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Tuppence in U.S. Banking

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Congress, the Fed and the Treasury are completely predictable - and wrong. Instead of spraying new coats of beauracratic sunscreen over our already sun scorched skin, and encouraging us to run back to the pool, they should be telling the truth about our U.S. Banking system - it is badly broke and needs to be fixed. Very quickly.

We need to get out of the sun and heal. Not jump back in the pool only to suffer 3rd degree burns. No layer of political sunscreen will fix this problem because we have finally met our match and it is called the Global Economy. Totally unlike past U.S. banking disasters, (such as the Continental Bank $42 billion failure, still the largest failure in U.S. Banking history and one of my former employers), we cannot use myopic domestic policy to solve our problems because unlike past disasters, the U.S. has fully entered the global theater.

The American and Global Public are completely justified in their psychological, negative market reaction to the U.S. Banking problems. For very good reason. Like any common sense citizen, we are all distinctly aware of our problems here in the U.S. and we simply do not believe public officials when they attempt to re-assure markets to stem the tide of a run on our banks.

Mary Poppins said it best - Tuppence. A classic lesson in bank runs. When those two young children refused their father's command to deposit their tuppence in that English Bank, (rather loudly expressing their physical resistance in the middle of their own father's bank lobby), the depositors all freaked and created a hysterical bank run. The general public represents those children, the Mary Poppins bank president is our U.S. Government and the Poppins depositors represent the global economy.

While the Bank in Mary Poppins had no publicly disclosed SIV's or CDO's or Sub-Prime problems, it demonstrated the pure power of human doubt expressed by people, (particularly children), when they lose confidence in any system. Our system broke because of greed and complacency. Let us not get bogged down in conventional U.S. scapegoating, that is just a waste of time.

Let's not waste time with useless Congressional testimonies, which serve as commercials for our own politicians. While our politicians do ask valid questions, let's face it, they already know the answers to their own questions. They are wasting both their time and ours.

The common person will ultimately determine the fate of our banking system, not a politician or a respected banker, if there are any left after this crisis. The U.S. bank's need to take their natural course and the market will respond based on the common person, not based upon an economic correspondent or politician. The politicians are just exponentially magnifying the market chaos by their own public statements, (like Indy Mac Bank). Yes, politicians have an obligation to represent their voters, and it is exactly for that reason that they need to silence themselves. They only fuel the fire in our sunburns when they open their mouths.

We need lots and lots of aloe to heal our wounds. No more sunscreen. But even with aloe, we still need time and shade to properly heal. Aloe always stings when first applied, but once it absorbs into the skin, the healing process starts.

In our case, aloe is synonymous with higher interest rates. A rate hike will do more to re-establish confidence in our system than delaying the inevitable. It will strengthen the dollar. It will head off cancerous inflation. But most of all, it will demonstrate to the world that our great country will not only survive the fallout from a rate hike, but it will ultimately thrive and make us proud of our country once again.

Make no mistake, this ain't about bailing out banks or the U.S. Treasury. It's about survival in our young Global economy. Every country on the face of the planet is effected by a failing U.S. economy. It's now time to recognize that our problems have effects way beyond U.S. borders.

The U.S. Government must respond honestly and quickly. Before we take our tuppence elsewhere.

Dale R. Kluga is a 28 year U.S. Banker & CPA who initially worked in the Management Accounting Division supporting the Bond & Treasury Department of Continental Bank during its' historical funding crisis in 1983. Kluga was responsible for preparing and analyzing key management data including the asset/liability "Hedge" report and the Global Foreign Currency Translation Analysis report. At the age of 29, Kluga founded a local community bank for the second largest Chicago Banking organization and subsequently founded its' equipment leasing business. Kluga subsequently founded two other highly successful, privately held national bank leasing firms. According to Kluga, his direct approach to banking and his opinions are a result of working through every economic cycle in the banking business over the last 28 years. Kluga has published several articles on this topic, including his "Not too big to fail" article published by the Monitor Magazine (the largest equipment finance journal in U.S.). Kluga will be publishing his trademark BankBailure™ series articles which are aimed at identifying the problems in our U.S. Banking system in the hopes of motivating our political leaders to seek the quickest and most effective solutions to our historical banking crisis. The attached "Tuppence in U.S. Banking" is the third article in his BankBailure™ article series.