



What To Do In A **BANK RUN**

**ACTIONS YOU SHOULD TAKE IMMEDIATELY
WHEN MARKETS GET SPOOKED**

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WHAT TO DO IN A **BANK RUN**

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CHAPTER

1

**WHAT IS
A BANK
RUN?**

BANK

**FOR LEASE
BANK DESIRED**



WHAT TO DO IN A **BANK RUN**

Even if you are not entirely sure about the mechanics of bank runs, or the impetus behind them, it is likely you have at least heard the term. For most people, the words “bank run” will conjure up images of the Great Depression such as: long lines in the street, people howling in panic inside of the bank, demanding their money, banks closing their doors, people’s life savings—or even just their last paycheck—wiped out in a single day, banks declaring bankruptcy, and a wave of misery spreading as more and more banking panics ensue.



A bank run happens when people lose confidence either in an individual bank, or in an entire currency. In the former case, people begin to hear whispers or rumors that the bank might be in trouble, or failing. They race to the bank to withdraw their money before it becomes impossible to do so. However, in the latter case, rampant inflation

starts to destroy the value of the nation’s currency. Usually, this happens when the nation has too many debts and starts printing money, which devalues or debases their currency in an attempt to meet those debts. As they do so, the currency loses more and more value until it becomes virtually worthless. Those who are paying attention will quickly look for a way to protect their wealth. Sometimes they will do this by moving their money into foreign accounts, and sometimes they will do this by purchasing hard assets that will maintain their value, no matter what happens. Either way, the deposit account holder senses trouble, and wants to get out of trouble fast.



Why Can't They Just Give Everybody Their Money?

A lot of people show up at the bank and demand their money. So what? It's their money, right? Theoretically, the bank should have that money somewhere and should be able to get their hands on that money and hand it out to the rightful owners, even if all of the owners show up at once. So, what makes a banking panic such a bad thing?

In order to understand this problem, you must understand something called the “fractional reserve banking system”. Most people are not truly aware that all banks operate on the fractional reserve system. Bank marketing, common sense, and the way that we are all taught to handle our finances tells us a story about banking that is not entirely true. In that story, a deposit holder walks up to the bank with \$100 and deposits that into his account. The bank simply holds on to that \$100—unless the deposit holder has some sort of interest bearing account—and the account holder can return at any time to claim that \$100, or he can give that claim to someone else in the form of checks, or debit card purchases. Popular fiction gives most people the notion that the \$100 is sitting safe and sound in a vault somewhere, pristine and untouched until the deposit holder comes to reclaim it.

It is easy to unravel this fiction. One simply has to ask why banks would ever pay interest on any type of account if it were merely serving as a sort of warehouse for people's money. The answer is this: when you deposit \$100 into an interest bearing account, you are earning interest because you are essentially giving the bank more dollar bills to loan out or invest. You are getting a small, sometimes a very small, share of the interest that various debtors are paying on their loans, or a share of the interest that the bank's speculative activities are earning through various investment vehicles.

Once, loans would have been the only source of this interest in a depositor's bank, since a piece of legislation known as the Glass-Steagall Act once prevented deposit-holding banks from engaging in risky financial activity, allowing only investment



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banks to practice such risky investing. However, after the Glass-Steagall Act was repealed in 1999, deposit-holding banks were now able to engage in investment activities.

Whether in investment banks or deposit-holding banks, the interest is paid because the bank is using that \$100 for other things. When you deposit money into your bank, you have essentially loaned money to that bank. It is an on-demand loan, which means you can call it in at any time, but it is still a loan. If you go to your online banking center right now and pull up your bank account, you will see a balance. That balance does not represent how much money you have; rather, the balance represents the bank's debt to you. Until you withdraw that debt and convert it into money once more, you are not holding a money asset, you are actually holding a debt asset. Whenever you write a check or use a debit card, you are not actually paying with money. You are essentially just transferring the debt, relinquishing your claim to that debt and giving that claim over to someone else, who can choose to convert it to cash, or who can leave it as an outstanding debt balance in their own account.

Some of that money is out of the bank's hands. It's off being a loan, or performing as an investment. Sometimes the money comes back, if the loan gets paid off, or the investment performs well. Sometimes the money disappears, if the loan holder defaults, or the investment tanks and loses all of the money. For the most part, banks do not attempt to hold more than a small reserve of cash to pay their debts to deposit holders in the first place. The bank simply assumes that it is not necessary to do so since, for the most part, trading debts is far more convenient





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than carrying money, and everyone doesn't come back and demand their money at the same time. Of your \$100, the bank might actually hold \$10. We are not talking about the bank branch, which might be expected to hold only a portion of the money that the overall bank owes, but, the overall bank itself.

Of course, if you go to withdraw your \$100 from the bank and get a repayment on the debt the bank owes you, you usually can. Nine other people have also deposited \$100. The bank owes \$1000 worth of debt and has \$100 on hand, so if you show up asking for \$100, it's no problem. But if five of the debt holders show up at once, all asking the bank to repay the \$100, then the bank is instantly in trouble. Legally, it owes the money, and it's going to have to scramble to figure out how to pay it, perhaps by selling some assets or calling in some favors. If all ten people show up—watch out! This bank is probably going to close its doors. It becomes insolvent,

meaning that they are as bankrupt as any household that runs up too many debts. When any entity becomes insolvent, it pays off as many people as it can—usually the creditors who are owed the most—and it keeps paying people off until it runs out of assets to use. Inevitably, some people walk away empty handed, because there is simply nothing left to pay anyone else. People who make bank runs aren't being panicky or foolish, they are being very smart. They know that those who do not show up first may wind up walking away empty handed, therefore losing everything. In a historical banking panic, a rumor spreads that the bank is on the

verge of becoming insolvent, so all of the depositors show up to collect, if they can, though often they cannot. There were banking panics during the Great Depression because people knew that banks held investments in many of the stocks that had crashed, and people also knew that the banks were losing their ability to deliver on deposit accounts.





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Things have changed since the Great Depression, and today's banking panic looks a little different. This banking panic led to laws which make most people feel safe enough to assume, wrongly, that there will never again be a need for a true banking panic. Such laws include the creation of FDIC deposit insurance.

Currency Based Bank Runs

On May 17, 2012, news articles began appearing that warned that the nation of Greece is primed for a bank run, because Greece itself is running out of money. The citizens of Greece rightly fear that their more valuable euros will be replaced with worthless Greek drachmas.¹ This is similar to what happened in the Argentinean economic collapse of the early 2000s. It is not as if the Greeks will have less money on paper, though. A citizen of Greece who logs into his bank account before the replacement to see 1000 euros would wake up after the replacement to find 1000 drachmas in his account instead. Unfortunately, the drachmas might buy only a fraction of what those euros will buy. Many Greeks will want to protect their purchasing power by holding euros, so they can buy more drachmas with them later, as the exchange rates start to rapidly shift from 1:1 to something a bit more realistic, like 1:1000. They are not going to want to keep their money in a place where it can be arbitrarily converted in a way that takes only a nominal stab at being legal.² These sorts of things happen in fiat currency systems when the system starts to fail, since the currency is not backed by any real, tangible assets and exists only by decree. Of course, Greece and Argentina were in a different position in terms of currency to begin with. One could walk into Argentina with a fistful of dollars and make





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a purchase, but one could not walk into the United States with a fistful of pesos and make a purchase. Those countries used other people's fiat currency. The way it would play out in the United States, and the way it is playing out in the United States, is slightly different.

The United States, and to a lesser extent, the European Union, both have a similar capability that allows them to save and bail out banks without ever running out of money. This capability is the magic ability to simply print more money out of thin air, by decree, whenever they want. In the case of the U.S., the Federal Reserve Bank, a privately owned bank engaged in a predatory partnership with our government, has that power. The United States has another unique advantage, in that most of the oil producing nations will still only accept dollars for oil, by virtue of a series of agreements, wars, and maneuvers performed in various points in our history. Many nations buy United States treasury debt as part of an overall investment package. Murray N. Rothbard wrote in 1985, "Only the federal government, not the states or private firms, can print legal tender dollars. Everyone knows that, in case of a bank run, the US Treasury would simply order the Fed to print enough cash to bail out any depositors who want it".³ In fact, it is rarely the depositors who get bailed out, rather, many are left to hang. The corrupt banks, however, are allowed to remain in business. "In other words, instead of government protecting private property and enforcing voluntary contracts, it deliberately violated the property of depositors by barring them from retrieving their own money from the banks."⁴ Rothbard goes on to say that banks do not actually serve a legitimate or useful function, that the industry is inherently insolvent, and any other business that tried to run as banks do would be jailed for fraud.⁵

Simply printing out more and more money has its consequences. The government has done this twice since the mortgage crisis of 2008, in part to bail out banks called "too big to fail," while doing nothing for homeowners and investors left holding toxic, useless, and devalued assets. Each time the government increases the money supply to solve a problem it creates an scenario of inflation, where people's money becomes worth less and less. If they do this too many times, the government can spark a hyperinflation event. Americans have no greater currency to turn to, so those who would make bank runs would be doing so in the hopes of converting their soon-to-be-worthless paper dollars into hard assets so that the wealth



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formerly represented by those dollars might be maintained and protected. As more money flees more banks, the banks themselves are threatened with individual insolvency, which can spark the more traditional banking panics, which in turn makes the situation even darker.

Bank runs do not always require a national crisis like the Great Depression to begin, but they can be a symptom of such a crisis. In addition, too many bank runs can spark the crisis itself. A bank run is like a deadly virus, poised to destroy the wealth and happiness of everyone and everything that it touches.

CHAPTER

2

**WHAT IS
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No bank will ever tell you that they are in trouble. The FDIC, which is supposedly working on the behalf of consumers and in the best interest of consumers, will never reveal which banks have made it onto their “troubled bank” list. There are even laws against saying that a bank might be in trouble, or, as officials will sometimes put it, “inciting a panic”. The media and the government certainly are not going to tell you anything; they will insist that all is well, up until the day that the house of cards comes tumbling down. It is up to the patron to hunt down the hints that their bank may no longer be a safe place to house their money.

Fortunately, there are still private enterprises that evaluate banks and make their findings available, some for free, and some for a fee. Two places to begin a search for information would be BauerFinancial and BankRate. Both of these institutions give every bank in the nation a safety rating from 0 to 5 stars. BauerFinancial has another category, “FDIC,” for banks that it believes may be on the FDIC’s secret list of banks that are in trouble. Both institutions will sell you a more detailed report on your bank if you wish, but for your purposes, seeing a poor 1 or 2 star rating on your institution does not really require much more information than that to determine the stability of your bank. Move your money, move it quickly, and do not listen to those who will try to tell you that only a very small percentage of banks that find themselves in trouble fail, even banks who find themselves on the FDIC list. It does not matter whether some banks recover or not, because the patron has a life and a future to protect. He has no obligation to gamble with his money, on the hopes that a bank that he has been using will clean up its act. Besides, given modern banking practices it might take a month or more to move one’s money. Why would anyone want to waste a single minute telling themselves that their bank *might* recover?

The consumer can get a wealth of information from the FDIC itself. The FDIC website won’t tell what banks are on their troubled banks list, but they will show a year-by-year comparison of total deposits for each bank. If a bank’s deposits seem to be migrating or getting lower and lower, then you might already be witnessing the beginnings of a bank run.⁶ A bank run, after all, is like a snowball at the top of a hill. It starts out small and tiny, turns over a few times and looks inconsequential, but pretty soon is a massive, dangerous boulder growing in both size and speed. Eventually,



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it reaches a point of momentum so intense that nothing can stop it. It's better to get out while the snowball is still a tiny, flopping thing, way up at the top.

Look for news that a bank has delayed in releasing its financial reports. You don't have to read those reports, understand them, or even pay attention to them. What's important is the news that they aren't out on time, which can be a sign that the bank is stalling for time because it's not doing very well.⁷

Job cuts and layoffs are also certain signs that a bank isn't healthy. It's trying to save its profits by cutting costs. Branch closures are a closely related sign, indicating that all is not well.⁸ Reducing staff can certainly aid a liquidity problem, but you don't want to stick with a bank that has gotten itself to the point of having a liquidity problem in the first place.

Often times, banks that start hiking up fees, cutting their services and charging new fees are also trying to solve a liquidity crisis.⁹ This is a final sign might make you so angry that you would think about switching banks anyway, even if you naively thought the bank was safe. In addition, the bank is now just not very pleasant to work with. It is also a strategy that is guaranteed to backfire and cause more migrations in deposits, as people who had not even thought about bank runs now grow fed up and angry. Those people will start shopping around for a new bank, and new customers are unlikely to be attracted by a checking account laden with fees, when they can go down the street to get the free checking account most people expect to receive.

“If your teller gets very nervous when you try to withdraw a large sum of money, or, if there are sudden roadblocks thrown in your path, look out!”

One should also look to the behavior of a bank. If your teller gets very nervous when you try to withdraw a large sum of money, or, if there are sudden roadblocks thrown in your path, look out. Such a road block could be a bank whipping out a policy that says they can wait three days, five days, seven days, or ten days to give you your money, and that you have to make a deposit request in writing. This may



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be a sign that the bank is having a severe liquidity crisis, that it is afraid of sparking a bank run, and that it is hoping to hold on to every cent it can. Above and beyond that, having to wait three days or more to get a deposit that rightly belongs to you is simply unacceptable to begin with. You should then get everything out as quickly as you possibly can. These roadblocks can also be a sign of an impending currency collapse, economic crisis, or other scenario where your money is in real danger.

Here is a story told by Fernando Aguirre, author of *Surviving in Argentina*:

I went to the bank with my mother and sister to close our accounts. My parents are accountants and they could see something was going down. They had been hearing rumors and decided to do the safe thing and at least take some of their money out.

“Sorry,” said the lady at the bank. “We don’t have that kind of money available right now. Would you like to try tomorrow?”

“Wait a minute,” my mother told her, “you’re telling me you don’t have \$1000 in the entire bank?!”

Apparently they didn’t, or they didn’t want to give it to us.

The same day we went down to their central bank and closed all of our accounts.

Folks, when you are in doubt, try that, just for an experiment.

Drop by your bank and tell them you want to close your account. Look at their face. Worried expressions and sweaty foreheads aren’t good.

If the person says, “okay” and tells you to wait a minute, then tell them you just decided to leave it there if you don’t actually want to close your account.

But if the employee starts trembling and coming up with excuses, that is NOT good. Move fast and get as much money out as you can.¹



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The experiment and the principle work equally well for a small, localized crisis such as the failure of your bank alone, or several banks at once, and for a large, national crisis like the collapse of an entire currency. In fact, if you see these signs, none of the other signs matter. Get your money out no matter how healthy other indications might make your bank appear.

An Alternative to Big Banks



Taking all of your money home and shoving it under a mattress or into a wall safe isn't practical or realistic for most people. While there are good reasons to keep cash stashed in your home, there are still compelling reasons why most people will want to keep bank accounts open. Those compelling reasons are why banks stay in business at all, and they are only helped by the electronic age. Bill payments, security, the need to manage large amounts of money, direct deposit, and the fact that some products and services are not available if you do not at least carry a debit card are some of the reasons why you're probably going to need to stay with some kind of financial institution.



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You may not love that concept, because you may rightly be suspicious of fiat currency and electronic banking to begin with. You may feel uneasy knowing that there's probably some kind of RFID chip in your debit card that would theoretically allow someone unsavory to track your location, and does allow some identity thieves a way to get at people's bank balances from time to time.

However, if you bring every cent of your money home and a robber takes it from beneath your mattress you've lost it just as surely, and without so much as an admittedly shaky insurance policy to cover it.

If you do wind up having to move your money because your bank is failing, you're going to have to take a moment to consider your options, and to at least choose a financial institution that is going to serve you better. If you had your money in a big commercial bank before, you might consider taking your money over to a credit union instead. Though all credit unions have their entry requirements, there is likely to be at least one near you, and for whose accounts you would qualify. You should, of course, check them out on all of the same website resources mentioned above before committing any of your money to their hands. Credit unions can fail too, but they don't fail quite as often as banks do.

Credit unions don't have shareholders, so they aren't concerned with turning a profit by engaging in risky activities. This is because credit unions are non-profits, so the money goes back to the community, to employees and members, not to men of questionable ethics who greedily control world events and play with people's lives. At the same time, credit unions are able to offer many of the same services that banks offer.¹¹ It's not that you won't notice the difference, you will, but, the difference will be positive.

For one thing, most credit unions don't charge the same kinds of fees that banks charge. Many of them reimburse things like ATM fees, and some will even call you when your account goes into overdraft status, giving you the chance to resolve the problem before they hit you with a costly overdraft fee. They often provide better customer service, and sometimes waive loan fees that would cost the typical bank patron tens of thousands of dollars. Credit Unions also weren't the recipient of billions of dollars stolen from the public during hair-brained "bailouts," which at least gives them the moral high ground.



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Any given credit union is going to have a smaller dollar figure in deposits than any given huge corporate too-big-to-fail monstrosity. However, those credit unions aren't doing the same things with their money. They are making loans, but they take the time to make sure that they give out loans to people who can afford to repay them. They aren't out borrowing money themselves, which the too-big-to-fail banks did in their lust to leverage billions of dollars in CDOs prior to the financial crisis of 2008. The small estate that is managed wisely is a better bet than the big, flashy, glitzy estate that plays fast and loose, and all but encouraging their employees to take bad risks and lie to their customers.

You will not get FDIC insurance at credit unions. Instead, you will get NCUA insurance, which is essentially the same thing. Neither form of insurance is entirely much of a comfort, but it's better than nothing. You are certainly no worse off with NCUA than you would be with FDIC.



CHAPTER

3

**WHEN DOES
A BANK RUN
START?**

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WHAT TO DO IN A **BANK RUN**

You must be able to identify whether or not a bank run is starting, or in danger of starting, if you're going to position yourself to do the right thing during this unique man made crisis. Bank runs can happen quickly, even if you have taken steps to identify whether or not your bank should be safe. Therefore, you should keep an eye out for other warning signs as well.

Earlier in history, signs of a bank run were very visible, partially because there was less technology. You might have seen long lines forming at your local bank, heard unrest, seen an ad in the paper about trouble starting with this or that bank or heard something from a neighbor, or friend. Today, banks take bank runs much more seriously and do what they can to suppress any rumor of trouble. It is unlikely to see people lined up in the street, and by the time you do, it could be too late.

Fortunately, there are still places you can look, and there are still signs to watch. Hopefully you will have done some preparations ahead of time, because the truth is that no bank is safe. They are all fundamentally insolvent. Your confidence and willingness to keep playing their game is all that keeps them going. However, if you find yourself caught off guard, you might get more lead time than your grandparents got during the 1930s, more lead time, even, than the unfortunate account holders got during the Savings and Loan crisis of the 1980s. You will still have to act fast, though.

Bank Jogs and Invisible Runs

Electronic banking and direct deposits have changed the face of the modern day bank run. Technology has created some factors that slow bank runs down a great deal, and some factors that could make a bank run strike almost overnight, with very little warning other than sudden decisions by the bank to freeze accounts or limit withdrawals. One of these situations is known as a "bank jog," and the other situation is known as an "invisible bank run."

The advent of direct deposit and ACH direct billing has acted as a slowing factor on bank runs. Someone who contemplates withdrawing all of their funds and closing an account wouldn't be finished if they simply withdrew that money. That person



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would have to fill in new direct deposit paperwork at their places of employment with their new bank account information, or process a request to begin receiving physical checks, if physical checks are even an option that the employer offers anymore. Some employers process this information very quickly, quick enough to keep any other money from falling into the old bank's hands. Some employers can wait



two to three weeks to process the request, which means the person who would like to flee the bank is going to have to wait at least that long to receive his final paycheck before closing the account. This means that the money dribbles away from the banks, instead of fleeing from it. In the meantime the person who wants to close the account may have to contact several creditors to give them new banking information. This is something that will have to be timed carefully and done slowly if that person is living

from paycheck to paycheck, as many people are.¹² Many more people may just hold out for a merger, the practice of larger and more stable banks snapping up smaller troubled banks, which has certainly become very common practice. In any event, it would take many people a month or more to completely divest themselves from that bank. The bank is certainly in trouble all the same, but it has more time to react and perhaps to save itself. These “bank jogs” aren’t good news for you either, but they’re not quite as difficult to navigate as old-fashioned bank runs.

The bank jog, which is closely linked to the invisible bank run, is a product of the digital age. At the touch of a button, you can transfer your money anywhere, whether it is to another bank, into a PayPal account balance, to a gold-backed debit account (if you have a sufficient minimum balance and the right paperwork), or even to a foreign account. You would see no television crews, no photographers, and no panic in the street, because it would take place in secret, before anyone else knows and before the bank could adjust, or so you and everyone else attempting the maneuver



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would hope. As long as it all gets done before the bank shuts down or freezes everyone's account. It is invisible, and it gives banks and government agencies the ability to lie about what is going on.

We have entered the age of the invisible bank run and are waiting for the first virtual panic.

An invisible bank run is a hard thing to watch; not only is it less telegenic than the old fashioned kind, one relies on numbers from official government agencies for statistics. How much money left in the banking system today? How many banks need emergency liquidity to meet the tide of withdrawals? In the old days, reporters could and did watch lines form outside the banks and watch armored trucks arrive with cash. These days, it is happening anonymously and you only know what they tell you. They are very unlikely to tell you the truth. Officials lie like rats during a time of financial panic.¹³

Either scenario creates a situation where you won't necessarily know for sure if a bank run is going on, which requires you to look in other directions to find out if trouble is coming.

Spotting the Modern Day Bank Run

Fortunately, there are still three places you can look for signs that a bank run may either be happening or on the way. First, pay attention to what the rich are doing. Subscribe to a few investor newsletters, even if you don't have the kind of cash they are playing with. Watch for advice that tells the rich to move their money overseas or into foreign bank accounts. You can also watch foreign exchange markets. Right now, all currencies are shaky, but you might see a spike in Chinese yuan if the dollar looks shaky, as the Chinese are making aggressive moves to buy up gold, perhaps in an effort to become a new world reserve currency. The rich may move their accounts to foreign accounts to avoid taxes, but it's just as common in times when there is danger of economic collapse. In fact, this was one of the first signs that Argentina was in trouble back in the early 2000s. You can also look at hard assets market trends in the prices of gold, silver, platinum, lumber, oil, farmland, art,



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collectables and jewels. When there is blood in the water, the rich tend to start converting their wealth into hard assets before anyone else does.

Next, it is a good idea to keep an eye on the international news about the financial status of your own country and banks. The American media isn't likely to tell you anything is wrong, but that doesn't mean that an Australian or other foreign publication won't happily report the trouble, since they have little at stake.



Every currency in the world is in some sort of trouble.

Finally, you should watch one source that's almost a secret, back-door source that you might not have thought to watch: the Internet. Use the free Google Keyword Research tool to do a search on the keyword: "Bank run". If the keyword starts trending in popularity, a bank run could be happening somewhere. Right now, for example, the "bank run" keyword is trending at an all-time high, hinting at the dangers of several bank runs in Greece and Spain that threaten the Eurozone as a whole.¹⁴ Don't think you're out of the woods if the news is about bank runs in some other country, as we live in a global economy. Bank runs in Greece could theoretically spark bank runs in America, and they are all bound together in a series of incestuous stock ownership options to begin with. In truth, about 400 core companies own nearly every other company in the world, which encompasses banks in Greece as well as banks in the United States.

In addition to these three resources, you should trust your own intuition. If something feels wrong to you, it probably is. In the next section, you'll learn a few



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more signs that your own bank might be in real trouble, since the banks start acting certain ways when they feel threatened by the possibility of a bank run.

Marking the actual start of a bank run today is totally impossible, and it always was. All we were ever able to mark was the point of panic, the point when people were on the verge of rioting in the streets to get to their money. We can mark the protests and we can mark the day that the bank closes its doors. But, nobody can really pinpoint the first few people who might have sparked the bank run, or how a few individual decisions would become dangerous mass decisions. There is simply a point of critical mass in people's decision-making processes that suddenly leads a lot of people to take action at the same time. As with any trend, the early adopters tend to gain the most benefit, and those that adopt the trend at a more normal pace may be in for a rough ride. Those who lag behind entirely could actually lose every penny of their hard earned money. If you have not done any advance preparation at all, you are going to need to do everything you can to place yourself firmly in the "early adopter group," and that means watching the signs and making reasoned, analytical decisions based on what you see.

You could, of course, be wrong. However, if you are wrong, you'll be wrong with your money in your hands and the ability to move it. If you wait and you are wrong, you will be wrong without any money at all, facing a disastrous personal financial situation from which you may never recover. When it comes to banking and your money, it is more than okay to err on the side of caution.

There are those who will try to guilt trip you by suggesting that you will be the sole cause of a bank run for taking action. Don't listen to them, because your money is your money to steward and protect. You can move it to keep it safe for a multitude of reasons: because you have ethical issues with your bank, because you fear for hyperinflation, or because you want to use all of it to buy something. A bank is ultimately responsible for a bank run, not a consumer who is doing the smart thing by trying to protect his own home and family. You should never feel some greater obligation to try to "protect the economy" by acting in the bank's best interests, instead of your own.

CHAPTER
4

**CONSEQUENCES
OF A
BANK RUN**

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What happens after a bank run has finished? If you asked most Americans, they'd tell you that the FDIC, or a similar insurance institution, would simply return the money in short order. However, recognizing that you cannot rely on the FDIC, or on any other government agency to help you is one of the best lessons you could possibly learn about bank runs.

Why You Can't Rely on the FDIC

The FDIC is just as insolvent as all of the banks are. This isn't the voice of alarmism. In 2009, FDIC Chairman Sheila Blair actually admitted that the FDIC was on the verge of going broke, which would have rendered them unable to cover all of the bank failures that took place in the wake of the mortgage crisis of 2008. That time, the FDIC solved the problem by slapping the banks with a large fee that wiped profits out from many of the smaller banks.¹⁵

At any given time, the FDIC only carries a very small reserve of all the deposits that it insures. It is not required to hold 100%, just as no regular bank is required to hold 100%. They enjoy a \$100 billion line of credit from the United States government in case they run out of money. But, even that credit line would not be enough to cover every deposit if all or most of the banks failed. The FDIC only has enough money to cover about 2% of all that it has promised to insure. This is based on the logic that all of the banks cannot possibly fail at once, which is the same logic that gets the banks themselves into trouble when it comes to bank runs.

Now, consider the fact that as of 2012, one out of every ten banks is considered to be an FDIC "problem bank". You can't read the "failed bank" list to be sure of where your bank stands, but you can read a list of every bank to whom the FDIC has issued "orders of corrective action". The list is issued on a monthly basis, and is extensive. You will find this information in the News and Press section of the FDIC website.¹⁶

Consider the fact that bank runs tend to spark other bank runs. It is entirely possible that 10% of all banks could be subject to bank runs and failures within a



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very short period of time, and the list of problem banks, failing banks, and banks likely to experience a bank run would only grow.

If the FDIC gets in over its head, the government would likely scramble to issue a bailout, creating even more debt and printing even more money to cover it, destabilizing the dollar even more and threatening to cause inflation and hyper-inflation.

In other words, if you are relying on the FDIC to take care of you, and that is your only plan, then you are relying on a broke government to save a broke insurance commission that is supposed to ride in to save the day when a bank goes broke. In fact, during the 1980s, the FDIC absorbed the responsibility of a similar insurance fund that failed for the very same reasons: the Federal Savings and Loan Insurance Corporation.





The Savings and Loan Crisis of the 1980s

In 1978, 1980, and 1982, deregulation changed the ways that savings and loan banks, or “thrift” banks were allowed to do business. Rather than using this power in a responsible manner, the Savings and Loan (S&L) industry began to engage in risky gambles with other people’s money, gambles that were, in many cases, criminal in nature. By May of 1985, state-sponsored S&Ls in Ohio and Maryland were failing, and federally insured S&Ls around the country were also in big trouble. Bank runs were a common sight, and before the crisis was done, over 1,000 S&Ls had ultimately collapsed.¹⁷

The Federal Savings and Loan Insurance Company (FSLIC) found itself on the hook for \$20 billion, with only \$4.6 billion in their coffers. By 1987, the Government Accounting Office named the FSLIC “insolvent”.¹⁸ Of course, by any sane person’s definition, the FSLIC was insolvent long before it owed 434% more than it could pay, but the wheels of government do work slowly.

Who was on the hook for the remainder of the money that rightfully belonged to the depositors involved with the S&L? Why, the taxpayers, of course. The same sorts of “bailouts” that happened during the 2008 mortgage crisis were offered up to the federally insured savings and loan banks. The FSLIC was first “recapitalized” to the tune of \$10.8 billion, and then was closed down. The rest of the obligations were shunted into the FDIC. Meanwhile, the depositors were essentially charged to get their money back through the magic of taxes, and the rest of America was charged right alongside them.¹⁹ Very few of those who were ultimately responsible were ever brought to justice.

Those who had federal insurance were the lucky ones. State chartered S&Ls, like the ones in Ohio and Maryland, were covered under state insurance programs, not federal, and those state sponsored insurance programs largely collapsed. In 1986, for example, state-sponsored insurance in Ohio owed deposit holders \$320 billion in insurance that was never paid. The state was ultimately left holding the bill.²⁰ If it had happened today, people in Ohio would be in trouble, because Ohio, like most other states, is in severe financial trouble of its own. Today, you simply won’t find any state sponsored S&Ls, but that shouldn’t make you feel any more secure. You’re



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working within the same shaky structure that is built on the same house of cards. The country itself has fewer and fewer resources to absorb further debacles.

A significant enough banking crisis, like what is now quietly brewing, could lead to a complete collapse of an already wounded financial system, and the FDIC would be likely to be overwhelmed completely in a mere matter of days.

Common Responses to Bank Runs

You can expect several things to happen during and after bank runs. Not all of these responses happen during every situation, as much depends on the severity of the situation and the reasons behind it. Therefore, these responses are presented in the order of least to most severity. In a very severe crisis you can expect to see all of these responses. During a more localized bank run, you might only see the first of these.

It will not take very long for a bank or a series of affected banks to close their doors. They will simply have no choice but to do so. They won't have the money to hand

out to depositors, and angry people fearing for their futures will tend to grow restless. This is not to say the bank is on a moral high ground for doing this, but the bank is out of options by that point. If your money is still inside of that bank when the doors close, you won't be able to get at it for a little while, and you can expect your accounts to be frozen electronically as well.





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Your debit card will stop functioning, and you won't have access to any cash you weren't already carrying. If the failing bank issued any of your credit cards, those credit cards will be frozen. If the bank run was part of a larger financial crisis you can expect all of your credit cards to stop functioning. You can also expect to see a drastic reduction in the number of shops who are willing to take them, since the money from your credit card payment is issued to the merchant from that failing bank. If the bank doesn't deposit funds into the merchant's account when the merchant runs a "batch" for that day, then your credit card purchase has handed the merchant a worthless slip of paper, and not much more.

If the FDIC is still functioning and is able to absorb the crisis, and the bank fails, you can expect to stand in a very long line to get your hands on your money. You will be reimbursed up to your insurance limit of \$100,000. Sometimes, the FDIC will help you set up an account at another bank, allowing you to simply transfer the money rather than forcing you to carry such a larger sum in cash. The FDIC isn't worthless, it's just on shaky financial grounds. You can't rely on it, but, so long as it is functioning, you might as well make the most of it. If the crisis is localized and is just a matter of your bank and maybe a few others, this is as far as the bank failure will go. However, if banks are failing due to currency collapse or widespread economic distress then you can expect to see still more consequences.

When the banks reopen, it is likely that you will see withdrawal limits. In Argentina, the limit was \$250 per week. This was known as a *corallito*, which was Spanish for corral. In truth, those who could afford to get \$250 per week were in better shape than most people, whose statuses typically fell from middle class to poor, and from poor to indigent. You can also expect the government to potentially declare a new currency unit that will be vastly inferior to the old currency unit. Life savings will be wiped out in a matter of days or weeks, and you will never recover whatever wealth you lose during the transition. The government will simply change the laws to make this wide scale theft legal.²¹ You can expect to see the failure of the FDIC, and probably another massive bailout—for the banks, not for you.

You'll likely see a lot of unrest in the streets, because the government and the banks would have stolen a lot of money by that point. Anyone rich enough to receive advanced warning would have left the country with their money already. During



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Argentina's collapse, several of these individuals were caught on camera taking suitcases stuffed with American dollars out of the country.²²

As we've mentioned, the dollar doesn't really have anywhere to run if it collapses, at least, not today and not on paper. However, the collapse of the dollar would probably spark the collapse of the global economy. The powers-that-be would most likely turn to a plan that they've been bandying about for some time, which is the rise of some sort of global currency. You'd see the shift in your bank accounts, as other nations have, and you'd probably see a severe reduction in your buying power at the same time. If this isn't worry enough, this maneuver would give global elite unprecedented power—the same elite who have mismanaged and toppled economies for their own gain again and again.

This is no time to be caught asleep at the wheel. Bank runs and bank failures are already happening, both in this country and all over the world. There are good reasons to assume that there will be even more of them, and even good reasons to assume that the crisis could reach epic proportions. Don't let normalcy bias, or a sense that "it will never happen to me" prevent you from opening your eyes. Read, watch, and pay attention to the news, the reports, and the financial winds that are blowing. There are some people who are too heavily invested in lies that all is well. They won't tell you the truth, but that doesn't mean that the truth isn't out there if you are ready to do the work of looking for it.

It's time to get prepared. Next, we'll show you exactly how to brace yourself against a bank run or a widespread bank run crisis. We will also show you exactly what to do if you don't take action in time, and instead find yourself sailing through a financial storm with insufficient resources.

CHAPTER
5

**PROTECTING
YOURSELF IN
A BANK RUN**

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If you want to protect yourself and your assets from the next bank run, you need to start taking action now. You start running out of options as soon as the bank run starts, even during the age of the “bank jog”. When the bank run starts, you are in a race against time, and the question is if you can act quickly enough to beat the bank’s response. When you act first, you act on your own terms. Here are a few steps that you should be taking.

Think about moving to a credit union now. Be sure to research any credit union you are considering, evaluating it for soundness the same way you would evaluate the bank you might be with right now. At the very least, this will tell you that your money is not exposed to the same level of risk, as it would be locked up in a big corporate bank.

Make sure all of your accounts hold less than \$100,000, which is the FDIC limit. So, if you are fortunate enough to have more than \$100,000, take out the difference and move it to a new bank and a new bank account. Not only will this diversify your bank accounts, but it also ensures that every dollar you own remains insured for as long as the insurance remains functional. Again, just because you can’t rely on the FDIC, does not mean you should not use it to your advantage. It’s fine to use it as a tool in your arsenal so long as it’s not the only tool in your arsenal.

Withdraw \$200 to \$1000 in cash and stash it in your home. Mark this cash out as being for emergencies only. This is cash that you should keep available, in case your bank account is frozen, in case ATMs are going dry, in case credit isn’t accepted. It will allow you to buy groceries, get to work, and keep your life functional until things start running smoothly again. If you don’t make much money, put aside \$10 per month till you reach the \$200 mark. It’s simply important to have some sort of liquid asset available to you.

Some people take this principle a step further; they avoid keeping any access cash in the banks. They use their bank accounts exclusively for paying monthly expenses and using paychecks. There are several ways to hide cash all over your home to reduce the security risk, for example, you could create caches to store excess cash. Remember, in most bank run scenarios you are still going to want to get your hands on money. If you’d like some excellent ideas on how to hide your cash (and any other assets that you might want to hide) then check out the [*Hide Your Guns*](#)



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publication from Solutions from Science. A criminal would be hard-pressed to find everything you own if you take the time to build innovative hiding places.

Stock your pantry with extra food, water, toiletries, and other supplies. Doing this reduces your need for immediate cash in the event of a bank run. If you can eat out of your pantry when accounts are frozen, then you can hold on to the cash for paying rent, paying your mortgage, obtaining medicines, or meeting other needs, just in case the freeze happens at a truly inconvenient time. You'll also be a lot calmer during a crisis when you know that you and your family will be able to eat. Desperation leads to serious mistakes and fruitless actions, and a lack of food will cause desperation sooner than any other scenario you might face. This has the added benefit of making you ready for just about anything else, including unemployment during an economy thrown into even greater crisis by bank failures that might not otherwise touch you. Strive to stock up for a year, but even a month's worth of extras could make a significant difference in how well you weather the financial storm.

If you've got the space, start a garden. Learn to make or repair things that you might need so you don't need to buy new. Food that you grow yourself, clothes that you sew yourself, and furniture that you build yourself are all part of the "informal economy". People who are deeply involved in the informal economy can be quite rich while seeming very cash-poor. Step into the informal economy by going off-grid, as much as possible, and embracing a mindset of self-reliance. There is a great deal of satisfaction to be found in this informal economy, and those who stop to learn more about it often find they have more time and a richer lifestyle than those who continue to exclusively play the rigged game tables that the government and the bankers of the world have offered to the populace.

You should also look to personal security, since crime increases during periods of intense financial unrest. This is especially true if you have time to prepare. You'll have things that people will want, things that people will be desperate to get their hands on, so make sure that you do everything you can to fortify your home.

Convert some of your wealth into hard assets. There are two classes of assets where you should focus. First, look to precious metals. You do not have to buy a full ounce of gold if you don't have the resources to do so, because you could invest in pre-1964 quarters, half-dollars, silver dollars, dimes, and nickels. This is referred to as "junk



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silver,” which offers you small denomination currency that just about everyone will accept, and that nearly everyone will understand their value, relative to the price of silver. Some merchants, even now, accept silver directly as payment. If none of the merchants near you do so, even during a bank run crisis, that’s okay. You can take silver and gold to a dealer and exchange them for whatever the going rate is that day, spend the money quickly, and get what you need for your family. That’s what money, in any form, is ultimately all about—getting you and your family what you need.

If you are worried that the government might start confiscating gold and silver to force people to get on whatever new fiat currency they decide you should be using, then you should think about exploiting a little known legal loophole. Even during America’s last major confiscation in the 1930s there was a specific class of coin that was excluded: numismatic coins, or collector’s coins. Numismatic coins do not always cost tens of thousands of dollars. There are some solid options that give you both silver melt value and the kind of historical value that should protect you from government interference. If you want to learn even more about protecting yourself through numismatics and bullion, try our guide: [*How to Profit from the Coming Numismatics Explosion*](#).

The second class of hard asset that you should consider is real estate. There are two types of real estate worthy of your focus. The first is farmland, where you can either start a small subsistence farm to help your family eat during hard times, or you can rent it out to other farmers who can then pay you a portion of their crop in either food or money. Apartments, duplexes, triplexes and fourplexes are also good investments. As more and more people lose their homes, especially during sweeping financial crisis, they will be forced to turn to renting. If you have the means to be a landlord, you can ensure that you will always have a steady stream of income.

Consider starting your own business or creating a stream of income that doesn’t necessarily rely on getting a job from another person or company. This, of course, doesn’t have anything to do with bank runs directly, save that it shields you from the sweeping economic consequences of widespread bank runs. When you do this, you can create your own economy, independent of the overall economy. To do this, you must of course offer something of value that people want or need. This works



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best when you can sell into a global economy, when you can sell to the world you can find a broader pool of clients and customers. There will always be someone with the means to purchase your services, so long as you are able to position yourself in front of them.

What if you are caught unprepared?

It is always possible that something will happen before you have a chance to complete your preparations. Life gets busy. You might intend to make the changes listed above and just never have the chance. Life is also unpredictable.

If your bank starts failing before your eyes and you haven't managed to do anything, do not run down to the nearest branch and join the throng of angry, rioting customers. That is a good way to get hurt or arrested.

If you are looking at the failure of a single bank, then do not panic at all. Try to figure out if you can survive without cash for a few days to a week. One bank won't strap the FDIC, and you should have access to your money again soon. It's also possible that another bank will buy your bank. You might not like the new bank, but you will at least have time to move your money to a better bank later.

If you can't wait on the FDIC, make some electronic transfers, quickly, to another bank or another account if you can. You can even transfer funds to a prepaid Visa card if you don't have another bank. Find an ATM and quickly make a withdrawal, if the option is still open to you. Withdraw everything you possibly can, right up to the limit of what you own or what your card will allow you to withdraw for the day. If there are long lines at every ATM machine, skip it. You'll need to approach things from another angle.

Find everything of value that you can do without. Find old jewelry, collectibles, art, and comic books in good condition, or anything. Take them down to the nearest dealer and sell them. You'll benefit because you will be where everyone else isn't, and you might be able to get your hands on the money you need. Unless you've been holding on to it for years, you are likely to receive far less money than you paid



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out to buy the item in the first place. But, that doesn't matter. What matters right then is liquidity. This is also the step you will have to take if you are staring down the barrel of widespread bank failures or currency failure, in a scenario where the FDIC is likely to go bankrupt and inflation is on the way.

In fact, if you think your currency is likely to become worthless, get down to the store as quickly as you can. Convert it to the hard assets you will need most, food and water. In hyperinflationary conditions, basic services like city water can get interrupted even if you can pay the bill, so don't neglect the water. Be ready for crowds. Not everyone will respond as quickly as you are responding, but many will be paying attention and will be just as worried as you are.

Finally, don't panic. You are not your money. Faith in God is an excellent way to weather financial storms while maintaining your sanity and your positive attitude. While self-reliance is the goal, trust God to protect you if you mess up. Keep your eyes open for opportunities, roll up your sleeves, and prepare for hard work. Get to know your neighbors and learn to barter with them. Start rebuilding, even if you seem to have lost everything. Our culture is in trouble because it worships money over God. Place your heart in the right place and you will prosper, no matter what happens.



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