfather could do the math on this one:
Bank of America receives up front: 45 billion dollars

U.S. government (us!) agrees to absorb up to 98.2 billion dollars in potentially bad loans from the deal which gave B. of A. Merrill Lynch.

U.S. government (us!) receives additional 4 billion dollars in preferred stock.

Bottom line: B. of A. gets 45 billion dollars up front, a potential additional 98.2 billion dollars. We get 4 billion dollars in preferred stock at a possible cost of 143.2 billion. But wait, there’s more! The nice men also agreed to accept “more stringent restrictions on executive pay.” [2]

This latter consideration my grandfather would probably refer to as “a pig in a poke,” to which Colleen would probably sweetly reply, “More like pigs under a TARP don’t you think?” [3]

On the surface, this looks like using public funds to pay for the expansion of a major bank which just swallowed up another major firm in a deal that--surprise!--less than two weeks later turns out to have been a very bad investment. However, I am sure that there is a big picture here that I just am not competent to understand.

I recently, however, got some personal experience of another financial impact of the Internet, which I can understand. I love banking online—it makes me feel invested, globalized, and as though I know what I am doing. This is particularly true since my daughter began attending graduate school in Beijing. I am able to move funds around with abandon, covering her many overdrafts at lightning speed.

I recently needed to transfer 200 dollars to her account and, finding myself awake at 3:00 a.m. wondering how I could get in on the Bank of America deal, or perhaps one like it, even if with a lot fewer zeros, I went downstairs to move the funds.

I had 1,400 dollars in the checking account, another 150 in the savings account, and by my calculations, checks outstanding for less than 1,500 dollars. The safe thing would be to have transferred the savings into the checking, then moved the 200 into Clare’s account. However, I was moving only 200, had 1,400 on hand, and intended to go in first thing the next day and move one thousand from another bank by hand.

The next day, I did so, asking for a balance following the cash deposit. I had 740 dollars in the bank following a deposit of one thousand! Hmm…this didn’t add up, or subtract, either. Cowed by the awareness of all the clerks at the counter that I was the senior representative of a family of overdrawers, I slunk back to my computer.

The figures I had viewed at 3:00 a.m. had changed! Even the earlier sequence of checks paid and moneys deposited had changed. The 1,300 check I knew to be outstanding had been deducted! Then the two additional smaller checks! Then the 200 transfer to my daughter’s account! The bank, sometime after 3 a. m., had cleared first the 1,300 and then the larger of the two additional outstanding checks and then the 200 transfer itself. The final result was two
overdraft charges.

The electronic register had indicated that I had 1,400 available and no checks had cleared as I transferred, instantly, the funds to China. But what I had taken to be electronic representations of reality turned out to be only virtually reliable.

I went into see my friendly personal banker—a very talented and invariably helpful person who has been indispensable in keeping my daughter in funds in Beijing. I related the above sequence of events and said that it appeared to me that the sequence of deposits and clearances had been manipulated so as to overdraw my account as quickly as possible. Had, for example, the two smaller checks plus the transfer been cleared first, then the large check, I would have owed only one overdraft charge rather than two. It also seemed odd to me that checks written many weeks apart all cleared just at the only moment that they would overdraw my account.

I was informed that it was the bank’s policy to clear the largest checks first, then smaller ones. “So as to generate more overdraft charges?” I inquired…"Yes!" was the reply.

This made me reconsider my daughter’s overdrafts. In addition to being vulnerable to similar creative manipulations of the clearance order of her deposits and withdrawals, she also faces the lag caused by the difference in time zones. She is dealing with two banks, one Chinese and one American, each with the ability to manipulate her accounts—and each with access to her past records, showing when funds are likely to arrive and depart.

It is probable that even with the best intentions she could not keep those accounts in balance. Obviously, the smart thing would be to keep a large cushion in the account, but that in turn means leaving funds vulnerable in an account in China, where the cloning of ATM cards is much more sophisticated than, say, Bank of America’s due diligence before swallowing up Merrill Lynch.

I think the only fair thing here is for the federal government to bail me out, and my daughter, too. If not a bail out, then how about restoring some of the regulations that formerly protected us from deceptive financial practices, extortionate and uncontrolled interest charges, credit granted so easily that infants and family pets could get cards, [4] and many similar operations that could be named?

We are not, unlike B. of A., too big to be allowed to fail. But, like many other American consumers facing overcharges, constantly fluctuating credit card rates, declining property values at the best, and home foreclosures at the worst—we may collectively be too alienated to be allowed to fail.

Otherwise, Tonto’s reply could become more like the anvil chorus...

**Endnotes**


[3] TARP = Troubled Assets Relief Program. To see how some banks are utilizing the federal funding, see Mike McIntire “Bailout Is a Windfall to Banks, if Not to Borrowers” *The New York Times*, January 17, 2009 http://www.nytimes.com/2009/01/18/business/18bank.html?_r=1&hp
As McIntire relates: “At the Palm Beach Ritz-Carlton last November, John C. Hope III, the chairman of Whitney National Bank in New Orleans, stood before a ballroom full of Wall Street analysts and explained how his bank intended to use its $300 million in federal bailout money. “Make more loans?” Mr. Hope said. “We’re not going to change our business model or our credit policies to accommodate the needs of the public sector as they see it to have us make more loans.”


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33 THOUGHTS ON “TONTO AND THE BIG BANKS”

iphone apps development in india
on January 30, 2014 at 12:18 PM said:

It’s awesome to go to see this website and reading the views of all mates on the topic of this paragraph, while I am also zealous of getting knowledge.

Internet Marketing Specialist
on January 30, 2014 at 3:49 PM said:

Hello, this weekend is fastidious for me, as this point in time i am reading this enormous educational article here at my residence.
Nadine  
on January 30, 2014 at 6:38 PM said:

It’s great that you are getting ideas from this post as well as from our discussion made here.

online jobs students  
on January 30, 2014 at 9:59 PM said:

These are really fantastic ideas in regarding blogging. You have touched some nice factors here. Any way keep up wrinting.

e-mail marketing with video  
on January 30, 2014 at 10:41 PM said:

Hi, I read your blog daily. Your humoristic style is witty, keep it up!

good money Painting  
on January 31, 2014 at 1:19 AM said:

Hello, after reading this awesome piece of writing i am as well happy to share my familiarity here with friends.

Shawnee  
on January 31, 2014 at 12:23 PM said:

Definitely believe that which you stated. Your favorite justification seemed to be on the net the easiest thing to be aware of. I say to you, I definitely get annoyed while people think about worries that they
plainly don’t know about. You managed to hit the nail upon the top and also defined out the whole thing without having side-effects, people could take a signal. Will probably be back to get more. Thanks

How To Make The Most
on January 31, 2014 at 11:39 PM said:

Hi there to all, how is all, I think every one is getting more from this site, and your views are pleasant designed for new visitors.

earn online without registration
on February 1, 2014 at 8:23 AM said:

My family members always say that I am killing my time here at net, however I know I am getting familiarity daily by reading such good articles or reviews.

best metal detector
on February 1, 2014 at 9:28 AM said:

Very good article. I’m going through some of these issues as well..

Lesli
on February 1, 2014 at 10:25 AM said:

Wonderful, what a weblog it is! This blog presents useful information to us, keep it up.

Fanny
Superb, what a website it is! This webpage presents helpful data to us, keep it up.

work xd9 for sale
on February 2, 2014 at 2:21 AM said:

I’ve learn a few excellent stuff here. Certainly worth bookmarking for revisiting. I wonder how much effort you set to make one of these magnificent informative site.

Tom
on February 2, 2014 at 3:58 AM said:

An outstanding share! I’ve just forwarded this onto a co-worker who was conducting a little research on this. And he in fact bought me lunch simply because I found it for him... lol. So let me reword this.... Thanks for the meal!! But yeah, thanx for spending time to talk about this matter here on your website.

facebook jobs nyc
on February 2, 2014 at 5:18 AM said:

I all the time used to read post in news papers but now as I am a user of net thus from now I am using net for posts, thanks to web.

Make Money Kindle Books
on February 2, 2014 at 6:35 AM said:

Hmm is anyone else experiencing problems with the pictures on this blog loading?
I’m trying to figure out if its a problem on my end or if it’s the blog. Any feedback would be greatly appreciated.

Claudia  
on **February 2, 2014 at 9:41 AM** said:

Hello mates, how is the whole thing, and what you want to say about this piece of writing, in my view its truly remarkable in support of me.

Tangela  
on **February 2, 2014 at 1:40 PM** said:

Wow that was odd. I just wrote an really long comment but after I clicked submit my comment didn’t show up. Grrrr… well I’m not writing all that over again. Anyway, just wanted to say superb blog!

Dulcie  
on **February 2, 2014 at 8:09 PM** said:

Keep on working, great job!

karaoke machine reviews  
on **February 2, 2014 at 10:06 PM** said:

I know this web page offers quality depending content and other material, is there any other website which provides such information in quality?
email marketing reviews
on February 3, 2014 at 12:26 AM said:

Good post. I learn something new and challenging on websites I stumbleupon everyday. It’s always useful to read through articles from other writers and use a little something from their websites.

incorporate cheap baking and pastry school business administration classes oil commodity trading dallas dui san francisco personal injury attorneys cheap car insurance instant quote amsterdam insurance 125 ltv mortgage colorado mortgage interest rates fl
on February 3, 2014 at 1:50 PM said:

I got this website from my buddy who told me regarding this web site and at the moment this time I am visiting this site and reading very informative articles or reviews at this place.

best electric kettle
on February 3, 2014 at 6:49 PM said:

Right here is the right site for anybody who wants to understand this topic. You realize so much its almost tough to argue with you (not that I really will need to…HaHa). You definitely put a new spin on a topic that’s been discussed for a long time. Wonderful stuff, just wonderful!

best espresso machine
on February 3, 2014 at 7:29 PM said:

Excellent post. I was checking constantly this weblog and I’m impressed!

Very useful info particularly the ultimate part 😊 I maintain such info much. I was seeking this particular information for a very lengthy time.
Thank you and best of luck.

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**best vacuum for hardwood floors**  
on **February 3, 2014 at 9:18 PM** said:

Hi, the whole thing is going well here and ofcourse every one is sharing data, that’s genuinely good, keep up writing.

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**best garbage disposal**  
on **February 3, 2014 at 9:53 PM** said:

Hey there just wanted to give you a quick heads up. The text in your article seem to be running off the screen in Opera. I’m not sure if this is a formatting issue or something to do with browser compatibility but I thought I’d post to let you know. The design and style look great though! Hope you get the problem resolved soon. Kudos

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**best exercise bike**  
on **February 3, 2014 at 10:56 PM** said:

I have been exploring for a little bit for any high quality articles or weblog posts on this sort of area . Exploring in Yahoo I finally stumbled upon this site. Studying this info So i’m satisfied to express that I have an incredibly good uncanny feeling I found out exactly what I needed. I such a lot indisputably will make sure to don?t omit this web site and give it a look regularly.

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**best rifle scope**  
on **February 3, 2014 at 11:10 PM** said:
Wow, fantastic blog layout! How lengthy have you ever been running a blog for? you make blogging look easy. The overall glance of your website is excellent, as neatly as the content!

pressure washer reviews
on February 3, 2014 at 11:35 PM said:

Excellent beat ! I would like to apprentice even as you amend your site, how could i subscribe for a blog website? The account aided me a appropriate deal. I had been tiny bit familiar of this your broadcast provided bright transparent idea

jig saw reviews
on February 4, 2014 at 3:28 AM said:

Excellent goods from you, man. I’ve bear in mind your stuff prior to and you are just too wonderful. I really like what you’ve acquired right here, certainly like what you are stating and the best way wherein you are saying it. You’re making it enjoyable and you still take care of to keep it smart. I can’t wait to learn far more from you. That is actually a tremendous web site.

nigeria entertainment news
on February 4, 2014 at 10:28 AM said:

Pretty section of content. I simply stumbled upon your internet site and in accession capital to say that I get actually enjoyed account your blog posts. Any way I’ll be subscribing in your augment and even I achievement you entry persistently rapidly.
nigeria entertainment news
on February 4, 2014 at 10:37 AM said:

I and also my friends came searching at the very good tips located on a website and previous to lengthy I had a terrible feeling I in no way thanked the world wide web web site owner for those people tips. All the folks are actually warmed to find out them and have now truly been producing probably the most of these things. Quite a few thanks for actually getting really kind in addition to for figuring out certain quite great themes most persons are quite needing being aware of. My sincere apologies for not expressing appreciation to earlier.

vacuum sealer reviews
on February 4, 2014 at 8:06 PM said:

Fabulous, what a weblog it is! This website provides helpful information to us, keep it up.