Why Bank Bail-Ins Will Be the New Bailouts

By Richard Best
Updated Jun 25, 2019

The financial crisis of 2008 ushered in the term "too big to fail," which regulators and politicians used to describe the rationale for rescuing some of the country's largest financial institutions with taxpayer-funded bailouts. Heeding the public's displeasure over the use of their tax dollars in such a way, Congress passed the Dodd-Frank Wall Street Reform and Consumer Act of January 2010, which eliminated the option of bank bailouts but opened the door for bank bail-ins.

Difference Between Bank Bail-In and Bank Bailout

A bail-in and a bailout are both designed to prevent the complete collapse of a failing bank. The difference lies primarily in who bears the financial burden of rescuing the bank. With a bailout, the government injects capital into the banks to enable them to continue to operate. In the case of the bailout that occurred during the financial crisis, the government injected $700 billion into some of the biggest financial institutions in the country, including Bank of America Corp. (NYSE: BAC), Citigroup Inc. (NYSE: C) and American International Group (NYSE: AIG). The government doesn't have its own money, so it must use taxpayer funds in such cases. According to the U.S. Treasury Department, the banks have since repaid all of the money.

With a bank bail-in, the bank uses the money of its unsecured creditors, including depositors and bondholders, to restructure their capital so it can stay afloat. In effect, the bank is allowed to convert its debt into equity for the purpose of increasing its capital requirements. A bank can undergo a bail-in quickly through a resolution proceeding, which provides immediate relief to the bank. The obvious risk to bank depositors is the possibility of losing a portion of their deposits. However, depositors have the protection of the Federal Deposit Insurance Corporation (FDIC), insuring each bank account for up to $250,000. Banks are required to use only those deposits in excess of the $250,000 protection.

As unsecured creditors, depositors and bondholders are subordinated to derivative claims. Derivatives are the investments that banks make among each other, which are supposed to be used to hedge their portfolios. However, the 25 largest banks hold more than $247 trillion in derivatives, which poses a tremendous amount of risk to the financial system. To avoid a potential calamity, the Dodd-Frank Act gives preference to derivative claims.

Bail-Ins Become Statutory

The provision for bank bail-ins in the Dodd-Frank Act was largely mirrored after the cross-border framework and requirements set forth in Basel III International Reforms 2 for the banking system of the European Union. It creates statutory bail-ins, giving the Federal Reserve, the FDIC and the Securities and Exchange Commission (SEC) the authority to place bank holding companies and large non-bank holding companies in receivership under federal control. Since

the principal objective of the provision is to protect the American taxpayers, banks that are too big to fail will no longer be bailed out by taxpayer dollars. Instead, they will be 'bailed in.'

Europe Experiments With Bail-Ins

Bank bail-ins have been used in Cyprus, which has been experiencing high debt and possible bank failures. The bail-in policy was instituted, forcing depositors with more than 100,000 euros to write off a portion of their holdings. Although the action prevented bank failures, it has led to unease among the financial markets in Europe over the possibility that these bail-ins may become more widespread. Investors are concerned that the increased risk to bondholders will drive yields higher and discourage bank deposits. With the banking systems in many European countries distressed by low or negative interest rates, more bank bail-ins are a strong possibility.

If You Have Money in a US Bank Account Be Aware!

Monday June 22, 2015

The Wall Street Reform and Consumer Protection Act of 2010 is better known as “The Dodd-Frank Act” to the American public. What the American public does not know about, is that it codifies a “bail-in” provision that ensures that the United States can conduct the type of bail-in that we saw in Cyprus.

The bank bailouts of 2008 and 2009 will now be history as Dodd-Frank authorizes the Federal Deposit Insurance Corp. to recapitalize failed financial institutions by confiscating customers’ deposits.

A bail-in takes place before a bankruptcy under current regulations, regulators would have the power to impose losses on bank depositors while leaving other creditors of similar stature, such as derivatives counter-parties untouched. If your bank goes bust then your deposits/savings will be taken from you and turned into shares of the bank. You have no say in the matter because in legal terms, as a bank depositor, you are just an unsecured creditor of the bank.

A derivative is a contract between two or more parties. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes. Most derivatives are characterized by the use of high leverage. Smart investors like Warren Buffet view derivatives as “financial weapons of mass destruction, carrying dangers that, while now latent, are potentially lethal.” At this point in time, I certainly agree with him 100%. I blame derivative instruments like collateralized debt obligations (CDOs) and credit default swaps (CDSs) for the financial crisis in 2008.

The name “derivative” reflects a sense that derivatives somehow *derive* value at one or more future points in time based on observable events such as prices, interest rates, exchange rates, indexes, events of default.

The real problem with derivatives has to do with overexposure by the banks and "uninformed investors. I believe derivatives can add value to companies as long as the corporate leaders at those companies use restraint and hold a limited amount.

Derivatives may not be a financial instrument that the average investor wants to try on their own, but derivatives can add value to society when used appropriately and in moderation.

A bail out is when the government steps in so that the financial institution can avoid bankruptcy or insolvency and is not able to continue operations It may take the form of a direct transfer of capital. In September of 2008 the insurance conglomerate AIG found itself in serious financial problems the Federal Reserve bailed it out by extending $85 billion (and eventually $182 billion) in credit to the company. Proponents of bailouts say that they keep an economy afloat when an industry thought too big to fail otherwise would collapse. Many opponents contend that bailouts are inefficient and non-competitive companies ought to fail.

Dodd Frank was passed in the aftermath of the crisis to avoid another speculative bubble.

The key fact of Dodd-Frank, Title II of the Act to establish an Orderly Liquidation Authority, which vests the FDIC with the authority to conduct a European-style bail-in. The preamble to the Dodd-Frank Act claims "to protect the American taxpayer by ending bailouts." This is done, through "bail-in", which is a critical feature of the internationally established regime of what is called cross-border bank resolution.

It claims to protect the American taxpayer by ending bailouts. That is done by implementing" bail-in" to stave off financial collapse, but is this constitutional?

The Dodd-Frank Wall Street Reform and Consumer Protection Act took up 848 pages and contained 383,013 words. In July 2012 an additional 8,843 pages of rules were added, representing only 30% of the rules to-be-written. The estimate for the final length of the Act is 30,000 pages. The six largest banks in the U.S. spent $29.4 million lobbying Congress in 2010, and flooded Capitol Hill with about 3,000 lobbyists–a ratio of 5 lobbyists per 1 congressman The Dodd-Frank Wall Street Reform and Consumer Protection Act currently stands as the single longest bill ever passed by the U.S. government. The length of the bill was intended to intimidate members of Congress and the public as well.

Title I of the Dodd-Frank Act requires each banking entity to periodically submit to the FDIC and the Federal Reserve a resolution plan that must address the company's plans for its rapid and orderly resolution under the U.S. Bankruptcy Code.

Title II of the Dodd-Frank Act provides the FDIC with new powers to resolve by establishing the orderly liquidation authority (OLA). Under the OLA, the FDIC may be appointed receiver for any U.S. financial company that meets specified criteria, including being in default or in danger of default, and whose resolution under the U.S. Bankruptcy Code (or other relevant insolvency process) would likely create systemic instability.

Title II requires that the losses of any financial company placed into receivership will not be borne by taxpayers, but by common and preferred stockholders, debt holders, and other unsecured creditors, and that management responsible for the condition of the financial company will be replaced. Once appointed receiver for a failed financial company, the FDIC would be required to carry out a resolution of the company in a manner that mitigates risk to financial stability and minimizes moral hazard. Any costs borne by the U.S. authorities in resolving the institution not paid from proceeds of the resolution will be recovered from the industry.

Dodd-Frank, Title II, Sec. 209 (b):

if claims are made against a firm, they will be paid in this order:

1. administrative costs
2. the government
3. wages, salaries, or commissions of employees
4. contributions to employee benefit plans
5. any other general or senior liability of the company
6. any junior obligation
7. salaries of executives and directors of the company; and
8. obligations to shareholders, members, general partners, and other equity holders

The liquidation during resolution is done at the discretion of the receiver, the FDIC, on the basis of salvaging what is, in its view, most important for financial stability. Under Title II, Sec. 9 E, it is stated that the FDIC, "shall, to the greatest extent practicable, conduct its operations in a manner that–..(iii) mitigates the potential for serious adverse effects to the financial system."

When you deposit money in a checking or savings account, that money no longer belongs to you. Technically and legally, it becomes the property of the bank, and the bank just issues you what amounts to an IOU. The bank considers this as an unsecured debt.

You will have to stand in line behind trillions of dollars of derivative payouts before your checking and savings accounts will be made available to you. Both the Bankruptcy Reform Act of 2005 and the Dodd Frank Act provide special protections for derivative defaults, giving them the legal right to demand collateral to cover losses in the event of insolvency.

Reinstating America's traditional banking act is crucial to protecting U.S. depositors by rebuilding the wall of separation between commercial banks and investment banking which would dissolve the "mega super market" banks.

Glass-Steagall was repealed by Congress and President Clinton in 1999 under pressure from Wall Street speculators who needed access to Main Street's commercial bank deposits. Less than 10 years later, Wall Street suffered a financial collapse that required hundreds of billions in taxpayer bailouts to the country's largest banks.

If implemented as an act of the United States, an act of the sovereignty of the United States, (Glass-Steagall) would effectively override Dodd-Frank. It would override this bail-in regime as soon as it is implemented,

This Act needs to be nullified or the result of its enactment will be the mass destruction of U.S. citizens through economic means. The fact is this has NOT been openly disclosed to bank depositors or the general public.

This legislation will result in the mass destruction of the citizens of the United States through economic deprivation, through the collection and extraction of funds done in such a way as to leave the US Bank holders subject to become extremely desperate to the point of extermination.

The United States of America has been a free and sovereign nation, based upon a foundation of law. What underlies the founding laws of the nation is the issue of its "Right". The right of the nation to govern itself and to govern in a way that upholds the right of each citizen to his or her life, is the most fundamental value in law.

As of 2010, the total world derivatives had a value of $1.2 quadrillion, approximately 20 times the world GDP. Because of the lack of clarity of the derivatives markets, the exact numbers are virtually impossible to produce. However, the Bank for International Settlements quoted global OTC derivatives – derivatives that have a paper-trail–at $632 trillion as of December 2012.

Dodd-Frank, will deprive the citizens of the United States of those rights guaranteed to them under the Constitutional Law to their right to life. They will be deprived of their right to petition their government, they will be deprived materially and certainty that many will be deprived of their lives–by violence, poverty, starvation, extreme want, or suicide.

This Act establishes a Cyrus style bail-in mechanism that would enable the government to transfer enormous amounts of wealth from the collapsing banks into the hands of a private cartel that control the new Orderly Liquidation Authority.

The FDIC will be held accountable for losses to banks via the risky derivatives estimated in the HUNDREDS of TRILLIONS of dollars. This would BANKRUPT the U.S. government.

It's time to REPEAL this monstrosity and PASS H.R. 129 or S.985 Restore Prudent Banking Act of 2013, which represents the return of Glass Steagall – separating investment banking from commercial banking.

In my view, we cannot wait for the next banking crisis to occur, this is a fraud developed by the banking industry to STEAL more of our money and I have recently started to accumulate physical metals, storing them with a third party vault out of the banks grasp as an insurance plan for worst case scenario.

Each week I will break down and discuss the major problems unfolding in both the United States and Internationally. While it makes me sick to my stomach thinking about what can and will likely happen and the result it will have on the economy and our lifestyles, the only thing we can

do is prepare ourselves and position our capital properly to avoid and or profit from the next financial crisis and bear market in stocks.

Chris Vermeulen

Could the Government Seize Your 401(k) and IRA Money?

August 9th, 2016 by Pamela Yellen

Is it far-fetched to wonder if the government could take control of your retirement savings in 401(k)s and IRAs?

Or is that just a paranoid conspiracy theory?

The fact of the matter is that it's **not** far-fetched, *or* a conspiracy theory. The groundwork has already been laid.

And the government *already* gave banks the green light to seize your bank accounts.

Read on for the facts – and I urge you NOT to discount the importance and urgency of this issue affecting your hard-earned savings…

The Government Has BIG Plans for Your Retirement Savings

An article in *American Thinker* titled "The Feds Want Your Retirement Accounts" revealed that, "Quietly, behind the scenes, the groundwork is being laid for federal government confiscation of tax-deferred retirement accounts. Slowly the cat is being let out of the bag."

And Bloomberg reported that,

The U.S. Consumer Financial Protection Bureau is weighing whether it should take a role in helping Americans manage the $19.4 trillion they've put into retirement savings."

For the last 18 months, the Treasury Department has been testing the "myRA" program – which Obama created through executive order – no Congressional approval needed.

The myRA, which stands for "My Retirement Account" supposedly "guarantees a decent return with no risk of loss."

And the *only* investment allowed in this account is a low-yielding Treasury security.

Of course, the Treasury wants to get more people signed up for this program, because it means more funds flowing right back into the U.S. Treasury to help the government meet its voracious borrowing needs. How convenient…

The Obama administration has also floated budget proposals that would limit how much you can accumulate in IRA's, 401(k)s and other qualified plans. The government's rationale: "Some individuals are able to accumulate… more than is needed to fund reasonable levels of retirement saving."

So Now the Government Is Even Trying to Tell Us How Much Money Is "Too Much"!

Why are government-approved retirement plans such an attractive target for government control and ownership? For the same reason notorious hold-up man Willie Sutton gave when he was asked why he robbed banks:

That's where the money is."

Because the government *created* these plans, they **know** where your money is and **how much** you have there. And nobody knows what the next administration has planned for us.

Banks ALREADY Have the Authority to Seize the Money in Your Accounts

Few people I've talked to are aware that the 2010 Dodd Frank Act ensured that financial institutions will not be bailed out by taxpayer dollars in the next crisis. Instead, they will be "bailed in" by shareholders and anyone unlucky enough to have deposits *in those banks.*

The bottom line is that the next time your bank fails, you become a shareholder, NOT a depositor – and *your* deposited money will be used to save the bank. Your money won't be insured by the FDIC then, either.

So How Can You Protect Yourself and Your Hard-Earned Savings?

The solution is to keep very little money in the banks – only enough to pay for current expenses.

All excess cash flow should be swept into an alternate savings vehicle that gives you safety, privacy and control of the money you put in it.

Carefully weigh how much money you're willing to put into government-controlled retirement accounts (IRAs, 401(k)s, 403(b)s, etc.).

Because once you put your money into those plans, the *government* controls it, **not** you!

And the government can – and does – change the rules and restrictions anytime they want. And you have *no* recourse.

There's no telling what politicians may be scared or intimidated into doing in the next financial crisis.

10 Reasons a Bank On Yourself Plan is the BEST Place to Store Your Money

The Bank On Yourself method relies on a *super-charged variation* of an asset that's **never** had a losing year in more than 160 years: Dividend-paying whole life insurance.

Here are 10 reasons a Bank On Yourself plan is the *best* place to warehouse your money:

1. Life insurance policies are private "unilateral" contracts. That means the company can't change the rules unless *you* agree to it. That's the law.
2. With a Bank On Yourself plan, you have privacy. Your plan and its growth are generally **not** reported to the IRS or the government.
3. You have "first right of refusal" to the cash value in your plan – the company can invest it only if you choose *not* to exercise your right to use it.
4. You **can't** be turned down when you want to access your cash value, and you **don't** have to apply or qualify for it.
5. You can pay it back on *your* schedule – *not* someone else's – with no fear of collection calls, late fees or any of that nonsense.
6. If your policy is from one of a handful that offers this feature, you'll receive the **same** guaranteed annual cash value increase and dividends as though you'd never borrowed a dime from your policy.
7. Both your principal *and* growth can be accessed with **no** taxes due, under current tax law.
8. You'll get growth that beats the interest you can earn in a savings or money market account or CD by a country mile.
9. And you'll – *finally* – be able to know the minimum guaranteed value of your retirement savings on the day you plan to tap into them, and at *any* point along the way.
10. *You're* in control of the money in a Bank On Yourself plan – **not** the government, **not** Wall Street, **not** the banks, and **not** an employer!