Moving Your Money Can Have a Real Effect on Big Banks

By Washington's Blog
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People have asked whether moving your money from your giant bank to a small community bank or credit union will have any real affect on the too big to fails, given that most of their profits come from speculative investments instead of normal banking deposits.

According to the Nation, the answer is yes:

> The cynics either do not understand banking or misunderstand the widespread public anger. Dennis Santiago, [influential bank-rating firm, Institutional Risk Analytics'] CEO and managing director, explained that banks compete fiercely for the "core deposits" provided by individual and small business accounts–this stable money is their preferred base for profitable lending. Take away core deposits, and bankers feel immediate balance-sheet stress. Expand the account base for community banks, and they gain greater stability and greater lending power. "Will moving your money have an effect?" Santiago asked. "And by effect, I don't mean making a momentary political statement. I mean making a structural difference to the country's financial system. The answer is yes."

The Nation points out that a wide variety of campaigns to take back power are being launched from diverse sources:

> A campaign launched by faith-based community organizations associated with the Industrial Areas Foundation identifies sky-high interest rates on credit cards and other lending as the ancient sin of usury. IAF groups are asking churches, foundations and local governments to withdraw funds from the usurious banks that profit by destroying borrowers. Organized labor, likewise, has launched an aggressive movement to insist on responsible investing values for the pension-fund wealth of working people, urging state treasurers and fund managers to invest for society's interests as well as good returns.

The Nation is right. There are numerous efforts to stand up to the giant banks.

Congresswoman Kaptur advises her constituents facing foreclosure to demand that the original mortgage papers be produced. She says that – if the bank can't produce the mortgage papers – then the homeowner can stay in the house.

Debtors are revolting against exorbitant interest rates and fees and other aggressive tactics by the too big to fail banks. See this, this and this.

Portfolio manager and investment advisor Marshall Auerback argues that a debtor's revolt would be a good thing.

Popular personal finance advisor Suze Orman is highlighting the debtors revolt phenomenon on her national tv show.

And see this and this.

What is fueling the debtor's revolt? Economic conditions are obviously a large part of it. But the fact that the big banks are not abiding by "free market rules", but are gambling with taxpayers' money on the taxpayers' dime, is a contributing factor. In other words, many people apparently feel that since the banks aren't playing fair or by the normal rules of contract, they shouldn't have to, either.

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