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Saturday, December 06, 2008

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Begalka: Put your trust in Begalka



Comments (No comments posted.)

Last week's events, part of the mosh pit that is our nation's financial recovery plan, convinced me the time just might be right for a particularly bold move: Creating my own bank.

"The Bank of Begalka – safe, sound, hard to pronounce." Has a nice ring to it, don't you think?

Mock my prospects of a bailout if you must, but I'm a lot poorer than many of the hat-in-hand types who trekked to Washington this week.

Last week, we learned that Goldman Sachs Group Inc. might launch an Internet banking operation. The Wall Street Journal said the new unit would seek deposits that could be used to fund businesses of what was an "investment bank" and now will be a "bankholding company."

I find the timing curious, because Goldman is expected to post a net loss of about \$2 billion in the fourth quarter – its largest since going public almost a decade ago.

This move comes in the wake of last month's decision by the U.S. Federal Reserve to grant American Express Co. permission to become a commercial bank. The Fed waived a 30-day waiting period on the application because of "the unusual and exigent circumstances affecting the financial markets."

Bloomberg News said that October marked the first month since 1993 that credit-card companies were unable to sell bonds backed by customer payments. American Express said last month that credit-card holders failed to repay loans in the third quarter at almost twice the rate of a year earlier. I suspect it might have a little something to do with the differential between an average credit-card interest rate (14.39 percent), a typical interest rate on passbook savings accounts (1 percent) and the rate on 30-year fixed mortgages (5.99 percent).

Somebody is making money.

Amid this moola cornucopia, amid Morgan Stanley's plans to possibly acquire regional banks and the recent Citibank bailout, local independent banks go about their business in a consistent, comprehensive fashion. And they do so in relative anonymity.

"I could have applied for the TARP program, but I've chosen not to," said Steven Finzel, president and chief executive officer of Golden Eagle Community Bank in Woodstock. "I'm well-equipped for financial growth."

American Express joins Goldman Sachs and Morgan Stanley in gaining "increased liquidity support" as part of the \$700 billion bailout of the banking system. Interim Assistant Secretary for Financial Stability Neel Kashkari said Friday that about \$151 billion of the \$250 billion reserved for a voluntary capital purchase program already has been disbursed to 52 institutions in 25 states.

Its goal is to stabilize the financial system by increasing the capital in our nation's banks, and then to restore confidence so that credit could flow to our consumers and businesses. My understanding is that the money will be paid back some day. But I can't explain how it will work.

A concise explanation remains as elusive as the legion of liaisons assigned to talk up such matters. Besides, the Treasury and Federal Reserve Web sites assure – despite 23 bank failures this year – that all is well.

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