“We Are Taking Over Your Bank!”

FDIC Bank Takeovers
The Inside Story

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No, they are not bank robbers. They are federal agents who take over banks that are on the verge of bankruptcy. At the height of the recent economic crisis, they were working at a rate of one bank takeover per week. To prevent widespread panic, they operate in utmost secrecy. Read about the federal agency that promises Americans that their money in American banks is safe.

Anyone who has read about the Great Depression knows that thousands of banks closed down and millions of Americans lost their entire savings overnight. People wandered around the country in search of jobs, begging for a bit of food to keep them going. Soup kitchens were set up in every major city, where people spent hours in long queues, waiting for their only sustenance for the day.

Despite troubling economic times, including what some call the worst since the Great Depression, there is no need to worry that we are heading toward such a situation today (divine intervention notwithstanding). While it's true that many people have lost their jobs and even their homes, at least nobody has seen the balance of his bank account disappear because of the bank's sudden closing.

Thanks for that goes to none other than Uncle Sam. The Federal Deposit Insurance Corporation (FDIC), the nation's strongest insurer since it is "backed by the full faith and credit of the US government," guarantees up to $250,000 for every person who deposits money in an account in any bank under its auspices. If a bank is forced to close because its funds were lost in bad investments or mismanagement, the FDIC will pay back every penny up to that amount.

The funds are not drawn off of the federal government's budget, nor do they come at the taxpayers' expense. They are raised from the insurance premiums that banks pay to the FDIC in order to receive the coverage they must have if they want to convince Americans to entrust them with their hard-earned savings.

Nevertheless, the FDIC is much more than just an insurance company. It is a federal agency that keeps a strict watch on all member banks to ensure that their practices are financially responsible so that the FDIC will not have to pay for somebody else's carelessness. The banks' ledgers and financial statements are checked regularly and thoroughly to make sure everything is in order.

At the first sign of a problem, a bank will receive a warning that it must shape up if it wants to continue operating under the mutual agreement between them. If the problem persists and it appears that the bank may be heading toward bankruptcy, the FDIC will take over the bank and place it under federal control before it can fall into debt and create a local crisis.

FDIC building in Arlington, Virginia, where half of its activities are housed. The rest of its business is directed from headquarters in Washington, DC.

Preparing for a Takeover

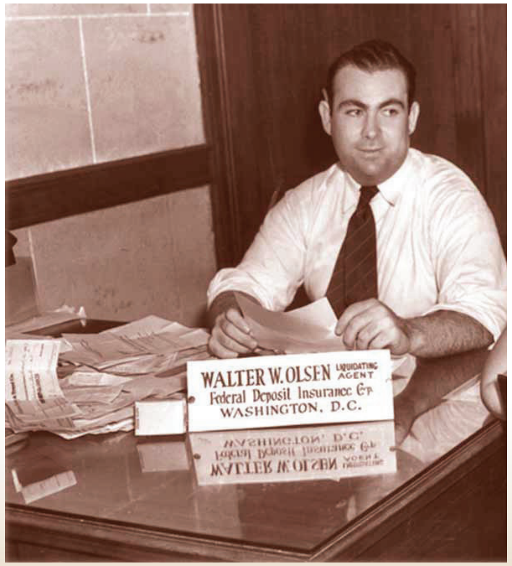
When the FDIC takes over a bank, it means that the bank that belonged to private owners yesterday is today property of the federal government.

While major financial institutions such as Citigroup receive a steady flow of government funds to prevent them from going under, smaller banks whose continued private operation is less critical to the nation's financial health are often dealt with much more harshly, to the fullest extent of the law. They receive no life support and no second, third and fourth warnings. The moment it becomes apparent that they are in serious trouble, they are simply confiscated by federal agents.

The deepest part of the recession saw numerous banks teeter on the brink of bankruptcy, and there were periods when virtually every Friday the FDIC was busy quietly occupying yet another small bank. The public was hardly aware of these activities since the agents were very careful to keep their work quiet so as not to set off a panic. In February 2009, however, the FDIC decided it would increase public confidence if Americans understood how their banks would be dealt with in case of a crisis, and it granted reporters a rare opportunity to observe a bank takeover firsthand, live as it happened, providing the American public with its first glimpse of the nature of the covert proceedings.

Reporting Live from the Takeover

The story began in early February when a group of FDIC agents showed up in Chicago to prepare for a takeover. They arrived in unmarked cars and wore no special identification badges, parking themselves in a hotel and operating under the fictitious business name "CB & Associates." The agents used extreme caution to make sure nobody in the city found out what they were doing there; whatever would happen, they did not want to trigger a run on the bank.



One of the first FDIC agents in his office in Washington where he is occupied with liquidating American banks.

Run on a bank during the Great Depression.

This particular mission was codenamed "Happy" (irony is not a trait lacking in federal government employees). Their eyes were on the 40-year-old Heritage Community Bank, a typical community bank that occupied itself with checking and savings accounts, student loans and mortgages. Like so many other banks in America, Heritage had made the mistake of granting large numbers of mortgages to subprime clients who were at risk of defaulting on their payments. When the economy slowed down, many of those mortgages went into default and the bank suddenly found itself in danger.

The FDIC became aware of the problem during a routine review of the bank four months earlier. FDIC Illinois headquarters issued the bank a warning to stop issuing subprime mortgages and find a way to make itself lucrative, but Heritage was unable to garner the investor support it needed to shore up its failing business. The FDIC waited until the last moment to see if the bank would turn itself around, and when it failed to achieve a dramatic change, the FDIC had no choice but to send in its special team to affect the takeover.

A few days before the scheduled takeover, the agents gathered in their hotel's conference room with the name "CB & Associates" prominently displayed on the door. A passing guest would have no clue that what was taking place inside had no connection at all to a routine business conference.

Inside the room sat 90 agents, listening