CITI'S FEAR

I wanted to return to a detail I mentioned in yesterday's book salon. As I noted, in his book on the auto bailout, Steven Rattner described Citi as being worried during the Chrysler negotiations that retail customers would retaliate if Citi played hard ball.

> Bankers for Goldman and Citi had advised [JP Morgan Chase VP and the Chrysler bondholder's lead negotiator] Jimmy Lee to make the best of a bad situation. Privately they felt his brinksmanship was embarrassing and potentially costly. Citi especially wanted to avoid a liquidation. Its analysis showed it would recover no more than 20 cents on the dollar in that instance. Citi also feared losing business in its branches in states like Michigan and Ohio where consumers might blame it for Chrysler's demise. (173)

That didn't make sense to me given that Citi doesn't **have** branches in MI and OH; the closest actual branches are in Chicago. Compare that to Chase, which just took over from Comerica as the biggest bank in MI by deposits and was presumably second at the time of the bailout negotiations. Citi should only fear retaliation from consumers elsewhere, in those urban areas that actually have Citi branches, or they should fear retaliation some other way, presumably through their credit card business. I asked Rattner why Citi was worried, but JP Morgan Chase was not, given its much greater involvement in the auto states. He responded, "Yes, they were definitely worried."

Frankly, I don't know what to make of this. Given the context of the claim—in which Goldman and Citi are portrayed as talking Jimmy Lee down from a hardass negotiating position—JPMC appears not to have been sufficiently worried to change its behavior. And the Citi claim doesn't make sense on its face. Perhaps Citi was worried about something else. Perhaps they were just more worried because they were insolvent? There are a few details he pretty clearly got wrong in his book (such as his claim that Nissan's consideration of a deal with Chrysler was secret), but this seems instead like one of the abundant examples of where Rattner is an unreliable narrator. Rattner chose to portray Citi as worried (and quickly agree the hard-bargaining JPMC was, too), but it's unclear whether that was really true or just nice spin on the banks.

What Rattner probably didn't know was that FDL was trying to increase this worry at the time by encouraging people to take their money out of Chase. That was a mostly unsuccessful effort (let me tell you, Chrysler is no more popular in this country than the big banks) to target the banksters for actions that hurt the communities they're in.

As unsuccessful as our effort was in terms of numbers, if Rattner-the-unreliable-narrator's claim has any basis in fact, then our effort to pressure JPMC to behave better worked. Sort of.

Since then, Arianna's Move Your Money campaign has more successfully advocated for people and institutions to move their money out of the big banks. By April, they claimed $5 billion had been moved. And it does seem like some of the banks are losing market share to smaller banks.

> The largest banks in Michigan are losing market share and Chase Bank now has the most deposits in the state, according to new data released Thursday by the Federal Deposit Insurance Corp.
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> As of June 30, the five biggest banks in Michigan — Chase Bank, Comerica Bank, PNC Bank, Bank of America and Fifth Third Bank — accounted for 55% of all deposits in the state. That's down from 57.3% on June 30, 2009.

I raise all this because of another interesting discussion about whether consumer action might more effectively target the banks. Via Yves Smith, I found this Playboy article on Edmundo Braverman's WallStreetOasis.com's proposal on How to Destroy a Bank (Yup, it appears you have to have a pierced navel and no pubic hair to be a Playboy model these days).

> This article set forth a plan for how consumers could destroy one of America's four largest banks. Customers would deliver a series of escalating threats against Wells Fargo, Bank of America, JPMorgan Chase and Citibank, demanding policy changes. The threats would culminate in a series of flash-mob bank runs that targeted one of the banks.

In a comment in Yves thread, Braverman acknowledged his idea was a thought exercise to take Move Your Money the next step.

> The whole thing was inspired by Arianna Huffington's "Move Your Money" idea. I thought it was a good idea, but not one that would be dramatic enough to produce any changes in the way the banks did business. So I asked myself, "What *would* have an impact on the banks?" and that's when I came up with the Tank-A-Bank plan.
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> It was always just a thought exercise, and never something I advocated.

Yves seems to be thinking more about this; what can consumers do that won't get them jailed as terrorists but will get us to a point where the finance industry isn't dragging our country down even while stealing our money in the process?

There are a couple of important points in the Playboy article on this. First, there's the insight into the role consumer banking plays in this big scheme.

> A former senior bank officer was horrified by Eddie's plan. "The consumer bank divisions are the ones with the rules," he told me. "They're the ones that help the community. They're the real bankers. Why attack them?" But according to Eddie, the banks are "using their consumer banking customers like human shields." While the investment and commercial segments of a bank are separate, major losses from the investment side could still destabilize consumer accounts. That's a fundamental reason bailouts are needed if catastrophic losses occur. Eddie's plan allows those human shields to mutiny.

That's an important point, it seems to me. The consumer banking stuff isn't big enough to do more than scare a Citi or Chase, it seems to me. But the cowboys in the investment and commercial segments basically use consumer banking as a hostage with which to demand bailouts and freebies. Thus, while moving your money is necessary (in that it rescues hostages before the shooting starts), it's not sufficient to humble the banks.

Then there are a few observations from Bill Black, who notes that the Fed would "hang bags filled with millions of dollars from the teller windows" if consumers rebelled. He also reminds that such a run has already happened:

> He told me that flash-mob runs had already been carried out many times over the past 15 years and on a greater scale than Eddie had ever dreamed of. But it hadn't been individuals working together to withdraw their money from consumer banks. It had been investment banks, moving in sync to attack their own. "The current institutions—the banks and broker-dealers and hedge funds and shadow-banking people—already move as organized mobs to take billions of dollars out of institutions in minutes."

> Black was referring to the rapid trillion-dollar movements out of Long-Term Capital Management, Bear Stearns and Lehman Brothers, movements that occurred when it was rumored these institutions were unstable. “The banks will inevitably do it to each other again,” said Black.

While we would never be allowed to exert our power over the banks, the banks themselves have that power and are allowed to use it.

Mind you, I don’t know what the answer is. But it does seem that a range of people are looking to other alternatives to fix what the banksters and the politicians refuse to fix.