

Get Out of Big Banks NOW!

The next big bank failure will not be resolved with a government *Bail-Out*.

It will be resolved by a depositor *Bail-In*.

It's now legal for a big bank to confiscate your money.

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Introduction

A few months ago I discovered that US banks are not legally required to give you cash whenever you request a withdrawal¹. It turns out that as soon as you deposit money in a bank, the funds become the bank's property and you become an unsecured creditor holding an IOU from the financial institution. In trying to verify this I began researching the US financial system. As I dug deeper I uncovered a complex series of federal laws, risky big bank financial maneuvers, international financial group agreements, secret G20 leader approvals, and a mysterious, relatively unknown organization which happens to be most powerful financial entity in the world. These convoluted pieces of information came together when I unearthed a document co-authored by the US Federal Deposit Insurance Corporation (FDIC) and the Bank of England outlining how the next big bank failure would be handled.

As of December 2012, federal laws, government agency approvals, international agreements, and tactical procedures are in place so the next big bank failure will trigger an entirely new resolution policy. No longer will there be a government-taxpayer funded Bail-Out, but rather a Bail-In. The big banks will be allowed to confiscate your deposits at their discretion with no prior notice. Your compensation for the bank's absconding with your money is a new issuance of stock (equity) in their bank.

In other words, you may walk into your bank one day and instead of getting cash for a withdrawal request, you will receive a stock certificate and it will be your responsibility to convert it to cash. This legal seizure of your money will most likely happen in just one night in a process called "overnight sweeps."

Bottom line – you immediately need to move all your funds from big banks to other institutions or investments. Assets in J.P. Morgan Chase and Bank of America are especially vulnerable.

Sound unbelievable? Doubt this could actually happen? Think again – it already has. In March 2013, Cyprus became the first nation to experience this new policy formally referred to as "*Resolving Globally Active, Systemically Important, Financial Institutions*"² (translation – procedure to save big banks in lieu of a government-taxpayer Bail-Out). The confiscation of depositor funds (hence the name Bail-In) in Cyprus was not only approved but mandated by the European Union, along with the European Central Bank and the International Monetary Fund. They told the Cypriots that deposits below €100,000 in two major bankrupt banks would be subject to a 6.75% levy or "haircut," while those over €100,000 would be hit with a 9.99% "fine." When the Cyprus national legislature overwhelming rejected the levy, the insured deposits under €100,000 were spared; but it was at the expense of the uninsured deposits, which took a much larger hit, estimated at about 60 percent of the deposited funds³.

Think your money is safe if it's insured by the Federal Deposit Insurance Corporation (FDIC)? It's not. First of all, the FDIC can only protect your deposits if it has the money itself. With trillions of dollars in deposits and only \$33 billion in the FDIC fund (as of 12/31/12), and the Dodd-Frank mandate of no more taxpayer bail-outs, there's nowhere to get the money except from the depositors. The FDIC was set up to ensure the safety of deposits. Now, it seems, its function will be the confiscation of deposits to save Wall Street by executing the new big bank failure resolution strategy of Bail-In.

¹ In most legal systems, funds deposited are no longer the property of the customer. The funds become the property of the bank, and the customer in turn receives an asset called a deposit account (a checking or savings account). That deposit account is a *liability* of the bank on the bank's books and on its balance sheet. Because the bank is authorized by law to make loans up to a multiple of its reserves, the bank's reserves on hand to satisfy payment of deposit liabilities amounts to only a fraction of the total which the bank is obligated to pay in satisfaction of its demand deposits. The bank gets the money. The depositor becomes only a creditor with an IOU. The bank is not required to keep the deposits available for withdrawal but can lend them out, keeping only a "fraction" on reserve, following accepted fractional reserve banking principles. When too many creditors come for their money at once, the result can be a run on the banks and bank failure.

² This document can be obtained at the US Government FDIC website. <http://www.fdic.gov/about/srac/2012/gsifi.pdf> Paragraph 13 explicitly describes the now legal process to confiscate depositor funds. You also can get the document at my website <http://www.randylangel.com/downloads.html>

³ <http://www.forbes.com/sites/timworstall/2013/03/31/theres-something-very-strange-about-the-cyprus-bank-haircut-very-strange-indeed/>

After I had compiled this information, and even though the result was staring me in the face, I still just couldn't believe it. I'm not a financial maven so I reasoned I must have misinterpreted something. Consequently, I contacted a friend with extensive financial acumen and asked him to refute my research. His past experience includes serving as an advisor to two administrations on banking legislation and a former bank CEO. He now assists investor groups in applying for a federal bank charter or researches the purchase of an existing institution for possible acquisition. Upon completing his analysis he decided to transfer 80% of his bank deposits from Money Center Banks to smaller well-capitalized federal banking institutions and federal credit unions. That's good enough for me. I cashed out and started researching alternatives to big banks.

This document contains;

1. A summary timeline describing the events and their ramifications leading to the Bail-In method becoming the US Government's new official policy to resolve a big bank failure.
2. A one-page example (so far hypothetical), describing how you would be affected.
3. A step-by-step tutorial to find and rate a credit union or community bank to move your money.
4. Possible legislative and long term solutions, including references and links to additional information sources.
5. A detailed timeline describing the events and their ramifications proving that Bail-In is fact. This version substantiates the new bank failure resolution technique with comprehensive references and links throughout. Infographics are also incorporated pictorially demonstrating the magnitude of US big bank's derivatives risk exposure that could lead to the next bank failure thus triggering Bail-In.

When I first understood that big banks had been sanctioned by the US Government to literally take our money, I immediately moved my capital from Chase to a credit union and a community bank. I also wanted to inform others of this potentially catastrophic personal financial hazard, but I wasn't sure they would believe me. That's the reason this document contains so much detail i.e., to prove that Bail-In and the possible confiscation of our money is real and undeniable. It is of course up to you to read and validate this material.

"The unsecured debt holders can expect that their claims would be written down to reflect any losses that shareholders cannot cover, with some converted partly into equity in order to provide sufficient capital to return the sound businesses of the G-SIFI to private sector operation."

Resolving Globally Active, Systemically Important, Financial Institutions, coauthored by the FDIC & the Bank of England, December 10, 2012, Page ii.

Note 1: unsecured debt holders are ordinary bank depositors like you & me

Note 2: G-SIFI stands for Global Systemically Important Financial Institutions (this means big banks)

Summary Timeline – Bail-In Events & Ramifications

Date	Event	Ramifications, Must-Know Facts
1999	Repeal of Glass-Steagall Act	Banks can now use depositor's money for their own investments
April 2005	Passage of <i>Bankruptcy Abuse Prevention and Consumer Protection Act</i> , also known as the <i>Bankruptcy Reform Act</i>	<ul style="list-style-type: none"> Creates Super-Priority Status for banks holding derivatives contracts. This means that when a financial institution is close to bankruptcy, any other bank or financial institution holding derivatives claims against it are given preference over all other creditors and customers for the remaining assets of the failing institution. Normally, the FDIC would have the powers as trustee in receivership to protect the failed bank's collateral for payments made to depositors. But the FDIC's powers are overridden by the special status of derivatives. <u>In simple language, the big banks are first in line to claim the assets of the failing institution and nothing goes to the FDIC, depositors, or state and local governments until the big banks are through getting their share.</u> <u>Rather than banks being put into bankruptcy to salvage deposits of their customers, the customers will now be put into bankruptcy to save the banks.</u>
2008	Great Recession	<ul style="list-style-type: none"> <u>Derivatives, specifically credit default swaps, were the reason that what would otherwise have been a contained subprime crisis, instead turned into a global financial meltdown.</u> AIG wrote billions of dollars of derivatives "insurance" against the mortgage market without having even a fraction of what it would take to pay off claims. When the whole thing collapsed, they were wiped out. And because their "insurance" was part of the balance sheet of AIG's many counterparties (Goldman Sachs and everyone like them), Goldman Sachs would have been wiped out too by AIG's failure. <u>That's why the government bailed out AIG — and insisted on giving them 100 cents on the dollar — so that they could pay off Goldman et al. AIG was bailed out to bail out all their counterparties.</u>
April 2009	Financial Stability Board (FSB) created	<ul style="list-style-type: none"> Following the fiscal turmoil of the 2007-2008 worldwide financial collapse, the G20 nations at their 2009 London summit formalized a new organization called the Financial Stability Board. <u>The G20 nations agreed to be regulated by the newly formed FSB</u> which is a sub-committee of the relatively unknown Bank of International Settlements. This has far-reaching implications. The Bank for International Settlements (BIS) is a mysterious organization formed by an international treaty signed in The Hague in 1930. Its original mission, established by bankers and diplomats of Europe and the United States, was to collect and disburse Germany's World War I reparation payments (hence its name). It is composed of unelected country representatives, is not accountable to any government or financial institution, and is immune from taxation. In both peace and war the BIS is guaranteed these privileges by the international treaty signed 80+ years ago. <u>The BIS has become the central bank of central banks and is the most powerful financial organization in the world.</u>
July 2010	Passage of the <i>Dodd-Frank Wall Street Reform & Consumer Protection Act</i> .	<ul style="list-style-type: none"> Section 716 bans taxpayer bailouts of most speculative derivatives activities. On the surface this appears to be a good thing but where will the banks get the money in the next crisis? And be assured – they will get their money.
Oct 2011	Financial Stability Board (FSB) releases the document; <i>Key Attributes of Effective Resolution Regimes for Financial Institutions</i> .	<ul style="list-style-type: none"> This is the first mention of the new concept of a Bail-In to replace previous Bail-Out (i.e., tax-payer funded) resolutions of bank failures. This is the basis for what latter will become the legal right for US big banks to confiscated your money and in return give you equity i.e., a share of stock, in a new recapitalized company formed because of the bank failure.
Nov 2011	The G20 leaders endorse the FSB's <i>Key Attributes</i> document at the Cannes Summit.	<ul style="list-style-type: none"> "The Key Attributes" are now the international standard for developing bank failure resolution plans.

Late 2011	<p>Bank of America is downgraded by Moody's.</p> <p>Bank of America moves a large portion of its trillions in derivatives from its Merrill Lynch unit to its banking subsidiary.</p> <p>JP Morgan Chase follows suit moving its trillions in derivatives to its depository arm.</p>	<ul style="list-style-type: none"> BofA did not get regulatory approval but just acted at the request of frightened counterparties (BofA investors with personal financial reasons to keep BofA stable & profitable) The FDIC opposed the move, protesting that the FDIC would be subjected to the risk of becoming insolvent if BofA were to file for bankruptcy. However, the Federal Reserve favored the move, in order to give relief to the bank holding company, so it overruled the FDIC. This puts the FDIC in a wholly untenable position. They have to do something to protect themselves from billions, maybe trillions, in liabilities.
Nov 2012	<p>Financial Stability Board (FSB) releases the document, <i>Recovery and Resolution Planning: Making the Key Attributes Requirements Operational</i>.</p>	<ul style="list-style-type: none"> With this guidance each country is to formulate plans and submit them to the FSB for review and comparison with other country's plans. A new phrase is created called Global Systemically Important Financial Institutions, G-SIFIs (this means big banks). The document specifically states, "Banking groups that are G-SIFIs are therefore the main focus of this consultative document." Big banks are being given preferential treatment.
Dec 2012	<p>FDIC & Bank of England jointly publish, <i>Resolving Globally Active, Systemically Important, Financial Institutions</i>.</p>	<ul style="list-style-type: none"> This formally establishes that the next big bank failure will be resolved by the new Bail-In policy. Paragraph 13, page 3, "<u>An efficient path for returning the sound operations of the G-SIFI to the private sector would be provided by exchanging or converting a sufficient amount of the unsecured debt from the original creditors of the failed company into equity. In the U.S., the new equity would become capital in one or more newly formed operating entities...or the equity could be used to recapitalize the failing financial company itself...</u>". Translation. One day you may go into your big US bank and when you ask for a withdrawal they give you a share of stock in a new company instead of cash. It will be your responsibility to get that share of stock converted to cash. Of course, since the new company was formed from the failed bank in the first place, it may be difficult to sell it, much less get remuneration equal to the cash you lost when the bank absconded with your money. <u>Since your account has been converted to equity (stock) from cash, the FDIC is no longer responsible for the deposits. Why? Because the FDIC only insures cash accounts not equity accounts.</u> Cute trick. You can't really blame the FDIC because they were forced into action when BofA and JP Morgan Chase moved their trillions of derivatives into their depository arms. There is no way the government could make up the money lost with one of those giants failing.
Mar 2013	<p>Cyprus becomes the first nation to experience this new policy of Bail-In to save failing banks by taking depositor funds.</p>	<ul style="list-style-type: none"> The confiscation of depositor funds in Cyprus was not only approved <u>but mandated</u> by the European Union, along with the European Central Bank and the International Monetary Fund. They told the Cypriots that deposits below €100,000 in two major bankrupt banks would be subject to a 6.75% levy or "haircut," while those over €100,000 would be hit with a 9.99% "fine." When the Cyprus national legislature overwhelming rejected the levy, the insured deposits under €100,000 were spared; but it was at the expense of the uninsured deposits, which took a much larger hit, estimated at about 60 percent of the deposited funds⁴
Mar 2013	<p>US Comptroller of the Currency office issues quarterly report on derivatives holdings.</p>	<p>Total Notional Derivatives US Exposure</p> <ul style="list-style-type: none"> JP Morgan Chase ----- \$70.3 Trillion Citibank----- \$58.4 Trillion Bank of America----- \$44.5 Trillion Goldman Sachs----- \$42.2 Trillion Total US banks----- \$232 Trillion The 4 largest US banks hold 93% of the total derivatives contracts in the US. On 12/31/12 the FDIC had \$33 Billion in the depositor insurance fund and a reserve ratio of .45%. This equates to FDIC insured deposits of \$7.3 Trillion. Comparing these two assets we find <u>there are 32 times more notional derivatives (\$232 Trillion) than there are total deposits (\$7.3 Trillion)</u> while the <u>ratio of gross derivatives to deposit insurance is a disconcerting 7,030-to-1</u>. Small wonder that the FDIC had to endorse Bail-In.

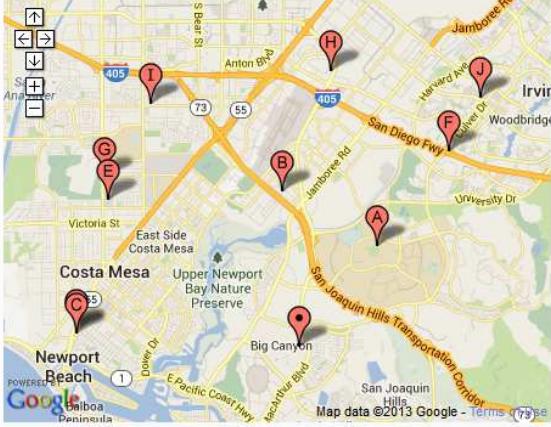
⁴ <http://www.forbes.com/sites/timworstall/2013/03/31/theres-something-very-strange-about-the-cyprus-bank-haircut-very-strange-indeed/>

Bail-in Example – How Your Money will be Confiscated

Scenario: Let's assume Bank of America is in a precarious financial situation. Given the new resolution policy of Bail-In, how would your cash accounts at big banks be affected? Can you still get cash to pay your bills?

Event	Reactions, Consequences	How, Why, Comments
JP Morgan Chase loans Bank of America money.	<ul style="list-style-type: none"> JP Morgan Chase notices that BofA has been making some bad moves lately and decides to hedge against the risk of BofA not repaying their debt to Chase by purchasing a credit default swap derivative on BofA debt. With BofA not looking so good, Chase also bets on a decline in value of BofA stock through a short sale. 	<ul style="list-style-type: none"> The credit default swap would pay Chase if BofA failed to repay their loan. When an investor goes short on an investment, it means that he or she has bought a stock believing its price will go down in the future and they can make money on that bet.
Chase lets other hedge funds know they are shorting BofA.	<ul style="list-style-type: none"> Other hedge funds short BofA stock. 	<ul style="list-style-type: none"> At this point, any action that Chase might take to boost the odds that BofA would default will increase the value of their derivatives. That possibility might tempt Chase to take actions that would boost the odds of failure for BofA.
The hedge funds shorting BofA pull their money out of BofA.	<ul style="list-style-type: none"> BofA starts to have Capital Requirements problems. In a snowball effect, other financial groups start pulling their money out of BofA too. 	<ul style="list-style-type: none"> This kind of behavior in which hedge funds pull their money out of banks whose stock they are shorting contributed to the failures of Bear Stearns and Lehman Brothers.
BofA is failing.	<ul style="list-style-type: none"> Chase and all the other big banks want to cash-in their derivative contracts with BofA. BofA assets are rapidly depleted. 	<ul style="list-style-type: none"> Normally when a bank is failing the FDIC would have the powers as "trustee in receivership" to protect the bank's collateral and bring about an orderly resolution of assets. The proceeds would then be used to pay depositors with the difference being made up by the FDIC. However, the FDIC's powers are overridden by the special status of derivatives given to the big banks by the 2005 <i>Bankruptcy Abuse Prevention and Consumer Protection Act</i>. The FDIC cannot intervene and must wait till the big banks holding derivative contracts with BofA get all their money back regardless of the assets affected. This includes individual depositor accounts and state/local government accounts.
BofA cash is transferred to other banks in payment for derivative contracts.	<ul style="list-style-type: none"> BofA is drained of assets, including individual depositor accounts and state/local government accounts. All cash is gone at BofA leaving only real estate assets. 	<ul style="list-style-type: none"> All this happens in one night in the "overnight sweeps" process. One day a depositor will have money in his/her account and the very next day there will only be an empty asset IOU entry.
FDIC comes into BofA to resolve the failure.	<ul style="list-style-type: none"> A new company is formed to manage the remaining assets of BofA. Depositor asset IOU's are converted into stock in the new company. 	<ul style="list-style-type: none"> The FDIC executes the new Bail-In policy laid out in the December 2012 document, <i>Resolving Globally Active, Systemically Important, Financial Institutions</i>
A BofA customer comes into the bank to get cash to pay bills.	<ul style="list-style-type: none"> When asking for a withdrawal the person is given a share of stock in the new company but no cash. 	<ul style="list-style-type: none"> <u>The FDIC is no longer responsible for your account and is not required to give you cash. Why? Because the FDIC only insures cash accounts not equity accounts and your account has been converted to equity (stock) from cash.</u> It is the customer's responsibility to get that share of stock converted to cash. Of course, since the new company was formed from a failed bank in the first place, it may be difficult to sell it, much less get remuneration equal to the cash lost when the bank failed and Bail-In was executed.

Short Term Fix - Where to Move Your Money – Alternatives to Big Banks

Credit Unions Tasks	Finding the Information									
<p>To find a local credit union go to http://www.asmarterchoice.org/</p> <p>Key in your zip code, select a distance and press Search.</p>	<p> Find a Credit Union® that is right for you.</p> <p>Credit unions are a smarter choice for financial services. Search for a credit union that's right for you. Please provide the information that is applicable to you (or your family).</p> <p><input type="button" value="Simple"/> <input type="button" value="Advanced"/> <input type="button" value="By Name"/></p> <p>Street Address <input type="text"/> Do not include Apt/Suite</p> <p>City <input type="text"/> State <input type="button" value="AL"/></p> <p>Zip Code (required) <input type="text"/> Distance <input type="button" value="5 Miles"/></p> <p><input type="button" value="SEARCH ▶"/></p> <p>If you have trouble searching, one of our local representatives can help: (800) 358-5710.</p>									
<p>The “Search” will yield a screen similar to the following:</p>	<p>asmarterchoice.org > New Search Results</p> <p>Address Search </p> <p></p> <p><input type="button" value="New Search"/></p> <p>Please click on the credit union name below to learn about its membership requirements.</p>									
<p>Go to the credit union’s website and see if you are eligible to become a member.</p>	<table border="1"><thead><tr><th data-bbox="545 1619 572 1641">Name</th><th data-bbox="545 1619 806 1641">Contact</th><th data-bbox="1001 1619 1091 1641">Distance</th></tr></thead><tbody><tr><td data-bbox="545 1657 572 1843">A</td><td data-bbox="604 1657 980 1843">SchoolsFirst Federal Credit Union Employees of: Schools; County Superintendents of Schools; and authorized... more</td><td data-bbox="991 1657 1064 1686">2.06 miles</td></tr><tr><td data-bbox="545 1859 572 1904">B</td><td data-bbox="604 1859 917 1904">LBS Financial CU 1401 Quail St. Newport Beach, CA 92660</td><td data-bbox="991 1859 1064 1888">2.55 miles</td></tr></tbody></table>	Name	Contact	Distance	A	SchoolsFirst Federal Credit Union Employees of: Schools; County Superintendents of Schools; and authorized... more	2.06 miles	B	LBS Financial CU 1401 Quail St. Newport Beach, CA 92660	2.55 miles
Name	Contact	Distance								
A	SchoolsFirst Federal Credit Union Employees of: Schools; County Superintendents of Schools; and authorized... more	2.06 miles								
B	LBS Financial CU 1401 Quail St. Newport Beach, CA 92660	2.55 miles								

Upon identifying a possible credit union i.e., you qualify as a member, go to <http://www.bankrate.com/rates/safe-sound/bank-ratings-search.aspx> to see how that particular financial institution is rated.

Select "Credit Union" in "Institution Type" and key in the credit union's name. Keep the default for the "Choose star rating" field as "All ratings" and click "See Results".

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 Banks/Thrifts Credit Unions

Search by name:

Choose star rating:

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* Denotes required field.

Tips for using Safe & Sound®

- Ratings are for the legal entities, not by brand name or bank branch.
- Bank holding companies and foreign institutions that do not have a federal cert number and/or are not federally insured are not rated.
- Use more search options to narrow your results and fewer search options to broaden your results.
- Use the Credit Union button to access the Credit Union inquiry; the Banks & Thrifts button for Commercial Banks and Savings Institutions.
- Data is updated quarterly in arrears.
- We do not rate credit unions with less than \$5 million in assets.

If you are searching for an institution by its geographic headquarters [click here](#) for the advanced search.

By clicking the "See Results" button below, I agree that I have read and agree to the [Terms of Use of Safe & Sound Ratings and Reports](#), as well as Bankrate.com's [Terms of Use](#). By clicking the "See Results" button below, I also agree that I have read and understand Bankrate's [Privacy Policy](#).

See Results

Stick to 4 or 5 star credit unions if possible. A 3 star institution, while not as desirable, is still far better than a big bank to avoid becoming a victim of a Bail-In.

There may be many credit unions listed, find the correct one and click on "Memo" to find out more detailed information.

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Credit Unions, Schools First

[SAFE AND SOUND RATING SYSTEM](#)

Click column heading to sort						
Institution	State	ZIP	Asset Size	Star Rating	Memo	Financial Statement
SCHOOLSFIRST	CA	92711	> \$5 billion	★★★★	Memo	Statement

Ratings structure

Presented below is an explanation of Bankrate's Safe & Sound rating system for commercial banks, savings institutions and credit unions:

Safe & Sound® rating system

Star rating	Definition	
★★★★★	Superior	See our awards download page.
★★★★	Sound	See our awards download page.
★★★	Performing	
★★	Below peer group	
★	Lowest rated	

Institution Asset Size	9.7990 billion
Deposits	8.1688 billion
Loans	4.0618 billion
Equity	1.0601 billion
Net Profit/Loss	28.1516 million

The resulting report gives many more details about the credit union and rates individual Component Highlights. This is only a small part of the output.

COMPONENT HIGHLIGHTS

Capital highlights

Component star rating: 4 ★★★★

Capitalization stands as protection against loss for credit union members, creditors and, if applicable, the insurer. Regulators place a high degree of importance upon assessments of capitalization.

Key measures of Capital Adequacy	Ratio (%)	Assessment
Net Capital / Assets	10.82	Above Peer Norm
Capital (1) / Assets	11.82	Above Peer Norm

(1) Includes loan loss allowance.

Asset quality highlights

Component star rating: 5 ★★★★★

Community Bank Tasks	Finding the Information
<p>To find a community bank go to the locator at http://www.icba.org/consumer/BankLocator.cfm</p>	<h3 data-bbox="599 280 933 312">Community Bank Locator</h3> <p data-bbox="599 345 869 372">Here Today, Here Tomorrow</p> <p data-bbox="599 388 1377 440">Community banks are the safest, soundest and most secure financial institutions in our nation. Community banks are common sense lenders that follow responsible business practices; are risk averse; and work every day to support their customers, communities and local markets.</p> <p data-bbox="599 451 858 473">Find a local community bank in your area:</p> <div data-bbox="599 482 1218 617"> <p data-bbox="599 482 1218 527">Address: <input type="text"/> City: <input type="text"/> State: <input type="text"/> ZIP Code: <input type="text"/></p> <p data-bbox="599 550 763 572">Display All Banks Within:</p> <p data-bbox="599 595 837 617"> <input type="radio"/> 25 <input checked="" type="radio"/> 50 <input type="radio"/> 75 <input type="radio"/> 100 miles </p> <p data-bbox="1139 572 1202 595"><input type="button" value="submit"/></p> </div>
<p>Key in your zip code, select a distance and press Submit.</p>	<hr/> <p data-bbox="599 698 822 720">Find a local community bank in your area:</p> <div data-bbox="599 729 1144 864"> <p data-bbox="599 729 1144 774">Address: <input type="text"/> City: <input type="text"/> State: <input type="text"/> ZIP Code: <input type="text" value="92660"/></p> <p data-bbox="599 797 742 819">Display All Banks Within:</p> <p data-bbox="599 842 806 864"> <input type="radio"/> 25 <input checked="" type="radio"/> 50 <input type="radio"/> 75 <input type="radio"/> 100 miles </p> <p data-bbox="1075 819 1139 842"><input type="button" value="submit"/></p> </div> <hr/>
<p>The “Submit” will yield a report similar to the one on the right. Print this screen.</p>	<div data-bbox="599 871 1302 1304">  <p data-bbox="1044 887 1302 923">To get more information, click on a link below or click on a balloon marker on the map.</p> <p data-bbox="1060 954 1175 977">further >></p> <ul data-bbox="1060 1021 1298 1304" style="list-style-type: none"> California Republic Bank (3 mi.) Orange County Business Bank (4 mi.) Pacific Premier Bank (4 mi.) National Bank of California (4 mi.) South County Bank, National Association (7 mi.) South County Bank, National Association (7 mi.) Tustin Community Bank (8 mi.) Preferred Bank (9 mi.) Saigon National Bank (11 mi.) </div> <hr/>
<p>After identifying a possible community bank to deposit your money, go to http://www.bankrate.com/rates/safe-sound/bank-ratings-search.aspx to see how that particular financial institution is rated.</p> <p>Select “Banks/Thrifts” in “Institution Type” and key in the community bank’s name. Keep the default for the “Choose star rating” field as “All ratings” and click “See Results.”</p>	<div data-bbox="599 1381 1282 2001"> <p data-bbox="599 1381 822 1403">SAFE & SOUND® STAR RATINGS</p> <p data-bbox="599 1426 1123 1448">Bank Ratings for Thrift, Credit Union and National Banks.</p> <p data-bbox="599 1471 917 1493">Search for safe financial institutions</p> <p data-bbox="1007 1471 1282 1493">Ratings information for: Q1 2013 now available</p> <p data-bbox="615 1516 779 1538">* Select institution type:</p> <p data-bbox="615 1540 842 1563"> <input checked="" type="radio"/> Banks/Thrifts <input type="radio"/> Credit Unions </p> <p data-bbox="615 1590 731 1612">Search by name:</p> <input type="text" value="farmers and merchants"/> <p data-bbox="615 1673 747 1695">Choose star rating:</p> <p data-bbox="615 1697 763 1720"> <input type="radio"/> All ratings <input type="radio"/> </p> <p data-bbox="615 1747 763 1769">Search by asset size:</p> <p data-bbox="615 1772 763 1794"> <input type="radio"/> All <input type="radio"/> </p> <p data-bbox="901 1540 1101 1563">Tips for using Safe & Sound®</p> <p data-bbox="901 1574 1255 1596">* Ratings are for the legal entities, not by brand name or bank branch.</p> <p data-bbox="901 1608 1255 1653">* Bank holding companies and foreign institutions that do not have a federal cert number and/or are not federally insured are not rated.</p> <p data-bbox="901 1664 1255 1686">* Use more search options to narrow your results and fewer search options to broaden your results.</p> <p data-bbox="901 1697 1255 1742">* Use the Credit Union button to access the Credit Union inquiry; the Banks & Thrifts button for Commercial Banks and Savings Institutions.</p> <p data-bbox="901 1754 1112 1776">* Data is updated quarterly in arrears.</p> <p data-bbox="901 1787 1223 1810">* We do not rate credit unions with less than \$5 million in assets.</p> <p data-bbox="615 1830 758 1852">* Denotes required field.</p> <p data-bbox="615 1859 1218 1882">If you are searching for an institution by its geographic headquarters click here for the advanced search.</p> <p data-bbox="615 1893 1271 1938">By clicking the “See Results” button below, I agree that I have read and agree to the Terms of Use of Safe & Sound Ratings and Reports, as well as Bankrate.com's Terms of Use. By clicking the “See Results” button below, I also agree that I have read and understand Bankrate's Privacy Policy.</p> <p data-bbox="1171 1956 1255 1978"><input type="button" value="See Results"/></p> </div>

There may be many banks listed. Find the correct one and click on "Memo" to find out more detailed information.

FARMERS AND MERCHANTS BANK OF KENDALL	WI	54638	< \$100 million	★★★	Memo	Statement
FARMERS AND MERCHANTS BANK OF LONG BEACH	CA	90802	> \$5 billion	★★★	Memo	Statement
FARMERS AND MERCHANTS BANK OF MOUND CITY, KANSAS	KS	66056	< \$100 million	★★★	Memo	Statement

Community banks are analyzed differently than credit unions. Only a 4 or 5 star institution should be selected but other things need to be considered.

For banks, the value for "Net Worth to Total Assets," should be 12 or greater. ======>

Capital highlights

Component star rating: 5 ★★★★

Bank capitalization stands as a protection against loss for bank customers, creditors, shareholders, and the Federal Deposit Insurance Corporation (FDIC). Regulators place a high degree of importance upon assessments of capitalization and assign regulatory benchmarks as determinants of capital adequacy.

Key measures of Capital Adequacy:	Ratio (%)	Assessment
Net Worth to Total Assets	14.40	Well Above Peer Norm
Regulatory Capital Ratio	29.80	Substantially Exceeded Requirement

Liquidity highlights

Component star rating: 4 ★★★★

Liquidity provides funding for normal bank operations and represents a reserve for unanticipated disintermediation. Liquidity can be both an asset and a liability concept.

Key measures of Liquidity:	Ratio (%)	Assessment
Balance Sheet Liquidity	12.54	Substantially Below Normal
Purchased Liabilities	17.86	No Greater Than Average Dependence



BankFind

FDIC BankFind allows you to locate FDIC-insured banking institutions.

Bank Name	<input type="text"/>	FDIC #	<input type="text"/>
Address	<input type="text"/>	City	<input type="text"/>
State	<input type="text" value="Anywhere in U.S."/> <input type="button" value="▼"/>	Zip Code	<input type="text"/>
<input type="button" value="Clear"/> <input type="button" value="Find"/>			

The FDIC website also needs to be searched to scrutinize the derivatives activity at the candidate bank.

Go to <http://research.fdic.gov/bankfind/>

Key in the bank name, zip code, and click "Find"

When the results appear, select the appropriate bank from the list and a summary screen will appear.

Click on, "Latest financial information" ==>

Farmers and Merchants Bank of Long Beach (FDIC #: 1225)

Status: Active • Insured Since January 1, 1934

Farmers and Merchants Bank of Long Beach is an active bank

Data as of: August 14, 2013

Overview	Locations	History	Identifications
<ul style="list-style-type: none"> ● Palomar Enterprises, Llc Bank Holding Company ● Farmers and Merchants Bank of Long Beach Banking Institution ● 21 Locations Branches (Offices) 	Farmers and Merchants Bank of Long Beach has 21 domestic locations in 1 states, 0 locations in territories, and 0 foreign locations		
	Established: November 20, 1907 FDIC Certificate #: 1225 Insured: January 1, 1934 Bank Charter Class: Member of the Federal Reserve System Headquarters: 302 Pine Avenue Long Beach, CA 90802 Regulated By: Federal Reserve Board Consumer Assistance: http://www.FederalReserveConsumerHelp.gov Corporate Website: http://www.fmb.com		
	Latest financial information about Farmers and Merchants Bank of Long Beach Contact the FDIC about Farmers and Merchants Bank of Long Beach		

Click the down arrow of the "ID Report Selections" field. ======>

Key demographic information as of August 15, 2013			Print this page	
Farmers and Merchants Bank of Long Beach 302 Pine Avenue Long Beach, CA 90802				
FDIC Certificate #: Bank Charter Class: Primary Federal Regulator: Primary Internet Web Address:	1225 Federal Reserve Member Federal Reserve Board www.fmb.com	Date Established: Date of Deposit Insurance:	11/20/1907 1/1/1934	More Demographic Information  Generate History 
Information Gateway				
ID Report Selections:	Report Date:			
<input style="width: 150px; height: 20px; border: 1px solid black; border-radius: 5px; padding: 2px; margin-bottom: 5px;" type="button" value="Assets and Liabilities"/>	<input style="width: 100px; height: 20px; border: 1px solid black; border-radius: 5px; padding: 2px; margin-bottom: 5px;" type="button" value="March 31, 2013"/>	Generate Report		
<div style="display: flex; justify-content: space-between; align-items: center;"> More Information Bank Holding Company Ownership and Affiliates </div> <div style="display: flex; justify-content: space-between; align-items: center;"> Regional Economic Conditions (FDIC RECON) Organization Hierarchy from the Federal Reserve System </div> <div style="display: flex; justify-content: space-between; align-items: center;"> FED CRA ratings Consumer Assistance from Primary Federal Regulator </div> <div style="margin-top: 5px;">Press F1 for description</div>				

In the drop down box click on the selection, "Assets and Liabilities - %Assets"======>

Then click on the "Generate Report" button.

Key demographic information as of August 15, 2013			Print this page	
Farmers and Merchants Bank of Long Beach 302 Pine Avenue Long Beach, CA 90802				
FDIC Certificate #: Bank Charter Class: Primary Federal Regulator: Primary Internet Web Address:	1225 Federal Reserve Member Federal Reserve Board www.fmb.com	Date Established: Date of Deposit Insurance:	11/20/1907 1/1/1934	More Demographic Information  Generate History 
Information Gateway				
ID Report Selections:	Report Date:			
<input style="width: 150px; height: 20px; border: 1px solid black; border-radius: 5px; padding: 2px; margin-bottom: 5px;" type="button" value="Assets and Liabilities"/> <input style="width: 150px; height: 20px; border: 1px solid black; border-radius: 5px; padding: 2px; margin-bottom: 5px;" type="button" value="Demographic Information"/> <input style="width: 150px; height: 20px; border: 1px solid black; border-radius: 5px; padding: 2px; margin-bottom: 5px; background-color: #003366; color: white;" type="button" value="Assets and Liabilities"/>	<input style="width: 100px; height: 20px; border: 1px solid black; border-radius: 5px; padding: 2px; margin-bottom: 5px;" type="button" value="March 31, 2013"/>	Generate Report		
<div style="display: flex; justify-content: space-between; align-items: center;"> More Information Bank Holding Company Ownership and Affiliates </div> <div style="display: flex; justify-content: space-between; align-items: center;"> Regional Economic Conditions (FDIC RECON) Organization Hierarchy from the Federal Reserve System </div> <div style="display: flex; justify-content: space-between; align-items: center;"> FED CRA ratings Consumer Assistance from Primary Federal Regulator </div> <div style="margin-top: 5px;">Press F1 for description</div>				

This will generate a report revealing the bank's financial health.

Definition	Percent of Assets	Farmers and Merchants Bank of Long Beach, CA March 31, 2013	Farmers and Merchants Bank of Long Beach, CA March 31, 2012
Assets and Liabilities			
1 Total assets	100.00%	100.00%	100.00%
2 Cash and due from depository institutions	6.57%	9.06%	9.06%
3 Interest-bearing balances	5.46%	7.92%	7.92%
4 Securities	51.45%	45.91%	45.91%
5 Federal funds sold & reverse repurchase agreements	0	0	0
6 Net loans & leases	38.81%	41.39%	41.39%
7 Loan loss allowance	1.00%	1.22%	1.22%

Page down until you find the entry "Total bank equity capital." ======>

This number should agree with bankrate.com's report category "Net Worth to Total Assets" and should be above 12 in order to consider the bank a viable candidate to deposit your money.

23 Total equity capital	14.40%	14.38%
24 Total bank equity capital	14.40%	14.38%
25 Perpetual preferred stock	0	0
26 Common stock	0.05%	0.05%
27 Surplus	0.24%	0.25%
28 Undivided profits	14.11%	14.07%
29 Noncontrolling interests in consolidated subsidiaries	0	0
Memoranda:		
30 Noncurrent loans and leases	0.85%	1.93%
31 Noncurrent loans that are wholly or partially guaranteed by the U.S. government	0	0
32 Income earned, not collected on loans	0.37%	0.34%
33 Earning assets	95.72%	95.22%
34 Long-term assets (5+ years)	57.79%	47.74%
35 Total risk weighted assets	50.00%	51.19%
36 Adjusted average assets for leverage capital purposes	98.81%	98.22%
37 Life insurance assets	0	0
38 General account life insurance assets	0	0
39 Separate account life insurance assets	0	0
40 Hybrid life insurance assets	0	0
41 Volatile liabilities	18.46%	18.45%
42 Insider loans	0	0
43 FHLB advances	0	0
44 Loans and leases held for sale	0.03%	0.03%
45 Unused loan commitments	9.77%	9.44%
46 Tier 1 (core) risk-based capital	14.27%	14.20%
47 Tier 2 risk-based capital	0.63%	0.65%
48 Total unused commitments	9.77%	9.44%
49 Derivatives	0	0

Another report field to verify is "Derivatives." This field should be zero. If the bank has any derivatives involvement i.e., this field is greater than zero, then exclude the institution from further consideration. ===>

As a point of comparison, I have included a portion of JP Morgan Chase's latest FDIC report.

Definition	Percent of Assets	JPMorgan Chase Bank, National Association Columbus, OH March 31, 2013	JPMorgan Chase Bank, National Association Columbus, OH March 31, 2012
Assets and Liabilities			
1 Total assets	100.00%	100.00%	100.00%
2 Cash and due from depository institutions	6.57%	9.06%	9.06%
3 Interest-bearing balances	5.46%	7.92%	7.92%
4 Securities	51.45%	45.91%	45.91%
5 Federal funds sold & reverse repurchase agreements	0	0	0
6 Net loans & leases	38.81%	41.39%	41.39%
7 Loan loss allowance	1.00%	1.22%	1.22%

Notice that their Total bank equity capital is only 7.68% which is barely above legal requirements.

23	Total equity capital	7.69%	7.26%
24	Total bank equity capital	7.68%	7.25%
25	Perpetual preferred stock	0	0
26	Common stock	0.09%	0.10%
27	Surplus	3.98%	4.19%
28	Undivided profits	3.61%	2.96%
29	Noncontrolling interests in consolidated subsidiaries	0.01%	0.01%
Memoranda:			
30	Noncurrent loans and leases	1.57%	1.91%
31	Noncurrent loans that are wholly or partially guaranteed by the U.S. government	0.60%	0.72%
32	Income earned, not collected on loans	0.24%	0.26%
33	Earning assets	86.36%	84.66%
34	Long-term assets (5+ years)	15.13%	15.37%
35	Total risk weighted assets	62.24%	60.63%
36	Adjusted average assets for leverage capital purposes	94.27%	96.40%
37	Life insurance assets	0.53%	0.54%
38	General account life insurance assets	0.27%	0.28%
39	Separate account life insurance assets	0.26%	0.27%
40	Hybrid life insurance assets	0	0
41	Volatile liabilities	34.35%	36.93%
42	Insider loans	0.08%	0.09%
43	FHLB advances	1.99%	0.09%
44	Loans and leases held for sale	0.22%	0.28%
45	Unused loan commitments	19.02%	19.79%
46	Tier 1 (core) risk-based capital	5.97%	5.45%
47	Tier 2 risk-based capital	1.87%	2.09%
48	Total unused commitments	19.02%	19.79%
49	Derivatives	3,613.43%	3,920.44%

Notice the Derivatives number = **3,613.43%**

Chase has leveraged derivatives to the tune of 3,613% of their assets. Think this may be a bit too much risk exposure? And remember, this is only what Chase is reporting to the FDIC. It may in fact be more!

Legislative Solutions

Legislative action espoused by [Ellen Brown](#)⁵. Makes a lot of sense to me too.

1. Protect depositor funds from derivative raids by repealing the super-priority status of derivatives.
2. Separate depository banking from investment banking by repealing the Commodity Futures Modernization Act of 2000 and reinstating the Glass-Steagall Act.
3. Protect both public and private revenues by establishing a network of publicly-owned banks, on the model of the Bank of North Dakota. See <http://publicbankinginstitute.org/>

Long Term Solutions

- Building local economies <http://bealocalist.org/>
- Peer-to-Peer Lending, <http://www.prosper.com/>
- Reimage Money – Social Financing, <http://rsfsocialfinance.org/>
- Worker Owned Cooperatives, <http://www.usworker.coop/education>
- American Independent Business Alliance, <http://www.amiba.net/>
- Alliance of Californians for Community Empowerment <http://calorganize.org/>
- American Sustainable Business Council, <http://asbcouncil.org/>
- Time Banks, <http://timebanks.org/>
- The Hour Exchange, <http://www.hourexchangeportland.org/>
- Earth Intelligence Network, <http://www.earth-intelligence.net/>
- The Public Intelligence Blog, <http://www.phibetaiota.net/>
- Organic Transit, <http://www.organictransit.com/>

⁵ Ellen Brown is an attorney, president of the Public Banking Institute, and the author of twelve books and hundreds of articles. Her books include the bestselling "Nature's Pharmacy" (co-authored with Dr. Lynne Walker) and "Web of Debt," and her latest book "The Public Bank Solution." She graduated from UC Berkeley in 1967 and from UCLA Law School in 1977; practiced law for ten years in Los Angeles; then spent 11 years abroad, in Kenya, Honduras, Guatemala and Nicaragua. Her websites are <http://webofdebt.com>, <http://publicbanksolution.com>, and <http://publicbankinginstitute.org>.

Other References & Sources

Books

- “Web of Debt: The Shocking Truth About Our Money System and How We Can Break Free,” Ellen Brown, Third Millennium Press, Jan 2012. Amazon rating of 4.5 from 229 readers.
- “The Public Bank Solution: From Austerity to Prosperity,” Ellen Brown, Third Millennium Press, Jun 2013. Amazon rating of 5 from 14 readers.
- “Democracy at Work: A Cure for Capitalism,” Richard D. Wolff, Haymarket Books, Oct 2012. Amazon rating 4 from 49 readers.
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- “JP Morgan: Out of Control – Full Report,” Joshua Rosner, GrahamFisher & Co., March 12, 2013 <http://stopforeclosurefraud.com/2013/03/15/graham-fisher-co-jpmorgan-out-of-control-full-report/>
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<http://www.hsgac.senate.gov/subcommittees/investigations/hearings/chase-whale-trades-a-case-history-of-derivatives-risks-and-abuses>

- “Global Financial Stability Report: Old Risks, New Challenges,” International Monetary Fund, April 2013.
<http://www.imf.org/External/Pubs/FT/GFSR/2013/01/index.htm>

Websites

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- It's Our Economy <http://itsoureconomy.us/>
- Economic Infographics <http://demonocracy.info/>
- Eye on ALEC <http://billmoyers.com/spotlight/eye-on-alec/>
- Money & Politics <http://billmoyers.com/spotlight/money-politics/>
- Economic Inequality is real, personal, expensive, created and fixable <http://inequality.is/>
- “Who Polluting Your Community,” Interactive map of locations,
<http://www.npr.org/news/graphics/2011/10/toxic-air/#4.00/39.00/-84.00>
- Truth Out New & Opinion <http://www.truth-out.org/news>
- TED Conference Video, “We the People, and the Republic we must reclaim,” Lawrence Lessig, 2013
http://www.ted.com/talks/lawrence_lessig_we_the_people_and_the_republic_we_must_reclaim.html
- PBS series, “Fixing the Future,” <http://www.pbs.org/now/fixing-the-future/index.html>
- Fixing the Future – Building Local Jobs, Income & Sustainability, <http://fixingthefuture.org/>
- Let’s put things that matter first <http://www.actionforhappiness.org/>
- “Deck of Cards,” A Salute to our troops, Justin Flom <http://stg.do/91qb>
- Educational outreach cards for activists <http://www.occurcards.com/>

Detail Timeline - Bail-In Events & Ramifications with References & Links

Date	Event	Description	Ramifications, Must-Know Facts	Comments, Opinions, References
1999	Repeal of the <i>Glass-Steagall Act.</i>	<ul style="list-style-type: none"> The original law was passed in 1933 as a result of banker's taking risky investments. The reckless behavior in the 1920's was the prime catalyst of the Great Depression in the 1930's. The law separated commercial and investment banking and had been in force for 7 decades. 	<ul style="list-style-type: none"> Glass-Steagall prevented banks from using insured FDIC deposits to underwrite private securities and then dumping them on their own customers. With repeal, the banks were now free to use depositor's money for the bank's own investments. 	<ul style="list-style-type: none"> The post-repeal years were almost an exact replay of the Roaring Twenties. Once again, banks originated fraudulent loans and once again they sold them to their customers in the form of securities. The bubble peaked in 2007 and collapsed in 2008. The hard-earned knowledge of 1933 had been lost in the arrogance of 1999. This is widely acknowledged to be one of the major causes of the 2008 financial collapse.
1999	Financial Stability Forum founded.	<ul style="list-style-type: none"> G7⁶ country's financial authorities such as finance ministries, central bankers, securities regulators, and other international financial bodies create a working group to promote global financial stability. The Bank for International Settlements (BIS) was chosen as the organization to house the newly created forum. 		<ul style="list-style-type: none"> The BIS was originally established in May 1930 by bankers and diplomats of Europe and the United States to collect and disburse Germany's World War I reparation payments (hence its name). It is composed of unelected, member country, financial representatives and other elites. It is not accountable to any government or financial institution. It has immunity from any government interference and is free from any taxation. In both peace and war the BIS is guaranteed these privilege by an international treaty signed in The Hague in 1930. It is the central bank of central banks and is, consequently, the central bank of the world.
April 2005	Passage of <i>Bankruptcy Abuse Prevention and Consumer Protection Act</i> , also known as the <i>Bankruptcy Reform Act</i> .	<ul style="list-style-type: none"> Creates Super-Priority Status for derivatives holders. This means that when a financial institution is close to bankruptcy, any other bank or financial institution holding derivatives claims against it are given preference over all other creditors and customers for the remaining assets of the failing institution. 	<ul style="list-style-type: none"> Normally, the FDIC would have the powers as trustee in receivership to protect the failed bank's collateral for payments made to depositors. But the FDIC's powers are overridden by the special status of derivatives. <u>Rather than banks being put into bankruptcy to salvage deposits of their customers, the customers will now be put into bankruptcy to save the banks.</u> This super-priority status not only supersedes individuals and companies but also state and local governments. If the city of Newport Beach had its money in bank A and it was failing, and if bank B 	<ul style="list-style-type: none"> The phrase "derivative counter-parties" is the actual wording the law uses to describe banks or financial institutions. Counterparty is a term commonly used in the financial services industry to describe a legal entity, unincorporated entity or collection of entities to which an exposure to financial risk might exist. Hailed at the time of the bill's passage as the banking lobby's greatest all-time victory. http://en.wikipedia.org/wiki/Bankruptcy_Abuse_Prevention_and_Consumer_Protection_Act Remember MF Global and its missing \$600 million? The reason its customers lost their supposedly segregated customer funds to the derivatives claimants was that

⁶ The G7 is a group consisting of the finance ministers of seven industrialized nations: the U.S., U.K., France, Germany, Italy, Canada and Japan. They are seven of the eight (China excluded) wealthiest nations on Earth, not by GDP but by global net wealth. The G7 represents more than the 66% of net global wealth (\$223 trillion), according to Credit Suisse Global Wealth Report September 2012.

			<p>had derivatives claims against bank A, bank B could take the cash from bank A accounts (assets) before the city could. Operating and pension funds could be wiped out.</p>	<p>derivatives have super-priority in bankruptcy. http://www.zerohedge.com/contributed/commodity-customer-coalition-objects-ip-morgans-super-priority-protection-over-mf-global</p>
2008	Great Recession	<ul style="list-style-type: none"> The financial crisis has enough blame to go around⁷. Borrowers were reckless, brokers were greedy, rating agencies were negligent, customers were naïve, and government encouraged the fiasco with unrealistic housing goals and unlimited lines of credit at Fannie Mae and Freddie Mac. The fact that there were so many parties to blame should not be used to deflect blame from the most responsible parties of all—the big banks. Without the banks providing financing to the mortgage brokers and Wall Street while underwriting their own issues of toxic securities, the entire pyramid scheme would never have got off the ground. <i>Derivatives, specifically credit default swaps, were the reason that what would otherwise have been a contained</i> 	<ul style="list-style-type: none"> AIG wrote billions of dollars of derivatives “insurance” against the mortgage market without having even a fraction of what it would take to pay off claims in the naked belief that they could collect fees forever and never have to pay out once. When the whole thing collapsed, they were wiped out. And because their “insurance” was part of the balance sheet of AIG’s many counterparties (Goldman Sachs and everyone like them), Goldman Sachs would have been wiped out too by AIG’s failure. <u>That’s why the government bailed out AIG</u> — and insisted on giving them 100 cents on the dollar — so that they could pay off Goldman et al. AIG was bailed out to bail out all their counterparties. 	<ul style="list-style-type: none"> Derivatives⁸ are contracts between parties who want to trade risks, but they aren’t market-traded, standardized or vetted by any controlling institution. In derivatives trading, the counterparties know each other, the contracts are one-off between the parties directly, and the only guarantee that either party will get paid is trust or the naked belief that they just can’t lose on this one⁹. The vast majority of US derivatives are Credit Default Swaps¹⁰ (CDS). The Office of the Comptroller of the Currency document, “OCC’s Quarterly Report on Bank Trading and Derivatives Activities First Quarter 2013,” page 9, puts the CDS’s percent of the US derivatives market at 97.2%. Credit default swaps are pure casino bets. They were originally designed as a form of insurance against bond and other credit defaults (“I’ll pay you a monthly fee and you pay me my losses if these bonds default.”). It’s a simple concept, but CDSs soon evolved. Turns out you don’t have to actually hold the bonds to insure them. This means that

⁷ Causes of the Financial Crisis, Mark Jickling, Congressional Research Office, April 9, 2010. A copy of the document can be obtained from <http://www.fas.org/sgp/crs/misc/R40173.pdf> or my website at <http://www.randyangel.com/downloads.html>

⁸ A derivative is a financial product derived from another financial product (for example, a futures contract tied to a stock index). In practice, the term applies to a whole world of financial products that are written on a one-off basis between two entities called “counterparties,” as opposed to products that are traded on a broad, well-regulated market. Standard futures contracts are bought and sold on large exchanges, for example, the Chicago Board of Trade (CBOT). If I buy a futures contract — for example, I go long (contract or agree to *buy* in the future) a million bushels of wheat, or barrels of oil, in the expectation that the future price will rise within the time limit of the contract — there will be a counterparty on the short, or selling side, but I have no idea who that is. In fact, in a well-regulated market, the contracts are all standardized; there are thousands of identical contracts in pairs (one on the long or buy side, and one on the short or sell side); and as long as there are the same number of identical contracts on each side, it makes no difference who’s on the other side of my personal contract. The exchange just matches up longs with shorts when they liquidate. The contracts, as you can see, are created by the exchanges themselves (for example, by the CBOT); they keep the operation orderly; and there are rules, both by the exchanges and by the government, that prevent things (mostly) from running out of control. For example, I can indeed buy futures contracts on millions and millions of barrels of oil for delivery next July (say), and I *can* put up a tenth of the cost of these contracts, but if the market moves against me, I have to increase my margin (add to my escrow if you will) to protect my counterparties from my inability to pay. The exchange requires that, and if I don’t comply, I’m liquidated (at my expense) and kicked out. Futures contracts are gambling — I can bet on the Dow to go down or up, for example — but trading in futures contracts is regulated gambling, in which winners are protected from losers, and in many cases, losers protected from themselves. **Not so, derivatives**, in the usual meaning of the word. Derivatives in that sense are contracts between parties who want to trade risks, but they aren’t market-traded. They aren’t standardized. And counterparties aren’t vetted by any controlling institution. In derivatives trading, the counterparties know each other, the contracts are one-off between the parties directly, and the only guarantee that either party will get paid is trust or the naked belief that they just can’t lose on this one.

⁹ Derivatives example. Suppose Bank 1 (B1) decides to hedge against the risk that Bank 2 (B2) might fail to repay their debt to B1. To guard against that, B1 might hedge the risk through derivatives. In so doing, B1 might buy a credit default swap (CDS) on B2 debt. The CDS would pay B1 if B2 failed to repay their loan. B1 might also bet on the decline in shares of B2 through a short sale. At that point, any action that B1 might take to boost the odds that B2 might default would increase the value of their derivatives. That possibility might tempt B1 to take actions that would boost the odds of failure for B2. This kind of behavior -- in which hedge funds pulled their money out of banks whose stock they were shorting -- contributed to the failures of Bear Stearns and Lehman Brothers.

¹⁰ A good set of product descriptions, definitions and frequently asked questions about derivatives is at <http://www.isda.org/educat/faqs.html#1>

		<p><i>subprime crisis, instead turned into a global financial meltdown</i></p>		<p>one guy can sit at a table with a bunch of bonds (or bundles of mortgages), while another guy can insure them. Meanwhile, at 50 other tables, 50 more guys can buy the same “insurance” on the same bonds from anyone who will sell it to them. Keep in mind, only the first guy actually holds the bonds. The other guys just know they exist. That’s 50 side-bets on one set of bonds. Do you see the problem? One guy’s bonds default and suddenly 51 guys in that room, everyone who sold “insurance,” they’re <i>all</i> wiped out. Why? Because the dirty secret of derivatives bets is that the people offering the “insurance” <i>rarely have the money to cover the loss</i>. They’re betting that they can collect “insurance” fees forever and the defaults will never come. That’s what happened with mortgage-backed bets in 2007, and that’s what’s happening today.</p> <ul style="list-style-type: none"> • Banks are placing billions of dollars in casino bets per day with Uncle Sam’s money and we are on the hook for the losses. That’s a sweet deal for the big banks.
April 2009	Financial Stability Board (FSB) created	<ul style="list-style-type: none"> • Following the fiscal turmoil of the 2007-2008 worldwide financial collapse, the G20¹¹ nations at their 2009 London summit formalized a new organization called the Financial Stability Board. • It was the successor of the Financial Stability Forum (created in 1999 – see above) and was to become a sub-committee of the Bank of International Settlements (BIS). • The FSB’s stated goal was to identify key weaknesses underlying the current financial instability and recommend actions to improve market and institutional resilience. 	<ul style="list-style-type: none"> • The most far-reaching outcome of the summit was that the G20 nations agreed to be regulated by the newly formed FSB and by association the Bank of International Settlements. • The Bank for International Settlements (BIS) has become <u>the most powerful financial organization in the world</u>, yet few people know of its existence. 	<ul style="list-style-type: none"> • Today, 58 global central banks belong to the BIS, and it has far more power over how the U.S. economy (or any other economy for that matter) will perform over the course of the next year than any politician does. • Every two months, the central bankers of the world gather in Basel, Switzerland for another "Global Economy Meeting". During those meetings, decisions are made which affect every man, woman and child on the planet, and yet none of us have any say in what goes on.
July 2010	Passage of the <i>Dodd-Frank Wall Street Reform & Consumer Protection Act.</i>	<ul style="list-style-type: none"> • Section 716 bans taxpayer bailouts of most speculative derivatives activities. • It does not in any way limit the swaps activities which banks or other financial institutions may engage in. 	<ul style="list-style-type: none"> • There will be no more \$700 billion taxpayer bailouts. On the surface this appears to be a good thing but where will the banks get the money in the next crisis? And be assured – they will get their money. 	<ul style="list-style-type: none"> • Bankers have figured a way around no government bailouts and now have Bail-Ins which is confiscation of depositor’s funds. That’s right – they are going to take your money and as of December 2012 it is now perfectly legal.

¹¹ The Group of Twenty Finance Ministers and Central Bank Governors (also known as the G20) is a group of finance ministers and central bank governors from 20 major economies: 19 countries plus the European Union, which is represented by the President of the European Council and by the European Central Bank. Collectively, the G20 economies account for approximately 80% of the gross world product (GWP), 80% of world trade, and two-thirds of the world population.

Oct 2011	Financial Stability Board (FSB) releases the document, <i>Key Attributes of Effective Resolution Regimes for Financial Institutions</i> ¹²	<ul style="list-style-type: none"> Details the core elements the FSB considers necessary for an effective resolution of a future bank failure. To quote the document, the FSB believes that the “implementation should allow authorities to resolve financial institutions in an orderly manner without taxpayer exposure to loss from solvency support, while maintaining continuity of the bank’s vital economic functions.” 	<ul style="list-style-type: none"> This is the first mention of the concept of a Bail-In to replace previous Bail-Out resolutions of bank failures. Key Attribute 3.2 section ix, “Carry out bail-in within resolution as a means to achieve or help achieve continuity of essential functions either (i) by recapitalising the entity hitherto providing these functions that is no longer viable, or, alternatively, (ii) by capitalising a newly established entity or bridge institution to which these functions have been transferred following closure of the non-viable firm (the residual business of which would then be wound up and the firm liquidated).” 	<ul style="list-style-type: none"> This is the basis for what latter will become the legal right for US big banks to confiscate your money and in return give you equity i.e., a share of stock, in a new recapitalized company formed because of a bank failure.
Nov 2011	The G20 leaders endorse the <i>Key Attributes of Effective Resolution Regimes for Financial Institutions</i> at the Cannes Summit.	<ul style="list-style-type: none"> “The Key Attributes” are now the international standard for developing bank failure resolution plans. 		
Late 2011	<p>Bank of America is downgraded by Moody's.</p> <p>Bank of America moves a large portion of its trillions in derivatives from its Merrill Lynch unit to its banking subsidiary.</p> <p>JP Morgan Chase follows suit moving its trillions in derivatives to its depository arm.</p>	<ul style="list-style-type: none"> BofA did not get regulatory approval but just acted at the request of frightened counterparties (BofA investors and other groups with personal financial reasons to keep BofA stable and profitable i.e., stable and profitable at least as far as the public is concerned). The FDIC opposed the move, protesting that the FDIC would be subjected to the risk of becoming insolvent if BofA were to file for bankruptcy. However, the Federal Reserve favored the move, in order to give relief to the bank holding company, so it overruled the FDIC. <i>Remember that the FDIC is a federal government agency acting according to existing federal law. The Federal Reserve¹³ is not a federal government</i> 	<ul style="list-style-type: none"> Moving derivatives contracts to the bank’s deposit arm commingles the cash you and I have in the bank with highly-leveraged, extremely risky derivative investments. If a bank needs to pay off on a derivative (it is after all a contract and some contracts are winners and some losers), the pooled money pot (the bank’s derivative gains and our cash) is used to pay the debt. As long as profits from derivatives are greater than losses, our deposits are not affected. If lots of derivatives go bad such that derivatives profits are less than losses, then using the pooled pot of money to pay off the bank’s obligation will result in our deposits (our cash) being eroded. We will not know this is happening since individual deposit accounts will not reflect the decrease in value as long as the bank is solvent. 	<ul style="list-style-type: none"> Here’s how it would work. Let’s assume there is a major derivatives bust at BofA. As of 12/31/12 BofA had derivatives with notional values exceeding \$42 trillion (see US Comptroller of Currency entry below). A number this large indicates that there would be many financial institutions liens against BofA. As BofA is failing (not after it has failed but while it is failing), all the financial institutions holding BofA derivative contracts call them and take whatever BofA assets are still remaining. After all the banks get done taking their slice of BofA assets the collateral is likely to be gone. With nothing left for the FDIC to take into receivership to pay secured depositors (including state and local governments), the FDIC is now on the hook for it all. This is why the FDIC is so annoyed by this big bank financial maneuver. <u>This puts the FDIC in a wholly untenable position. They have to do something to protect themselves from billions, maybe trillions, in liabilities.</u> In December 2012 the FDIC, in

¹² A copy of the document can be obtained from http://www.financialstabilityboard.org/publications/r_111104cc.pdf or my website at <http://www.randylangel.com/downloads.html>

¹³ The Federal Reserve System has both private and public components, and was designed to serve the interests of both the general public and private bankers. However, the good intentions of its 1913 formation have been overshadowed so that today the Federal Reserve works almost exclusively for private banking interests. The Fed’s structure is considered unique among central banks. It is unusual in that an entity outside of the Fed, namely the United States Department of the Treasury, creates the currency used. According to the Board of Governors, the Federal Reserve System “is considered an independent central bank because its monetary policy

	<p><i>agency yet it reversed the legal and fiduciarily proper actions of a government agency because the bank's investors, not depositors, might be harmed. This is not acting in the public interest</i>¹⁴.</p>	<ul style="list-style-type: none"> If lots of derivatives go bad such that the bank is in danger of failing, then the super-priority status granted to derivatives claimants by the 2005 Bankruptcy Reform Act comes into play. Normally, the FDIC would have the powers as trustee in receivership to protect the failed bank's collateral for payments to make to depositors. But the FDIC's powers are overridden by the special status of derivatives claimants. <u>In simple language, the big banks are first in line to claim the assets of the failing institution and nothing goes to the FDIC, depositors and state or local governments until the big banks are through getting their share.</u> 	<p>conjunction with the Bank of England, formulate a solution to handle the next big bank failure. It will colloquially be known as Bail-In, versus the previous way of handling big bank failures known as Bail-Out.</p> <ul style="list-style-type: none"> http://www.dailysocial.com/story/2011/11/02/1032356/-Why-the-FDIC-is-Upset-With-Bank-of-America-s-Derivatives-Transfer-Despite-Dodd-Frank http://ionathanhurley.org/2011/11/06/bank-of-america-the-great-derivatives-transfer/
	<p>The lunacy of giving big banks super-priority status in derivatives by the 2005 <i>Bankruptcy Reform Act</i> was actively supported in an article by Mark J. Roe in 2011. Mr. Roe is a professor at Harvard Law School where he teaches bankruptcy and corporate law. The article was so well received it was published by</p> <ol style="list-style-type: none"> 1. Harvard Law School Forum on Corporate Governance and Financial Regulation. 2. Stanford Law Review. 3. Harvard Law School, Public Law & Legal Theory. 4. European Corporate Governance Institute. <p>The article's abstract¹⁵ (see right) provides a concise overview of the ongoing risk brought about by this new law. Two years after the publication of this paper nothing has changed to alleviate the risk exposure. This means that the possibility of a big bank failure and consequently the initiation of a Bail-In and the confiscation of your funds are more probable than ever.</p>	<p>"The Derivatives Market's Payment Priorities as Financial Crisis Accelerator," March 6, 2011 - Abstract</p> <p>Chapter 11 bars bankrupt debtors from immediately repaying their creditors, so that the bankrupt firm can reorganize without creditors shredding the bankrupt's business. Not so for the bankrupt's derivatives counterparties, who unlike most creditors, even most other secured creditors, can seize and immediately liquidate collateral, net out gains and losses, terminate their contracts with the bankrupt, and keep both preferential eve-of-bankruptcy payments and fraudulent conveyances they obtained from the debtor in ways that favor them over other creditors. Their right to jump to the head of the bankruptcy re-payment line, in ways that even ordinary secured creditors cannot, weakens their incentives for market discipline in managing their credits to the debtor; it reduces their concern for the risk of counterparty failure and bankruptcy, since they do well in any resulting bankruptcy. If they were made to account better for counterparty risk, they would be more likely to insist that there be stronger counterparties than otherwise on the other side of their derivatives bets, thereby insisting for their own good on strengthening the financial system. True, because they bear less risk, nonprioritized creditors bear more and thus have more incentive to monitor the debtor or to assure themselves that the debtor is a safe bet. But the repo and derivatives market's other creditors - such as the United States of America - are poorly positioned contractually either to consistently monitor the derivatives debtors' well or to fully replicate the needed market discipline. Bankruptcy policy should harness private incentives for counterparty market discipline by cutting back the extensive de facto priorities for these investment channels now embedded in chapter 11 and related laws. More generally, when we subsidize derivatives and repos activity via bankruptcy benefits not open to other creditors, we get more of the activity than we otherwise would. Repeal would induce the derivatives market to better recognize the risks of counterparty financial failure, which in turn should dampen the possibility of another AIG/Bear/Lehman financial meltdown, thereby helping to maintain financial stability. Re-peal would lift the de facto bankruptcy subsidy.</p>	

decisions do not have to be approved by the President or anyone else in the executive or legislative branches of government, it does not receive funding appropriated by the Congress, and the terms of the members of the Board of Governors span multiple presidential and congressional terms.

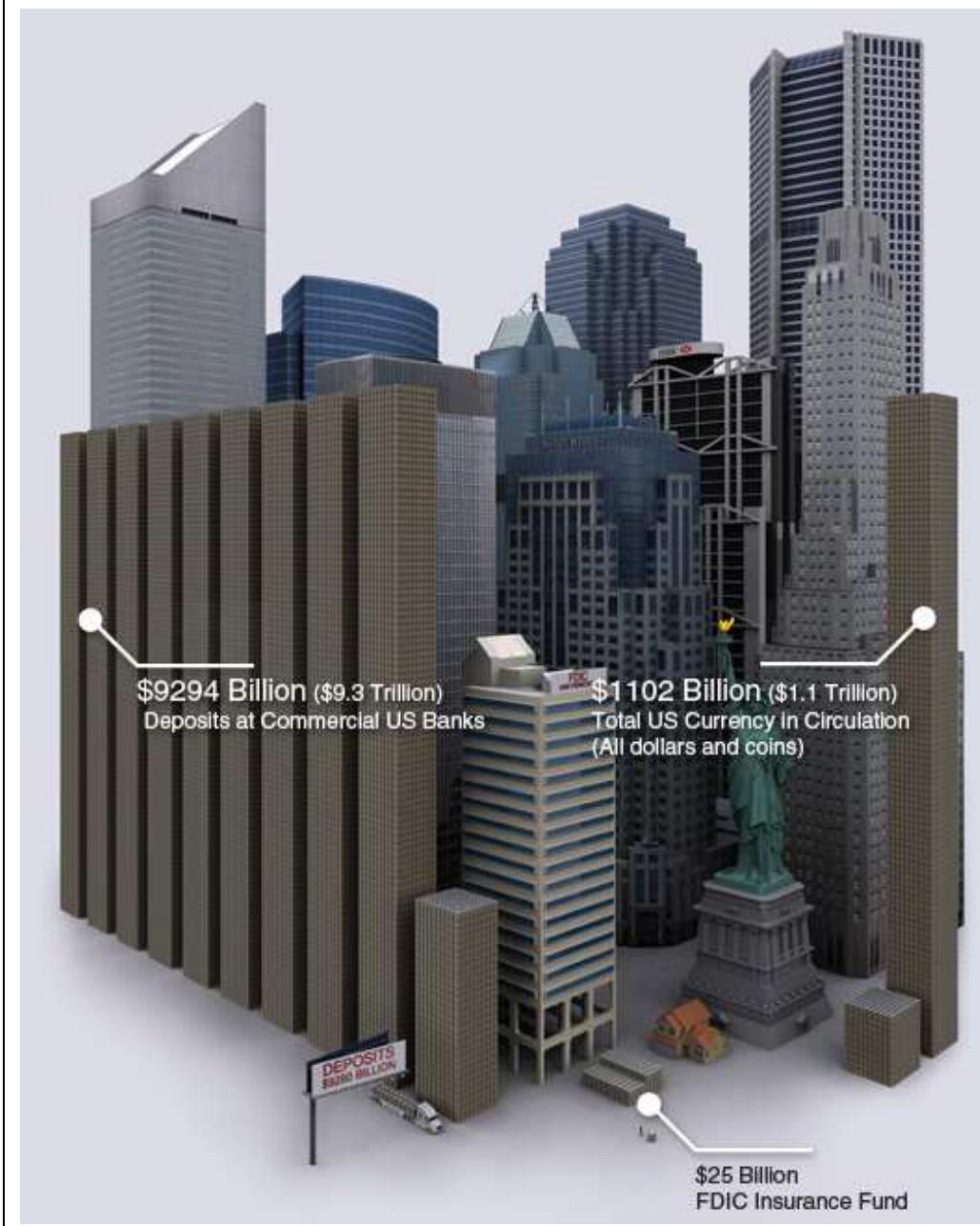
¹⁴ Proof positive, says former regulator Bill Black that the Fed is working for the banks and not for us. "Any competent regulator would have said: 'No, Hell NO!'" <http://dailysocial.com/home/william-black-not-with-a-bang-but-a-whimper-bank-of-americas.html>

¹⁵ A copy of the document can be obtained from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1567075## or my website at <http://www.randylangel.com/downloads.html>

- Remember that the FDIC can only insure your deposits if it has the money to pay you. Once you realize the amount of deposits in the big banks and the relative pittance in the FDIC coffers, you will understand that Too Big To Fail banks are classified that way because a failure of any one of these institutions will bankrupt the FDIC fund. AND if the fund has no more money and the laws are not changed regarding repaying depositors in a bank failure, then the federal government has to make up the difference. This then becomes another version of a taxpayer Bail-Out of a big bank. (note: I said, "if the laws are not changed regarding repaying depositors," but this has in fact happened with the new Bail-In policies of the FDIC – see below)

- The infographic¹⁶ on the right pictorially shows how the \$25 billion FDIC Insurance Fund stacks up to the \$9,294 Billion size of deposits at US banks¹⁷. This means the fund has only 27 cents of insurance for every \$100 of deposits.

- The infographic also shows that given there is only \$1,102 billion in total US currency in circulation; there aren't physically enough dollars to go around anyway.



¹⁶ This infographic is part of a larger graphic depicting the US debt starting with a picture of a single \$100 bill and then building it up through stacks and stacks of currency. It's easier to understand just how much a trillion dollars is if you can see a picture comparing it to something a normal person would understand. The complete infographic is at <http://democracy.info/infographics/usa/fdic/fdic.html> this website is dedicated to pictorially envisioning the huge amount of money being spent by the US.

¹⁷ Third quarter 2012 data taken from H.8 report of the Federal Reserve. The latest report for August 2, 2013 is at <http://www.federalreserve.gov/releases/h8/20130802/>

Nov 2012	Financial Stability Board (FSB) releases the document, <i>Recovery and Resolution Planning: Making the Key Attributes Requirements Operational</i> ¹⁸	<p>Countries must develop a plan that;</p> <ol style="list-style-type: none"> 1. Reduces the potential for bank failure 2. Promotes resolvability of failure 3. Creates a resolution process 4. Follows the <i>Key Attributes</i> <p>The document provides guidance to country regulators and resolution authorities in the areas of;</p> <ol style="list-style-type: none"> 1. Recovery triggers & stress scenarios 2. Resolution strategies & operational resolution plans 3. Identification of critical functions & critical shared services 	<ul style="list-style-type: none"> • With this guidance each country is to formulate plans and submit them to the FSB for review and comparison with other country's plans. • A new phrase is created called Global Systemically Important Financial Institutions, G-SIFIs (this means big banks). • The document specifically states, "Banking groups that are G-SIFIs are therefore the main focus of this consultative document." 	<ul style="list-style-type: none"> • Big Banks are being given preferential treatment.
Dec 2012	FDIC & Bank of England jointly publish, <i>Resolving Globally Active, Systemically Important, Financial Institutions</i> ¹⁹ .	<ul style="list-style-type: none"> • Following the guidelines set out by the FSB's <i>Recovery and Resolution Planning: Making the Key Attributes Requirements Operational</i>, document (see directly above), the two countries develop a resolution strategy for future bank failures involving G-SIFIs (big banks). • "These strategies have been designed to enable large and complex cross-border firms to be <u>resolved without threatening financial stability and without using public funds.</u>" Page ii. • "<u>The unsecured debt holders can expect that their claims would be written down to reflect any losses that shareholders cannot cover, with some converted partly into equity in order to provide sufficient capital to return the sound businesses of the G-SIFI to private sector operation.</u>" Page ii. • "<u>An efficient path for returning the sound operations of the G-SIFI to the private</u> 	<ul style="list-style-type: none"> • At first blush, the statement that the resolution process will not involve public funds sounds good but further down the document we discover that the bank's customers will be taking the hit to their own accounts. • A person depositing money in a bank is an unsecured creditor of the bank. That means <u>this new Bail-In procedure applies to the deposits of you and me. The big banks can now confiscate our money and its perfectly legal.</u> In a process called "overnight sweeps" depositors will have their savings shaved by the amount needed to keep the bank afloat. • One day you go into your big US bank and when you ask for a withdrawal they will give you a share of stock in a new company instead of cash. It will be your responsibility to get that share of stock converted to cash. Of course, since the new company was formed from the failed bank in the first place, it may be difficult to sell it, much less get remuneration equal to the cash you lost when the bank absconded with your money. 	<ul style="list-style-type: none"> • US banks are not legally required to give you cash whenever you request a withdrawal²⁰. As soon as you deposit money the funds become the bank's property and you become an unsecured creditor holding an IOU from the financial institution. • A "Bail-In" is a quantum leap beyond a "Bail-out." When governments are no longer willing to use taxpayer money to bail out banks that have gambled away their capital, the banks are now being instructed to "recapitalize" themselves by confiscating the funds of their creditors, turning debt into equity, or stock; and the "creditors" include the depositors who put their money in the bank thinking it was a secure place to store their savings. • The big banks are the only banks that have this capability since they deal with derivatives and in so doing are given super priority status to reclaim assets of a failing institution. • You can't really blame the FDIC because they were forced into action when BofA and JP Morgan Chase moved their trillions of derivatives into their depository arms where the FDIC is supposed to guarantee the deposits. There is no way the government could make up the money lost if one of

¹⁸ A copy of the document can be obtained from http://www.financialstabilityboard.org/publications/r_121102.pdf or my website at <http://www.randylangel.com/downloads.html>

¹⁹ A copy of the document can be obtained from <http://www.fdic.gov/about/srac/2012/gsifi.pdf> or my website at <http://www.randylangel.com/downloads.html>

²⁰ In most legal systems, funds deposited are no longer the property of the customer. The funds become the property of the bank, and the customer in turn receives an asset called a deposit account (a checking or savings account). That deposit account is a *liability* of the bank on the bank's books and on its balance sheet. Because the bank is authorized by law to make loans up to a multiple of its reserves, the bank's reserves on hand to satisfy payment of deposit liabilities amounts to only a fraction of the total which the bank is obligated to pay in satisfaction of its demand deposits. The bank gets the money. The depositor becomes only a creditor with an IOU. The bank is not required to keep the deposits available for withdrawal but can lend them out, keeping only a "fraction" on reserve, following accepted fractional reserve banking principles. When too many creditors come for their money at once, the result can be a run on the banks and bank failure.

		<p><u>sector would be provided by exchanging or converting a sufficient amount of the unsecured debt from the original creditors of the failed company into equity. In the U.S., the new equity would become capital in one or more newly formed operating entities...or the equity could be used to recapitalize the failing financial company itself—thus, the highest layer of surviving bailed-in creditors would become the owners of the resolved firm” Paragraph 13, page 3.</u></p>	<ul style="list-style-type: none"> • Since your account has been converted to equity (stock) from cash, the FDIC is no longer responsible for the deposits. Why? Because the FDIC only insures cash accounts not equity accounts. Cute trick. 	<p>those giants failed.</p> <ul style="list-style-type: none"> • The FDIC was set up to ensure the safety of deposits. Now, it seems, its function will be the confiscation of deposits to save Wall Street.
Mar 2013	Cypress becomes the first nation to experience this new policy of Bail-In to save failing banks by taking depositor funds.		The confiscation of depositor funds in Cyprus was not only approved but mandated by the European Union, along with the European Central Bank and the International Monetary Fund. They told the Cypriots that deposits below €100,000 in two major bankrupt banks would be subject to a 6.75% levy or “haircut,” while those over €100,000 would be hit with a 9.99% “fine.” When the Cyprus national legislature overwhelming rejected the levy, the insured deposits under €100,000 were spared; but it was at the expense of the uninsured deposits, which took a much larger hit, estimated at about 60 percent of the deposited funds ²¹	
March 2013	US Comptroller of the Currency office issues quarterly report on derivatives holdings ²² .	<p>Total Notional Derivatives²³ US Exposure</p> <ul style="list-style-type: none"> • JP Morgan Chase ----- \$70.3 Trillion • Citibank----- \$58.4 Trillion • Bank of America----- \$44.5 Trillion • Goldman Sachs----- \$42.2 Trillion • Total US banks----- \$232 Trillion • The 4 largest US banks hold 93% of the total derivatives contracts in the US. 	<p>Total Risk Based Capital</p> <ul style="list-style-type: none"> • JP Morgan Chase ----- \$153 Billion • Citibank----- \$139 Billion • Bank of America----- \$141 Billion • Goldman Sachs----- \$22 Billion • The numbers above are supposedly the amount of capital at risk in derivatives. The problem is with the accuracy of these amounts since they are calculated by the banks themselves and do not disclose how they arrived at these estimates. 	<ul style="list-style-type: none"> • In the January/February 2013 issue of The Atlantic an article titled, “What’s Inside America’s Banks,”²⁵ by Jesse Eisinger and Frank Partnoy goes a long way in explaining why investors are so skeptical about bank stocks. The pair go through the annual report of Wells Fargo to try to see if even a very careful and close read can produce anything intelligible about the risks the bank is taking, how it is valuing its assets, and even what its assets and liabilities really are. What they discover is that this cannot be done. Banks are black boxes. The public disclosures are nearly useless, collections of overlawyered jargon that obscure more than they reveal. Even when Eisinger and Partnoy attempt to make very detailed inquiries into questions

²¹ <http://www.forbes.com/sites/timworstall/2013/03/31/theres-something-very-strange-about-the-cyprus-bank-haircut-very-strange-indeed/>

²² “OCC’s Quarterly Report on Bank Trading and Derivatives Activities First Quarter 2013,” Office of the Comptroller of the Currency, Table 4. This document can be obtained at <http://www.occ.gov/topics/capital-markets/financial-markets/trading/derivatives/derivatives-quarterly-report.html> or my website at <http://www.randylangel.com/downloads.html>

²³ A derivative is a financial instrument whose value depends on something else—a share of stock, an interest rate, a foreign currency, or a barrel of oil, for example. One kind of derivative might be a contract that allows you to buy oil at a given price six months from now. But since we don’t yet know how the price of oil will change, the value of that contract can be very hard to estimate. (In contrast, it’s relatively easy to add together the value of every share being traded on the stock market.) As a result, financial experts have to make an educated guess about the total amount at stake in all these contracts. One method simply adds up the value of the assets the derivatives are based on. In other words, if my contract allows me to buy 50 barrels of oil and the current price is \$100, its “notional value” is said to be \$5,000—since that’s the value of the assets from which my contract derives.

		<ul style="list-style-type: none"> • A recent survey by Barclays Capital²⁴ found that more than half of institutional investors did not trust how banks measure the riskiness of their assets. When hedge-fund managers were asked how trustworthy they find “risk weightings”—the numbers that banks use to calculate how much capital they should set aside as a safety cushion in case of a business downturn—about 60 percent of those managers answered 1 or 2 on a five-point scale, with 1 being “not trustworthy at all.” None of them gave banks a 5. • Consider JPMorgan’s widely scrutinized trading loss in 2012. Before the episode, investors considered JPMorgan one of the safest and best-managed corporations in America. But then, in May, JPMorgan announced the financial equivalent of sudden cardiac arrest: a stunning loss initially estimated at \$2 billion and later revised to \$6 billion. It may yet grow larger as investigators are still struggling to comprehend the bank’s condition. 	<p>raised by the annual report, they are stonewalled by Wells Fargo.</p> <ul style="list-style-type: none"> • <u>No one, not even professional investors or bank personnel themselves know how much money is actually at risk in derivatives. If they don’t know then a derivatives meltdown can happen at any time.</u> • To put the notional derivatives exposure into perspective let’s compare it to secured deposits. On 12/31/12 the FDIC had \$33 Billion in the depositor insurance fund and a reserve ratio of .45%²⁶. This equates to FDIC insured deposits of \$7.3 Trillion. Comparing these two assets we find <u>there are 32 times more notional derivatives (\$232 Trillion) than there are total deposits (\$7.3 Trillion)</u> while the <u>ratio of gross derivatives to deposit insurance is a disconcerting 7,030-to-1.</u> • Another way of looking at notional derivatives exposure is that the total US economy only generates \$15.5 Trillion in Gross National Product per year. That equates to 14 years worth of GNP tied up in notional derivatives exposure, with the four main US banks soaking up over 13 years worth of the total. • http://www.forbes.com/sites/halahtouryalai/2013/03/28/risk-is-back-americas-big-banks-are-knee-deep-in-derivatives/
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²⁵ Ibid.

²⁴ http://www.theatlantic.com/magazine/archive/2013/01/whats-inside-americas-banks/309196/?single_page=true

²⁶ FDIC memo, “Update of Projected Deposit Insurance Fund Losses, Income, and Reserve Ratios for the Restoration Plan,” March 28, 2013. This document can be obtained from http://www.fdic.gov/deposit/insurance/memo_2013_03_28.pdf or my website at <http://www.randyangel.com/downloads.html>

	<ul style="list-style-type: none"> This infographic shows what \$300 Trillion dollars of notional value the derivatives exposure would look like when compared to big bank assets and currency in circulation. The first infographic, a few pages above, gave some scale to the \$25 Billion FDIC insurance fund in proportion to the \$9294 Billion of deposits at commercial banks. That infographic is present in this one too, it just so small that it's difficult to discern. At http://demonocracy.info/infographics/usa/derivatives/bank_exposure.html there is another infographic that compares the derivatives exposure for each big bank and summarizes them in a different way. 	<p>The infographic features a massive, dark grey wall that spans the width of the image. In the center of this wall, the text '\$300 Trillion (\$300,000 Billions)' is displayed in large, bold, white letters. Below this, in smaller white text, is 'Total US Financial Derivative Exposure'. A small white circle with a line points to this text. At the base of the wall, there is a green grassy area with a small American football field and a tiny figure of a person. To the right of the wall, there is a small sign that reads 'Derivative Exposure'.</p>
May 2013	<p>Bank for International Settlements issues report, "Statistical release: OTC derivatives statistics at year end-December 2012"</p> <ul style="list-style-type: none"> Page 3, Worldwide "OTC"²⁷ derivatives notional amounts outstanding totaled \$633 Trillion²⁸ at end-December 2012..." 	<ul style="list-style-type: none"> Page3, "The gross market value of all contracts, ie the cost of replacing the contracts at current market prices, equaled \$24.7 Trillion at end-2012." This is also called Mark-to-Market value. Report can be obtained from BIS site: http://www.bis.org/publ/otc_hy1305.pdf It can also be obtained from my site at: http://www.randylangel.com/downloads.html Detailed statistics are available at: http://www.bis.org/statistics/derdetailed.htm

²⁷ Over the counter (OTC) derivatives refer to contracts that are negotiated between two parties rather than through an exchange.

²⁸ A derivative is a financial instrument whose value depends on something else—a share of stock, an interest rate, a foreign currency, or a barrel of oil, for example. One kind of derivative might be a contract that allows you to buy oil at a given price six months from now. But since we don't yet know how the price of oil will change, the value of that contract can be very hard to estimate. (In contrast, it's relatively easy to add together the value of every share being traded on the stock market.) As a result, financial experts have to make an educated guess about the total amount at stake in all these contracts. One method simply adds up the value of the assets the derivatives are based on. In other words, if my contract allows me to buy 50 barrels of oil and the current price is \$100, its "notional value" is said to be \$5,000—since that's the value of the assets from which my contract derives. If you make that same calculation for every derivative and add those numbers together at the end of 2012, you get something around \$633 trillion—the "notional value" of the world's over-the-counter derivatives ("over the counter" derivatives refer to contracts that are negotiated between two parties rather than through an exchange), according to the Bank of International Settlements, "Statistical release: OTC derivatives statistics at year end-December 2012" page 3.

