

## Not Too Big To Fail — When the Unthinkable Begins to Look Possible

*As a villain called greed has taken over the marketplace, inserting itself into our daily lives and creating havoc among all industries, it's time to seek support from other countries to help fix the problem. According to Dale Kluga, in this global economy, looking toward worldwide help may be the only thing to do to keep our heads above water.*

*By Dale R. Kluga*

**S**ell. That says everything in one simple word. No more straining my brain to interpret the meaning of unintelligible Fed-speak. No more contemplation of economic collapse. No more listening to bantering arguments between technicians and traders. Just sell it, take my hit and go home. Time is money and the time-value of money has just trumped the risk of procrastination. In other words, I give.

Why should I wait for the sensationalized, self-serving media commentators to make my blood boil and throw things at the monitor as they add to market chaos? Otherwise, I'm just another consumer enabler. Why should I wait for six months or more for a trillion dollar U.S. bank to figure out how much money they will lose?

Why should I wait for the market to bottom out and take the chance of losing everything? Yes, I said, everything. Okay, well, maybe not everything, but I'm just trying to make a point here. *Everything* is a word synonymous with American boldness or stupidity, or sometimes, like now, both.

### How in the Heck Did This Happen?

Wait, better yet, how in the heck did *we* (as in *you and me*) let this happen? There is no scapegoat here, no person or face to put in front of a camera or put behind bars. The villain is pure and simple. It is called greed. There is just *you and me*, and we are about to file BK to break even and start over. We both looked the other way and knew deep down it was too good to be true, but we figured, what the heck, we could always get out whole or at least get most of our money back.

If we do not sell, we may never get out with anything and then we will lose *everything*. What other choice do we realistically have as consumers? Leave my money in the market and self-destruct? Leave my money in the bank and hope they don't chain the double doors? If that happens then I deserve to wear a *kick me very hard* sign on the back of my Bears jersey at a bar in Green Bay, WI, for the entire winter season.

No, I'm not going to put my money in the mattress or even the cookie jar. Those places are just too big for what I will have left anyway. For the first time since the Great Depression, we will have at least one major U.S. bank failure that the Feds can't save. I said, "*Can't.*" I did not say, "*Won't.*" *Cannot* implies an inability to perform an expected task. *Will not* is much different since it suggests a conscious choice. The Fed *cannot* bail out Citi.

"He's nuts," most will say. "Irresponsible bank bashing," followed by "anti-American," say my associates from Chicago. Whatever. But, just ask yourself one question, why do you believe the Fed has the ability to bail out Citi? Moreover, in this global economy, should we allow any U.S. bank to be too big to fail? As the chief investment officer at one global U.S. bank told me the night after the market imploded: "You are asking a very, very complicated question."

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Fine, let me re-phrase the question. If the Fed has no idea how bad it is at one of our trillion dollar U.S. banks, then how do they know that this same risk does not lie dormant at other trillion or billion dollar U.S. banks? Once they bail out one bank of this magnitude, how will the FDIC insurance cover any other bank failures in the system?

### Continental Bank Failure: A Different Story

Bailing out other banks in our system has been different in the past. The Continental Bank failure in 1984 was significantly different. It was a frightening, but manageable failure because of its relatively small \$42 billion asset size plus we had not yet made the full transition from a national to a true global economy. Continental also had a real, cowboy, boot-drinking villain banker that we were able to blame.

Citi has no such criminal mastermind. In fact, the guilty parties are really not at all the bankers at Citi, they are *you and me*. No, not some convenient, old, overweight and balding banker from a Wamu commercial.

*You and me* took out that mortgage, spent the money, set up the SIV within the law, made gobs of money along with the rating agencies who stamped the security, which was collateralized by our homes and

corporate assets, and pitched it out to the investment community. Then *you and me* bought that security because we wanted 300 basis points more than our bank CD rate. Pure and simple greed.

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**If we acknowledge that we are clearly way, way in over our heads, seek the support of other countries that have at least as much to lose as we do, then maybe we have a shot at fixing this problem called greed. If not, 2008 will prove to be unprecedented for our banking system, our dollar and, of course, our economy.**

The Fed will take 12 months to figure out that the U.S. taxpayer cannot afford to fix our entire banking system. It may continue cutting rates, further destroying the dollar's value, spurn foreign investment and, if we're lucky, buy us more time with the naïve hope that we can once again defer this problem into the next economic cycle. Furthermore, if we bail out the first U.S. bank failure and more failures follow suit, we will totally destroy our dollar, cause an international liquidity crisis and our country will face issues we have not confronted since the 1930s.

I have no idea how to solve this problem. What I do know is that taking the first step is the hardest. If we acknowledge that we are clearly way, way in over our heads, seek the support of other countries that have at least as much to lose as we do, then maybe we have a shot at fixing this problem called greed. If not, 2008 will prove to be unprecedented for our banking system, our dollar and, of course, our economy. Or at least, what's left of it. **m**

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