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Bank of America: Is Bigger Always Better?

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Happy New Year! ???

Late one evening Aaron Ferguson settled into his chair on an early January 2008 workday. Fresh back from his Christmas vacation to Tennessee, the West Virginia sales leader of Countrywide Home Loans was equally excited and uneasy with the news he received. Bank of America was buying Countrywide. He was unsure what to expect from the acquisition and how it would affect the client base, not just in West Virginia, but Ohio, Kentucky regionally, but also from pockets of Tennessee and Florida.

It was always widely known to Ferguson and most Countrywide employees that Bank of America had been a heavy investor in Countrywide's operations. The expected announcement that Bank of America was buying the financially strapped mortgage firm had come as no surprise to him or anyone really. Large numbers of questions were posed to Ferguson from his staff of loan officers. He did not have answers. These same questions that his staff had posed to him were the ones that were weighing heavy on his mind.

The first question his staff had was whether they would have a job. He was fairly confident that would not be an issue. The consensus from his talks with his superiors in Plano, Texas led him believe that Bank of America wanted a large mortgage volume generated. He knew that there is very little overhead in a mortgage, and it is covered in the closing costs when a loan is successfully approved and closed. Countrywide Home Loans, he knew, generated more mortgage volume than any other firm in the market. Talking with his peers, he knew companies such as American Home Mortgage and GMAC Mortgage were in severe financial trouble. Both would eventually close their doors within eight months. Although his company was operating in an environment that was shrinking, the loss of competing firms gave him hope that the loss would give his firm stability. If the employees were to keep their jobs, they were concerned over the pay plan. Countrywide had been known to adjust the pay plan constantly, which upset employees because it was rarely to the benefit on the employees. "Would Bank of America change things up yet" again is the question floating throughout the office and the other branch offices around the country.

If the home loan consultants, Countrywide's title for loan officers, were to get paid on any pay plan, the loan officers would have to be able to close loans in a timely manner. Ferguson's staff knew that their mortgage loan pipelines were only filled if the local builders and real estate agents were satisfied with the loan process from the initial meeting with their mutual clients through the final closing at the local title companies and law offices. He knew that Bank of America had never managed a mortgage division that was the size that it had just added to its fold in Countrywide. He was not sure how the processing of the files would be affected by this change and had done his best to reassure his staff. Now he had to put on his public relations hat. He took a sip of his coffee, took a deep breath and began returning calls to concerned real estate brokers that had left him voicemails when the news had become public. He wondered to himself if "I was not sure of what the future held with Bank of America, what could I possibly have told these business partners." All he knew for sure is he was getting a new Bank of America sign to replace the Countrywide one for his office soon and order a new box of business cards (A. Ferguson, personal communication, October 15, 2012).

Mergers and Acquisitions—A trend realized early

Ferguson and his staff knew very little about Bank of America and its history. To research that one must look for many names in banking history. This is not a story that starts off with the words “Bank of America was founded in the year (insert year here) by (insert name here). It is not that easy with this megabank. Bank of America is an amalgamation of many other institutions that have become part of this giant over the past three centuries.

Looking back into the 1800s the foundations of Bank of America were laid in Charlotte, NC in 1874. The Holt family was a large player in the region’s burgeoning textile business. Edwin M. Holt founded the Commercial National Bank in the southern North Carolina city. Soon thereafter Jesse M. Spencer had taken the position of leadership within Holt’s bank. Spencer along with the Holt family and another textile family, the Johnsons, worked together to grow Mecklenburg County’s Mills. It was a great match along with great timing. Charlotte was a growing city. In the decade of 1900-1909, the population nearly doubled. The industry grew in the same period to 240 percent of what it was at the beginning of the century. The industry growth fed and fed upon the economic boon that Charlotte was experiencing. Commercial National Bank was a beneficiary of this. By working with the textile magnates, CNB helped grow the city (Hanchett, N.D.).

Thirty years and nearly three thousand miles away from the founding of Commercial National Bank the Bank of Italy came to be in San Francisco, California. Amadeo Peter Giannini formed the bank with the initial plan to create a place for immigrants to have a place to be able to do their banking. (Burt and Rothaermel, 2013). He was "was the greatest innovator in modern banking … He opposed the aristocratic notion of banking with its formality, conservative policies, and high interest rates" according to a submission to the United States Department of the Interior by Ralph Christian of the American Association for State and Local History of Nashville, TN (1977). He did things a bit different for the times. He actually placed advisements to try to draw business his direction for both borrowers and those who would make deposits. Even more unheard of he employed a door-to-door marketing team to drive business his way. The goal for this campaign was to introduce the nonwealthy to banking and encourage them to use his bank. Many of these were part of San Francisco’s immigrant population. It worked as the nontraditional bank customers were becoming customers of Bank of Italy (Christian, 1977.)

This, however, was not his ultimate goal. Giannini wanted a large and powerful bank. He was not satisfied with just small and friendly bank branches. In order to do this, Bank of Italy would take over existing banks all the while it grew by natural means. These takeovers and mergers led to Bank of Italy taking many names. 1922 was the first time that Giannini’s bank used this strategy. Banca dell’Italia Meridonale was his first target. After buying the firm Bank of Italy became Bank of America and Italy. Five years later Giannini was at it again with a merger with Liberty Bank of America. A new name was created for this firm. It was Bank of Italy National Trust & Savings Association. Each acquisition seemed to make the bank's name get longer. Finally, this time it simplified things and made it more recognizable. In 1930 when taking over Bank of America Los Angeles, the resulting firm was named Bank of America. This is not the Bank of America that customers recognize today. While operating as Bank of America a holding company named BankAmerica was established in 1967., BankAmerica continued to grow and acquire other banks (Burt and Rothaermel, 2013).

Back in Charlotte the textile-benefitting bank, Commercial National Bank, did not act as quickly in the growth model of buying competing firms. Bank of Italy started doing this in eighteen years while Commercial National Bank waited 85 before taking part in this practice. Its first target was another Charlotte company, American Trust Company. Only two years went by when the newly named American Commercial Bank purchased another local company named Securities National Bank and the bank took on a fitting name of North Carolina National Bank. This is because the bank only operated in the Tar Heel State up until 1982. Then multiple purchases outside of the borders of North Carolina led to the new name of NationsBank (Burt and Rothaermel, 2013).

Both NationsBank and BankAmerica grew throughout this time. A loss from failing Russian bonds dealt BankAmerica a substantial blow. NationsBank did what both institutions had been doing successfully over time. It bought another institution. BankAmerica was the next target. It had grown to a point where it was not only an American west coast financial center, but also an international player in the banking world. Asian and Latin American markets were now part of its portfolio. NationsBank and its east coast-centric business model took over BankAmerica. It began a new holding company called Bank of America. It started operating all of the branches with the same name in 1998. This is the Bank of America that is known today. It claims the newly formed institution "was to be the first coast-to-coast retail banking franchise in the nation, which was enhanced by its global presence" (Bank of America, 2012). This megabank was not finished buying other firms after achieving this status. It now trades on the New York Stock exchange under the ticker of BAC with a closing price of $8.99 per share as of November 14, 2012 (Bank of America, 2012).

MBNA

In order to grow its credit card business platform, Bank of America resorted to its tried and true business tactic. It went out and purchased a credit card platform that was already thriving. It targeted MBNA 2005, three years before the financial crisis of 2008. It acquired the Wilmington, Delaware-based credit card issuer for $35 billion in cash and stock. This occurred soon after the Federal Reserve had given clearance for JPMorgan to buy Bank One. The deal was one that was easily forecast. Then-CEO Ken Lewis had wanted to buy a credit card company. MBNA was the only one to be had. The growth to keep up and be big was just getting started under Lewis. (Bank of America buys credit card firm MBNA, 2004).

Countrywide

The news that hit Aaron Ferguson in January 2008 was that Bank of America was buying troubled mortgage king, Countrywide Home Loans. Countrywide was the largest lender at the time. It had developed issues with loans going bad and liquidity issues. Up steps Ken Lewis with $4 billion. Countrywide is now yet another Bank of America addition. The issues are still causing Bank of America problems, and the real estate lending arm is still losing money. Lewis' thought on the acquisition was that although Countrywide was flawed, its consumer base would be a contained audience to whom Bank of America could market other banking services. That was a plan Countrywide never had the option to implement since it was mortgages only (Boyd, 2008).

Merrill Lynch

In order to be able to rival Citi as the largest banking institution in the world, Ken Lewis needed another purchase in the style of Giannini, Bank of America did not have a large investing portfolio. So in order to do so, he approached Merrill Lynch. This was a purchase that would definitely provide a global presence for Bank of America with Merrill Lynch being arguably the most recognizable brokerage firm in the world along with its blue bull logo. Merrill Lynch brought a large number of international locations to the deal. This gave Bank of America a larger footprint outside of the US. The deal closed in 2009 for $35 billion (Bank of America to buy Merrill Lynch, 2012).

The Fed

Banks do not make a finished physical product. There are no raw materials that come into the factory in Charlotte for Bank of America. There is not a factory. The raw material in banking is money. The finished product is money. The only place that can supply money to the industry or anyone is the Federal Reserve. When founding banks, the founders must supply the Federal

Reserve with a charter proposal. This shows how the bank will operate as a business, and it indicates the proposed bank's financial situation. In order to receive a Federal charter, the Office of the Comptroller of the Currency (OOC) must approve the application that includes "extensive information about the organizer(s), the business plan, senior management team, finances, capital adequacy, risk management infrastructure, and other relevant factors must be provided to the appropriate authorities" (Federal Reserve, 2012). This is a long process that can take upwards of two years. Banks who do have the capital adequacy must apply for deposit insurance from FDIC. After approval of insurance, the Federal Reserve, FDIC, or OOC regulates the bank.

Calling in the Fixers

The economic downturn of that culminated in the financial meltdown of 2008. Banks were hit hard by this, costing many their jobs. Ken Lewis was the President and CEO of Bank of America for many years, and he continued to expand Bank of America. A couple of ill-fated purchases of companies ultimately cost the long-time leader his position as leader of the Charlotte giant. Enter Brian Moynihan (Times Topics, 2011).

Moynihan, 53, comes to this position with an impressive resume. An Ivy League educated man, he did his undergraduate work at Brown University in Providence Rhode Island. Venturing into the upper Midwest, he graduated law school from the University of Notre Dame in South Bend, Indiana. Mr. Moynihan has a very strong education to which to base his decisions upon. His law degree helped him be a critical thinker, and that can persuade his employees to do as he directs. It can also help him to sell his ideas to the board of directors and investors. A New York Times profile of him says that he was not polished, but strong willed and willing to take on any challenge put before him (2011).

His career began with FleetBoston Financial. Fleet was a strong financial firm in the Northeast. They had enough power and expendable cash to be able to purchase the naming rights to the arena in Boston that replaced the historic Boston Garden and name the new building, FleetCenter. Moynihan's career began with FleetBoston. He started on the general counsel staff and systematically worked his way up the ladder, achieving various promotions. There were a small number of Fleet executives that were seen as up and comers. They were dubbed the Nifty 50. As FleetBoston went through a period of expansion, Moynihan and the other 49 were behind this growth (Times Topics, 2011).

Hoping to establish more of a foothold in the Northeast, Bank of America was back at it again, and it purchased FleetBoston for $47 billion (Burt and Rothaermel, 2013). FleetBoston was the seventh largest bank in the United States at that time thus making this takeover a substantial move in the banking world. As happens with takeovers such as this, most of the management team was fired from FleetBoston. Moynihan was not one of those who suffered that fate as Lewis and Bank of America retained his services.

Moynihan started his time with Bank of America as General Counsel then as President of Investment Banking. This gave him a working knowledge of the workings within the company. When the board and shareholders had had enough of the problems of the Lewis regime, he voluntarily left the position as he was afforded the luxury of a buyout. Bank of America had a problem after the departure of its CEO. There were no willing candidates to assume the role. The financial crisis and mortgage market woes made the job undesirable. It contained extra baggage that Lewis saddled to Bank of America. Moynihan was given this charge. He was somewhat young, had a good education background, knew the Bank of America culture, and most importantly, he was willing to take the position (Times Topics, 2011).

While claims of profitability are being made, they are not on par with those of the banks that Bank of America competes. According to University of North Carolina – Charlotte professor, Tony

Plath, Moynihan is the best person for the job right now because he has been there long enough to understand what is going on with the company (O'Daniel, 2012). Common stock shares are paying investors zero cents per share. This is thought to be exceeding expectations. Investors and the board want to see payment on their shares (Acharjee, 2012).

This is Moynihan's first time as a CEO. He has been charged with a task that is unprecedented in banking. He does not have experience in the role for a company that things are running smoothly, let alone one with the issues that Bank of America has. Plath predicts that Moynihan will be removed from his position. He feels the board will allow issues to keep building and claim that investors are clamoring for a change in leadership when a suitable replacement has been fingered. Citing the fact that Moynihan is not strong in the role and but that the board is still partially to blame for the direction of the company Plath states "he doesn't order lunch without checking with the board" (O'Daniel, 2012). He feels that Brian Moynihan's days are numbered at bank of America. Although Moynihan has the highest position at Bank of America he is not the highest compensated (exibit 1). The Chief Financial Officer, Bruce Thompson, makes $10 million and both co-Chief Operating officers, Thomas K. Montag and David C. Darnell make $12 million and $8 million respectively. Moynihan is compensated only $7 million according to the Marketline Report. This same report shows Moynihan is paid substantially less than other executives in competing firms (exibit 2)(2012).

Vision And Mission -Truth or PR fluff?

According to its website Bank of America states that its vision is:

> "Our vision is to become the world's finest financial services company. We serve clients in more than 150 countries with operations based in 40 countries, providing services ranging from investment and corporate banking to investing and equity execution services. In the United States, over 57 million consumers and small businesses enjoy the convenience of our approximately 5,700 retail banking offices and thousands of ATMs. 30 million active users count on our award-winning online banking. In the big picture, our size, capabilities and commitment represent a powerful source for creating economic value in the communities and regions in which we live and work" (BOA-Our Vision, 2012).

The vision statement given says that the goal is to be the World's finest financial services company, but the rest of the statement states how large the company is and how many customers it has. This is a vision of how big they have become today. It is more of a public relations piece than a vision of where the company wants to go as a firm or what they want to do. Under the statement, there are other headings that mention the company goals for corporate responsibility. With the current legal issues and claims of social irresponsibility that are discussed later in this study, the prominent placement of these is important. They also are more in-line with what a vision statement really is.

The first post-vision statement heading is "Supporting Our Diverse Global Workforce." This is expounded upon by talking about how all employees are valuable around the world to the continued success of Bank of America. Communications from employees to management and vice versa are encouraged. Taking care of employees has led to awards for taking care of employees, especially women in the workplace. Second Bank of America highlights "Employee Well-Being and Benefits." Training and benefits to develop the employees professionally and on a personal level is important for the company. "Training, development and Recognition" are important to Bank of America and a healthy work-life balance is also encouraged.

"Embracing the Power of Diversity" is the next on the Bank of America list. The firm states that it believes that different styles, cultures and orientations should be embraced. Multiple programs are put into place assure that the company and its employees embrace diversity. The Global Diversity and Inclusion Council, Global Diversity and Inclusion Office and the Diversity and Inclusion Business Regional Councils are put into place from the CEO down to recruiting bank tellers.

The labeled vision statement shows what the company has been about since the first time Bank of Italy took over its first bank. Each time a bank was taken over either on the east coast or west coast the foundations of today's company. That makes the meaning of the vision statement timeless. The changes are merely those of numbers and technology growth. The goals listed along with the vision statement are definitely newer-aged with work-life balance and diversity being center stage. These can be used to promote the company as a place to welcome all types to be able to hire the best employees and the program helps to ensure that the company is protecting itself from lawsuits (BOA-Our Vision, 2012).

Industry Concerns

The United States has been in a financial crisis since 2008. This has made the landscape that banks operate within more difficult than it was prior to the meltdown. To understand the environment in which that the banks are operating, one must look back to see what caused the meltdown. Looking back at Aaron Ferguson's situation is a good place to start when trying to discern the basis of the problems.

Countrywide Home Loans, along with other mortgage institutions, played a major role in the economic downturn of the 2000s. There is much debate as to the why this is. One major suspect by many is the Community Reinvestment Act (CRA). This Act is from the 1970s. What it requires according to the Federal Financial Institutions Education Council is that financial institutions must be periodically evaluated to make sure that the institutions are meeting the financial needs of the lower and medium income people in their areas as well as those wealthier, more desirable customers. It was believed that these institutions were ignoring customers. What these evaluations impacted were the "institution's applications for deposit facilities, including mergers and acquisitions" (CRA, 1977).

Banks are required to find ways to work with these low to moderate income borrowers. Some financiers such as New York City Mayor, Michael Bloomberg feel that Congress puts too much pressure to lend to the lower income borrowers adding risk to their portfolios. In an article from the magazine, Capital New York, Azi Paybarah caught up with New York City Mayor, Michael Bloomberg, when the Mayor was addressing a November 2011 business breakfast in midtown. Bloomberg and other former New York Mayors were in attendance. This was during the occupy movement that included the beginning of it on Wall Street in Bloomberg's city. The protestors were directing their anger and protest toward the large banks. Bloomberg, a long-time banker himself, addressed the issues the demonstrators were raising. He said that Congress forced lenders to give mortgages to borrowers "who were on the cusp,"(Paybarah, 2011). While he acknowledged it was a positive move for those that were able to achieve the dream of home ownership and keep those homes, there were many loans that need not have been written and approved. Mayor Bloomberg went on to say:

> "… They (Congress) were the ones who pushed Fannie and Freddie to make a bunch of loans that were imprudent if you will. They were the ones that pushed the banks to loan to everybody. And now we want to go vilify the banks because it's one target, it's easy to blame them, and Congress certainly isn't going to blame themselves (sic). At the same time, Congress is trying to pressure banks to loosen their lending standards to make more loans. This is exactly the same speech they criticized them for" (Paybarah, 2011).

Answering why bad mortgages affect the economy helps explain why the banking industry's in the position is what it is and why firms such as Bank of America are now constrained by the results of those actions of the past. The consumer advocacy website, The Truth About Mortgage shows how a mortgage works in the current business climate. When mortgages used to be written, a loan officer wrote the loan. The bank's underwriter approved the loan after reviewing the documentation, and the borrower closed on the mortgage with the lender. All the risk was on the bank. Banks today do not want to bear that risk. If Aaron Ferguson or his staff originated a mortgage application and it closed Countrywide Home Loans did not assume the risk of the mortgage. This risk was sold off in the form of mortgage-backed securities. Basically, as soon as a loan is closed it is placed in a group of many mortgages and it is traded on Wall Street. The servicing is still handled by the originating company. The customer is none the wiser to the fact that they have been sold off. If they sold off their risk, lenders were less likely to underwrite the loans as strictly. It also allowed them to be more aggressive with what they approved (What Caused the Mortgage Crisis, N.D.).

This lack of risk and aggressive need for loans also opened the doors for lenders to find others to bring loans to them since the risk was elsewhere. Mortgage brokers also originated loans in the name of other lenders. One of most popular ones was Interfirst. This was the mortgage arm of the Amalgamated Bank of the Netherlands-Amsterdam/Rotterdam. Citi Group purchased ABM-AMRO's $9 billion in assets and $240 billion in 2007 (The Street, 2007). Lenders like InterFirst allowed the brokers that wrote loans for them be underwritten and processed partially before the files arrived with them. Brokers whose only allegiance is to the volume of loans they close can resort to some unscrupulous moves by those who are willing to do unethical things in order to pad their paychecks. Altered documents and falsified information have known to be submitted to the lenders by brokers. The brokers or the lenders did not realize this risk. The purchasers of the infamous mortgage backed securities assumed the risk (What Caused the Mortgage Crisis, N.D.).

News outlets caught on to the overvaluation of property values. The way that this happened is partially out of job security. The Truth About Mortgages explains that appraisers that came in short on what they felt the value of the houses were could be coaxed into finding a value that better fits the needs of the deal that is on the table. Loan to value is one of the key ratios that lenders use when underwriting a loan. This is a simple ratio that compares the appraised value of the home to the loan amount. If the ratio was too high, another comparable property would have been requested from the appraiser. This was to try to bolster the value assigned to the property. While this did give a false value of the home at the time, with the swift appreciation of the values of the homes the value caught up quickly. Appraisers also rely on repeat business from lenders and real estate agents. If the values were perceived as too low on a consistent basis, the appraiser's services would no longer be requested, as the competing firm would receive the business. This worked fine as long as property values climbed covering any wrongly valued homes on the market. People would also buy homes, do little improvements, and sell them at inflated prices to make a quick profit. (N.D.).

This practice known as flipping created a faster climb in values. The market could only sustain this rate of increase for so long. Flipping was a get rich quick scheme that took advantage of these climbing appraisal values and lax underwriting standards. Investors who were not quite financially ready to become landlords purchased properties with little or no money down. These weren't always single-family residences either. Four-unit buildings are still classified as residential property. These could be purchased with little documentation if the credit buyer's score was high enough. Credit scores drove the industry. Buyers could do about anything they wanted to do if their scores were strong enough whether they were worthy of the loan or not. The scores dictated that they were.

What these loans also did was allow buyers to do is to buy a home with little to no money down. Programs even existed where the sellers of the houses being purchased could pay most if not all of the closing costs that the buyer typically assumes. With that minimal investment, the buyers assumed none of risk in the purchase. It all fell to the lender. The lender then sold the loan and the loan's associated risk in a large and bundled package on the secondary market. If a homeowner experienced financial hardship or just decided they did not wish to live in their home any longer they could easily just move out. If the borrower moved out, she would not be out any investment because there was little or no down payment paid down at closing. Moving out early on made the investor responsible for 100 percent of the loss. Down payment requirements help persuade buyers to maintain on-time and regular payments. Foreclosures would indicate a forfeiture of the investment by the buyers. Not having requirements of down payments makes the mortgage payment nothing more than a rent payment financially to the homeowners that do voluntarily get foreclosed upon or have it happen due to hardship.

More potential buyers were getting into houses than before. As Bloomberg had mentioned before, the "cusp" borrowers were now getting loans that they once were unable to obtain. While some of these did enjoy their new homes with consistent on-time mortgage payments, others defaulted showing that they were cusp borrowers for that reason. As more homeowners defaulted on their loans and became former homeowners, someone had to pay for the losses.

Interest rates were very low, and that led all of the previous actions. Refinancing and purchasing of existing homes were not the only actions in the mortgage world. The lower rates made builders begin building in large numbers. The backing to build these new structures was based upon the builders selling the units soon after construction had been completed. As the lending began to dry up, builders were stuck with homes that they could not sell, and the homes became part of their debt load, and some could not afford to keep them. Many builders went bankrupt, and the homes went back to his investors, and the investors were saddled with a portfolio of properties that they were not adept in selling or maintaining.

This was a fast and viscous cycle where lenders kept originating more and more mortgages while selling them to a crowd of investors that kept demanding more loans to buy. To meet the demand utilized increasingly lax standards to fulfill what the investors were willing to buy. The more lax the lenders became, the riskier the loan portfolios became. This meant that more foreclosures were inevitable for borrowers that were deemed riskier. As this came to a snowball, the institutions that had invested in billions of dollars and lost their investments were in financial trouble. The steady stream of income that they had purchased and expected to flow continuously was drying up as more borrowers were defaulting on these loans written with the above referenced issues.

These issues led experts and non-expert individuals to debate whether or not the securitization phenomenon led to the mortgage crisis that is still affecting the banking industry. Benjamin J. Keys, Tanmoy Mukherjee, Amit Seru and Vikrant Vig collaborated in a journal publication entitled "Did Securitization Lead to Lax Screening? Evidence from Subprime Loans." This group did determine that, in fact, securitization did lead to the meltdown of the mortgage industry. Ruling out other reasons for this dire situation in their research, they arrived at the conclusion that the securitization process of today did, in fact, lead intermediary players between the mortgage borrower and the purchaser of the mortgage backed securities to act differently. "Our findings suggest that existing securitization practices *did* adversely affect the screening incentives of subprime lenders" (Keys et all, 2010).

Keys and his collection of economic minds claimed these practices did affect things negatively. There are also those that state that the practices were not doing what Keys et al. stated. Enter Ryan Bubb and Alex Kaufmann. Their research shows the opposite. Looking at the credit cut-off level of a 620 FICO score for what is identified as a conforming loan, it needs to be realized who set that mark. Freddie Mac and Fannie Mae set that. These institutions are the largest purchasers of mortgages in the United States. They are also Government Sponsored Enterprises. The United States government backs these companies that are not government entities. They are owned in the private sector. This is how Mayor Bloomberg believes the Congressional force was used to dictate flawed lending policy via the CRA. However, the use of FICO scores actually set limits for lenders that make it more difficult to lend. This tying of the hands of lenders makes it more difficult to make loans for borrowers that a bank may have granted one for without the score requirement (Bubb and Kaufmann, 2009).

The differing opinions will continue to argue each side and in 2010 Scott Hirst stepped in and viewed both sides of the argument. While he cannot find one point that definitively can direct one to assume fully that the reasons point one way or another, but he does agree with Bubb and Kaufmann that securitizing firms like Fannie Mae and Freddie Mac have the power to project their wants into the banking industry forcing banks to write loans to their standards and not to standards the banks set forth. Being GSEs they are definitely subject to government influence. This indirectly pushed government standards onto private banks if they hope to sell their mortgage securities (Hirst, 2010). Whether or not this led to securitization making the crisis what it had become can be debated relentlessly.

The mortgage crisis is not the only troubling issue that the banking and financial industry is experiencing. Arianna Huffington is the publisher of The Huffington Post. She addressed this other issues in 2009 in a piece she wrote called *The Credit Card Debt Crisis: The Next Economic Domino.* Revolving debt, better known as credit card debt, is at high levels, and customers are becoming delinquent or defaulting on these accounts. It is estimated that ten percent of credit cards would be defaulted on in 2009. It works quite like the mortgage situation. As banks saw interest rate collection as an income stream more cards with higher limits were issued (2009).

This has led to a cycle that has done damage to those that are not part of the credit card crunch, or so they thought. Banks do not hold credit card debt in an account much like an accounts receivable part of a balance sheet. These accounts are bundled together and sold on the secondary market in a securitization process much like that of mortgages. There is not the government heavy-handedness in this process as much as with home loans. Credit card debt is bundled together into securities called credit card receivables. If the cardholders default, then investors in hedge funds or pensions take the hit, not the banks. Banks had $365 billion in securitized debt outstanding in 2009. This lack of risk to the banks led them to raise limits and extend credit to borrowers that they once felt to be credit unworthy. Banks feel if the risk is going to be passed on to a willing outside investor, it was a move that made financial sense. When investors lose money in securities that they have had in which their pension had been invested they may not be able to pay their own credit card debt, or they may resort to running up their own revolving debt that someone else's pension would now be backing (Huffington, 2009).

Banks had to make the securities still seem attractive for purchase in the face of rising defaults. They did this by raising the rates on the accounts they issued. This caused those that did pay their accumulated debts to pay more. This was to make the package still a viable investment option. Banks do other things to make money off of these credit accounts other than sell them. Banks charge fees for being late, using the card in an ATM, or for going over the limit set by the bank. Examining the 2007 numbers one can see that credit card companies utilized fee schedules to make an additional $18 billion on top of the interest earned, or income for selling the securities. Lenders raised rates as well as they had captive consumers with high balances. Citi raised rates by three percent, and Capital One and American Express did so as well with six and two to three percent respectively on their on-time customers. Citi informed customers that if they happen to miss a payment, their rate could escalate to as high as 29.99 percent. Citi called their rate hikes were due to a "severe funding dislocation" and American Express said it was just "the cost of doing business" (Huffington, 2009).

The federal government also bailed out these companies that are raising fees on consumers to cover their losses with taxpayer money. Huffington said, "We gave Citi $45 billion, Bank of America $45 billion, JPMorgan $25 billion, AmEx $3.4 billion, Capital One $3.6 billion, and Discover $1.2 billion. In fact, American Express and Discover converted to bank holding companies to make themselves eligible for bailout funds"(2009).

General Environment

The banks were in trouble around 2008 when the financial crisis came to a head they needed help to stay in business. The federal bailout is the biggest issue in the financial environment today. On top of the bailout money given to the banks motioned earlier, the two of the three US auto industry players of General Motors, and Chrysler were bailed out, as well. The auto bailout was a huge part of the 2012 Presidential election in the battleground states (Jan and Bender, 2012). With Detroit's proximity to the Ohio border, Michigan and Ohio were important electoral votes for the Obama campaign. Ohio has eighteen and Michigan sixteen. Both of these states reliant on the auto industry voted for the reelection of the President, the architect of the bailout (NBC, 2012). Had Romney won these three states, he would now be President-elect Romney by winning by a 271-269 margin.

While New York is typically a liberal voting state, it leaned heavily to the left in the 2012 election. The President took sixty-three percent of the votes to Mitt Romney's thirty-six percent. New York city is regarded as the banking center of the United States, if not the World. With the banks and Wall Street benefitting from the bailout funds, it shows that the bailout move was a beneficial political move for Obama. Romney made the bailouts a negative attack in his campaign (Jan & Bender, 2012).

The federal government program known as Troubled Asset Relief Program (TARP) bailed out the banks and auto industry. The government also aided mortgage backers Fannie Mae and Freddie Mac. The amount the government used to prop these GSEs up was $91 billion for Fannie Mae and $51 billion for Freddie Mac. TARP is still $55 billion down as of September 2012. The Fannie Mae and Freddie Mac bailout money has not been recovered. The US is still down the full $142 billion that the government had put into these failing entities. Interestingly most banks have returned most of the bailout money from TARP funds has been returned. Of the $236.2 billion, $224.3 billion has been returned. If one adds the $32 billion of revenue already collected in miscellaneous fees, interest, and dividends the US Government has netted $20.1 billion in the TARP program. Not taking into account the time value of money, the program has made the government approximately 8.5 percent with $11.9 billion still outstanding and undetermined fees still to collect. The program kept these banks afloat and made the government a profit. Bank of America has fully repaid its TARP bailout and has also paid the US government over $4.5 billion in interest and fees (ProPublica, 2012).

Another major issue that is gripping the financial industry is the situation of the European financial market. It has been suffering a great uncertainty over the past years. Europe, like The United States has had their banks engaging in what is known as shadow banking. In internal shadow banking, a bank would originate a loan, and another institution that is owned by the main bank would guarantee it. In this system, banks somehow guarantee the loan in its entirety with their own assets. They've basically sold mortgage-backed securities to themselves. The system works fine until the money dries up at any point then it is prime for a collapse. The United States enacted the Dodd-Frank Act in 2010 in an attempt to stabilize the practice of securitization. With this act, the Federal

Reserve Bank is charged with monitoring nonfinancial institutions that do the shadow banking. They are required to maintain certain levels of liquidity. If the institutions are deemed unstable, the Federal Reserve is to step in and dispose of them (Tropeano, 2011).

Europe is working on similar regulation. This is to help stabilize their markets to protect the Euro. The establishment of European Banking Authority, European Securities and Markets Authority, and European Insurance and Occupational Pension Authority is the first step in trying to solidify the market. There is a proposed called the European Market Infrastructure Regulation. It would operate similarly to the Dodd-Frank Act giving the established firms the ability and duty to regulate the banking institutions, including the shadow banks. In her 2011 paper on financial regulation, Domenica Tropeano gives the opinion that Europe, like the United States, takes the threat of losses due to shadow banking losses too lightly.

Bank of ALL of America

Bank of America is one of the largest, if not the largest bank. The rankings depend on the performance in the period. With this size comes a myriad of products. These that can be applied to most every customer in the United States. Looking at the Bank of America website, BankofAmerica.com, there are many products just to deposit funds. The megabank has two different savings accounts and four types of certificates of deposit. In 2008, the company launched its no-risk CD. It is designed for the investor who is not sure if he or she wants to invest in a CD or if they believe the term of the CD may be too long; this allows the customer to have the ability to move the CD deposit into another Bank of America account without penalty. This fits with the small investor. One other niche product directs toward the average customer is the "Keep the Change" product that utilizes not only the savings account, but also the customer's checking account and debit card. If someone goes to the store and spends $14.63 cents with their debit card, Bank of America would round up to the next whole dollar, $15.00 and take that from the checking account. The retailer would receive its required payment and the additional 37 cents would then be deposited into the savings account of the customer. This account is for the borrower who whishes to save, but does not have the organization to do so. Finally, Bank of America offers a standard individual retirement account, IRA, for the serious worker that has true savings ideas. Just looking at the savings side of the products, Bank of America has targeted any income level (Bank of America, 2012).

On the lending side, Bank of America targets America again. The bank offers student loans, credit cards, auto loans, airplane or boat loans, and mortgages and home equity lines. This is just on the consumer level. On the website, it is broken down for each target. There are specific tabs for personal, small business, and business & institutions. In just a few website clicks, any consumer can find a product designed for them. They could get a checking personal checking account, finance a used car or get global consulting advice from the same institution. Looking at the company from that angle it can be surmised that the target consumer for Bank of America is anyone with money or needs money. This definitely gives the bank options when launching products or marketing existing ones (Bank of America, 2012).

Most of the commercials seen on broadcasts are geared toward the personal banking side. If one visits the YouTube page of Bank of America, there are 137 commercials and videos there that are geared again toward every audience. Small businesses are addressed where the success of the business is attributed to the assistance that Bank of America gave to them, not necessarily the business savvy of the business owner. There is also a series of videos geared toward helping small businesses. Bank of America is positioning itself to become a partner instead of being subject a rate-chaser as a client. The bank also pulls at the heartstrings of its audience showing how they are patriotic by supporting returning military members. It also tries to show it has helped build communities (YouTube, 2012). Living up to its responsibilities from the CRA, the bank originated $35 billion in low and moderate-income borrowers. This accounted nearly a quarter of the mortgage volume it generated.

JPMorgan Chase & Co.

Overview:

JPMorgan Chase & Co. (JPMC) has a history dating more than 200 years back. It is one of the oldest, largest and most well known financial institutions in the world. The company, traded as JPM on the New York Stock Exchange since 1969 (NYSE, 2012), is the largest U.S. bank by assets. It prides itself on being a leader in "investment banking, consumer financial services, small business consulting and commercial banking, financial transaction processing, asset management and private equity." With assets totaling more than $2.3 trillion, JPMorgan & Chase operates in 60 countries and employs more than 261,000 people (JPMorgan Chase, 2012). The company, which has more than 1,200 predecessor firms, operates through these brands: JPMorgan Chase, JPMorgan and Chase (MarketLine-JPMC, 2011).

History:

JP Morgan traces its history to 1799, when Aaron Burr, a U.S. senator and future vice president of the United States, founded its earliest predecessor, the Bank of Manhattan Co. This company had an interesting beginning; it was attached to a water utility called the Manhattan Co. that had a charter allowing excess capital to be used for any activity "not inconsistent with the Constitution and laws of the United States." Burr used this capital to start the bank, which became one of the leading financial institutions in the country. The bank was involved in financing construction of the Erie Canal, which opened in 1825. Alexander Hamilton had collaborated in the founding of the waterworks, but withdrew from the venture after the Bank of Manhattan was formed because it was competition for New York City's first commercial bank, the Bank of New York, which he had founded. Disagreement over the founding of the Bank of Manhattan was one of many issues that led to deep animosity between the two men who eventually faced off in an 1804 duel that left Hamilton mortally wounded. The pistols used in the duel were owned by Hamilton's brother-in-law, whose granddaughter sold them to the Bank of Manhattan in 1830. Another interesting note about JP Morgan's history is that another predecessor bank, Springfield Marine and Fire Insurance Co. of Illinois, counted Abraham Lincoln among its very first customers. He deposited $310 (JPMorgan Chase, 2012).

The Bank of Manhattan Co. merged with Chase National Bank in 1955 and formed Chase Manhattan Bank. Chase National had been founded in Manhattan in 1877 by Wall Street publisher and banker John Thompson, who named it in honor of the late Salmon P. Chase. Chase had served as President Lincoln's Treasury secretary, as governor of Ohio and as Chief Justice of the United States. CChase National Bank saw rapid growth in the early 20th century, and by 1930, had become the world's largest bank with assets of $2.7 billion.

The other half of the JP Morgan & Chase Co. name came from JP Morgan and Co. It was founded in 1871 in New York as Drexel, Morgan & Co. by J. Pierpont Morgan and Philadelphia banker Anthony Drexel. Europeans used the firm as a conduit to invest in the United States, initially. In 1979, the bank sold stock to a railroad and after that became closely tied to the railroad industry. In the 1890s, JP Morgan and Co. started providing funds for major industrial mergers such as General Electric, U.S. Steel and International Harvester. The bank was growing in power, and its founder, J. Pierpont Morgan, became one of the most influential men in history (JPMorgan Chase, 2012).

After decades of growth and helping to shape banking into what it is to day – with the development of credit cards, automated teller machines (ATMs), home banking and other processes, technology and services that have become vital to the industry – the Chase Manhattan Corp. and J.P. Morgan & Co. merged in 2000 to become one firm called JPMorgan Chase & Co. Four years later, this bank – keeping its name – merged with Bank One Corp. in a deal that the New York Times said, "would realign the competitive landscape for banks." (JPMorgan Chase, 2012).

Services:

JPMorgan Chase & Co. has six major businesses: Investment Bank, Retail Financial Services, Card Services, Commercial Banking, Treasury and Securities Services, and Asset Management. The U.S. consumer business services that are offered under the Chase brand include: "branch, ATM, telephone and online banking; credit cards; small business services; home finance and home equity loans; auto finance; education finance; retirement and investing, retail checking and merchant services." The commercial banking businesses served by Chase include those specializing in "middle market, corporate client banking, commercial real estate, business credit, equipment finance, commercial term lending and community development." JPMorgan clients include "prominent corporations, governments, wealthy individuals and institutional investors." Under its brand are services that include "investment banking, asset management, treasury services, worldwide securities services and private banking."

The company operates through seven segments: "retail financial services, investment bank, card services, asset management, treasury and securities services, commercial banking and corporate" (MarketLine-JPMC, 2011). The retail financial services division operates through four subdivisions: "home finance, consumer and small business banking, auto and education finance, and insurance." This division provides products and services such as "deposits, investments, loans and insurance for consumers and small businesses." During fiscal year 2011, the retail financial services division recorded revenues of $31,756 million, a decrease of 2.9% over 2010. JPMC operates through its JPMorgan subsidiary in the investment-banking sector. This division advises on "corporate strategy, capital raising in equity and debt markets, risk management and market-making in cash securities and derivative instruments. It also deploys its own capital to proprietary investing and trading activities." The investment bank division's recorded revenues for the last fiscal year were $26,217 million, a decrease of 6.7 percent over fiscal year 2010 (MarketLine-JPMC, 2011).

The card services division is the nation's second-largest issuer of MasterCard and Visa credit cards. It offers general-purpose cards for individuals, small businesses and partner organizations; and also issues private-label cards for major department stores and other customers. This division recorded revenues of $17,163 million in 2011, a decrease of 15.5 percent from fiscal year 2010.

The asset and wealth management division provides investment advisory and management services to both institutions and individuals. Through this division, JPMC provides global investment management in "equities, fixed income, real estate, hedge funds, private equity and liquidity." The asset management operations deal in money market instruments and bank deposits. The division also provides trust and estate and banking services to high-net-worth clients, and retirement services to individuals and corporations alike. The asset management division recorded revenues of $8,984 million in 2011. That was up 12.8 percent from the 2010 fiscal year (MarketLine-JPMC, 2011).

The treasury and securities services division supports the needs of institutional clients across the globe by providing transaction, investment and information services. This division operates through three subdivisions: "treasury services, investor services and institutional trust services." The treasury and security services division recorded revenues of $7,381 million in fiscal year 2011, a slight increase – 0.5 percent – from fiscal year 2010. The commercial banking division serves more than 30,000 clients. They include corporations, municipalities, financial institutions and not-for-profit organizations. This division, which operates in 14 of the top 15 U.S. metropolitan areas, is divided into three businesses: “middle market banking, mid-corporate banking and real estate banking.” The commercial banking division recorded revenues of $6.04 million in the 2011, a 5.67 percent increase over the previous fiscal year.

The corporate division is made up of “private equity, treasury, corporate staff units and expenses that are centrally managed. Private equity includes the JPMorgan Partners and ONE Equity Partners businesses. Treasury manages the structural interest rate risk and investment portfolio for the company. The corporate staff units include central technology and operations, internal audit, executive office, finance, human resources, marketing and communications, office of the general counsel, corporate real estate and general services, risk management, and strategy and development.” The corporate division recorded revenues of $7,422 million in 2011. That’s an increase of 11.9 percent over the 2010 fiscal year (MarketLine-JPMC, 2011).

Earnings:

JP Morgan & Chase recorded revenues of $97,234 million during the financial year that ended December 2011. That’s a decrease of 5.3 percent over fiscal year 2010. The operating profit of the company was $26,749 million during fiscal year 2011, up 7.6 percent over 2010’s operating profit. The net profit for fiscal year 2011 was $18,976 million. That’s an increase of 9.2 percent over the 2010 period (MarketLine-JPMC, 2011).

Key Employees:

JP Morgan Chase & Co. is led by Chairman and Chief Executive Officer James Dimon, who has been in his position since 2006 and whose compensation totals $23,105,415 in U.S. dollars. There are seven additional senior leadership team members with compensation in the $13 million to $17 million range, and 10 non-executive board members whose compensation packages range from $245,000 to $422,500 (MarketLine-JPMC, 2011).

In the News:

On Nov. 12, Dow Jones Newswire ran a story that J.P Morgan Chase & Co. has agreed “in principle” to settle a Securities and Exchange Commission (SEC) inquiry into how its Bear Stearns unit, which it acquired in 2008, handled mortgage securities it packaged and sold to investors. According to its third-quarter 2012 filing with the SEC, the company plans to resume a $3 billion stock buyback in the first quarter of 2013 (NASDAQ, 2012).

Earlier in the month, on Nov. 2, CBS News, The Associated Press and other media outlets reported that JPMorgan Chase is purchasing MetLife’s $70 billion mortgage servicing business for an undisclosed price (CBS, 2012).

Wells Fargo & Company

Overview:

Wells Fargo & Company provides banking, insurance, investments, mutual funds, mortgage home loans, banking and consumer went public on the New York Stock Exchange as WFC in 1962 (NYSE, 2012), operates primarily in the U.S. It has offices in 39 states and is based in San Francisco. It has assets of $1.4 trillion (Wells Fargo, 2012) recorded revenues of over $80.9 million in fiscal year 2011 and employs more than 269,000 people (MarketLine-WF, 2012). The company’s services are offered through more than 9,000 stores, 12,000 ATMs, and the Internet (wellsfargo.com). In order to support customers who conduct business globally, Wells Fargo has offices in more than 35 countries (Wells Fargo, 2012).

History:

The company was founded as Wells, Fargo and Co. in 1852 by Henry Wells and William G. Fargo and opened for business in San Francisco to serve the gold rush. The company bought gold, sold paper bank drafts and offered the rapid delivery of gold or anything else valuable. The company was all about delivering its business by the fastest means possible, whether that be by stagecoach, steamship, railroad, pony rider or telegraph. In 1858, Wells Fargo helped start the Overland Mail Company, and in 1861, the company took over operations of the famous Pony Express. Five years later the company combined all the major western stage lines and stagecoaches bearing the Wells, Fargo and Co. name, and its now-famous stagecoach symbol, were rolling through 3,000 miles of territory stretching from California to Nebraska and Colorado into Montana and Idaho (Wells Fargo, 2012).

After the transcontinental railroad was completed in 1869, Wells Fargo became the country's first nationwide express company. Wells Fargo continued to grow until 1918 when its express service served 10,000 communities. That was the year the federal government took over the nation's express network, leaving Wells Fargo with just one bank in San Francisco. That bank survived the 1906 San Francisco earthquake and fire, weathered the Great Depression and prospered in the 1960s, when it became a northern California regional bank. In the 1980s, the company became a state bank and had the distinction of being the seventh largest bank in the nation. In the 1990s, Wells Fargo expanded its bank branches to the Western, Midwestern and Eastern states it had once served with its express service (Wells Fargo, 2012).

In 1995, Wells Fargo became one of the first banks to offer online account access to customers. Wells, Fargo & Company merged with Norwest Corporation in 1998, and the merged entity took the Wells Fargo & Company name (MarketLine-WF, 2012). Wells Fargo today is the fourth largest U.S. bank by assets (Rothacker, 2012) and the largest home lender (Pearson, 2012).

Services:

Wells Fargo has three lines of business for management reporting: "community banking; wholesale banking; and wealth, brokerage and retirement." The company's community banking line offers diversified financial products and services to consumers and small businesses with annual sales generally up to $20 million. This segment also offers investment management and other services to retail customers and securities brokerage through affiliates. Community Banking customers are served through traditional banking stores, in-store banking centers, business centers, ATMs, and a 24/7 telephone service known as Wells Fargo Customer Connection. The company's online banking services include single sign-on to online banking, bill pay and brokerage, and also online banking for small business. The community banking segment also includes Wells Fargo Financial consumer finance and auto finance operations. This division recorded revenues of $50.7 million in fiscal year 2011, a decrease of 6.9 percent over the prior year.

The Wells Fargo Wholesale Banking line offers financial solutions to businesses with annual sales that generally exceed $20 million. This segment involves commercial, corporate, capital markets, cash management and real estate banking products and services. The wholesale banking division recorded revenues of $21.7 million in 2011. That's down 3.4 percent from fiscal year 2010. The company's wealth, brokerage and retirement division provides a range of financial advisory, lending, and investment management and trust services. This line's 2011 recorded revenues totaled $12.2 million, which is an increase of 3.9 percent over the same period in 2010 ((MarketLine-WF, 2012).

Earnings:

Wells Fargo recorded revenues of $80.9 million during the fiscal year ended December 2011. That's a decrease of 5 percent from fiscal year 2010. The company's operating profit for 2010 was

$23.65 million. That was up 24.5 percent from the previous fiscal year. Its net profit increased 29.2 percent from 2010 to 2011 to total $15,025 million (MarketLine-WF, 2012).

Key Employees:

John G. Stumpf has been the president, chairman and chief executive officer for Wells Fargo since 2009 and receives total compensation of $17.9 million. Stumpf is joined by a nine-member senior management team with compensation in the $8 to $10 million range each and 16 board of directors members who are compensated between $166,000 and $357,000 each (MarketLine-WF, 2012).

In the News:

Wells Fargo & Co.'s most recent quarterly filing discussed an investigation by the government for its mortgage-related practices, including the making and packaging of home loans by its Wachovia unit, Reuters reported on Nov. 6. The bank disclosed that it may face federal enforcement action related to mortgage-backed securities deals. The investigation focuses on whether Wells Fargo properly disclosed the risks associated with its mortgage-backed securities. The bank also said the government is investigating whether it complied with applicable laws, regulations and documentation requirements relating to mortgage originations and securitizations, including those at Wachovia (Rothacker, 2012).

In October, a U.S. Appeals Court based in Atlanta denied a motion by Wells Fargo & Co. to dismiss a class-action lawsuit involving overdraft fees, reported Bloomberg. The court ruled that the bank could not force arbitration after twice waiving its right to do Customers have sued Wells Fargo and about 30 other banks claiming these institutions reordered overdrafts to maximize fees. Bank of America Corp. agreed to pay $410 million last year to settle customer claims, and JPMorgan Chase & Co. reached a preliminary agreement in February to pay $110 million to resolve a lawsuit. A lawsuit against other banks is pending in federal court. Wells Fargo declined a trial court's offer to arbitrate the disputes in November 2009 and again in April 2010. The company filed a motion to dismiss five proposed class-action lawsuits two days after an April Supreme Court ruling that said federal law allows companies to compel customers and employees to arbitrate claims individually, trumping state laws that may bar such provisions (Pearson, 2012).

Citigroup Inc.

Overview:

Citigroup Inc., traded as C on the New York Stock Exchange where it has been listed since 1987, offers retail banking, corporate banking, investment banking and asset management. This company, headquartered in New York City, primarily operates in North America, Europe, the Middle East, Africa, and Asia Pacific. The company employs approximately 266,000 people (MarketLine-Citi, 2012), has approximately 200 million customers and does business in more than 160 countries and jurisdictions. Citi holds more than $400 billion in cash and government securities (Citigroup, 2012).

History:

The company celebrated its bicentennial this year. It was founded as City Bank of New York in 1812, one year after a group of New York merchants fed up with the fact that it was easier to do banking in Philadelphia, Baltimore and Boston than in New York, filed a petition with the state assembly. The petition was first denied because the merchants were tied to U.S President James Madison and there was strong support in the assembly for Vice President George Clinton. By the time the assembly reconvened, there were two other petitions for banks from other merchants aligned with Clinton and associates of the former Bank of the United States. Elder Statesman, Samuel Osgood, a Revolutionary War hero, came up with a compromise that the assembly support the first petition, appoint him as bank president, and give half the board seats to the Madison supporters and the rest to the Clinton supporters. The petition was then passed, and the new bank was born (Citigroup, 2012).

The bank helped the nation finance the War of 1812 and also lent money to the government to help it meet its debt. In reward, the bank was designated as a government depository. During the next decade, City Bank of New York failed to diversify and was struggling. In 1824, however, a merchant named Charles Lawton stepped in to restructure the bank. He took over controlling interest, had a new board put in place and helped attract wealthy clients. The bank diversified its deposit base. It was still left vulnerable during the panic of 1837 when interest rates rose, the demand for American cotton decreased, and cotton merchants defaulted on loans. The bank survived, thanks to the suspension of gold and silver payments and the financial support of German immigrant Jacob Astor who became the first U.S. multi-millionaire through his dealings in the fur trade and real estate market. Astor's representative on the bank's board was Moses Taylor, who later became bank president and served for decades. Taylor was a major financier of the Union war effort, and with the bank's backing, invested in railroads, steamships, mining, iron and steel, the telegraph and gas utilities (Citigroup, 2012). Like many other powerful men of that era, Taylor was also associated with the corrupt Tammany Hall group (Wile, 2012).

In 1865, after joining the country's new national banking system, the bank's name was changed to the National City Bank of New York (Wile, 2012). By the end of the 1800s, many of the bank's more prestigious corporate clients, including Standard Oil and American Sugar Refining, were conducting much of their business outside of the U.S. To assist these clients in their foreign dealings, the bank opened a foreign exchange department. This allowed the bank to buy and sell drafts, make cable transfers and issue letters of credit for travelers. One of the first big transactions made through this department was in 1899 when it received a $5 million deposit from the United States Treasury that was to be credited to Spain as part of a payment for the Philippines under the treaty that ended the Spanish-American War. The bank became a pioneer in foreign-exchange trading and by 1912 had relationships with 132 banks worldwide (Citigroup, 2012).

The bank's name changed again in 1955 to the First National City Bank of New York. Six years later, its 41-story world headquarters on Park Avenue opened and remains the bank's home today. Citi's holding company changed its name to Citicorp in 1974. In 1998, Citicorp merged with Travelers Group to form Citigroup Inc. (Wile, 2012). In early 2009, Citi organized the company into Citicorp and Citi Holdings. Citicorp represents core banking businesses and future growth opportunities while Citi Holdings' businesses and assets are not considered core to the future of Citi (Citigroup, 2012).

Services:

Citi's principal offerings include "consumer finance, mortgage lending, retail banking products and services, investment banking, wealth management, cash management, trade finance and e-commerce products and services, and private banking products and services. The group's activities are conducted through four business segments: global consumer banking (GCB), institutional clients group (ICG), Citi Holdings, and corporate/other" (MarketLine-Citi, 2011).

The GCB segment includes "a wide array of banking, credit card lending, and investment services through a network of local branches, offices and electronic delivery systems" This division's retail services group provides credit card services and other services to companies including Home Depot, Macy's, Sears, Shell, and ExxonMobil. It recorded revenues of $39.195 million in fiscal year 2011. That's a 0.4 percent decrease from 2010. The ICG division serves corporations, governments, institutions and investors in approximately 100 countries. Revenues for this segment in 2011 were $32 billion. That was a decrease of 3.6 percent from the prior year (Marketline-Citi, 2012).

The Citi Holdings segment comprises brokerage and asset management, local consumer lending and special assets. This division saw a 48.9 percent decrease in revenues from 2010 to 2011 when it ended the fiscal year with revenues of $6.27 billion.

The group's corporate/other segment includes net treasury results, unallocated corporate expenses, offsets to certain line-item reclassifications, unallocated taxes and the like. This segment also saw a decrease in revenues – a 49.55 percent drop – from 2010 to 2011. It recorded revenues of $885 million in fiscal year 2011 (MarketLine-Citi, 2011).

Citi's financial offerings are split into: Global Consumer; Corporate Investment and Banking Services; and Global Wealth Management Key Global Customer products are: "auto loans, checking services, credit cards, real estate loans, expatriate banking, leasing, off-shore investments and banking, online banking, personal loans, private banking, retirement solutions and savings."

Its corporate and investment banking services include: "cash management, trade and treasury, commercial cards, currency payments, global fixed income, global foreign exchange, global futures, global investment banking, global transaction services, private label credit card programs, trade service and finance and treasury solutions." The company's global wealth management offerings are as follows: "securities services, depositary receipts, fund administration, fund and portfolio accounting, global custody, mutual funds, retirement planning, and transfer agency and shareholder services" (MarketLine-2012).

Earnings:

The group recorded revenues of $78,353 million during the financial year ended December 2011. That's a decrease of 9.5 from fiscal year 2010. The group's operating profit for fiscal year 2011 was $14,624 million, which was up 10.9 percent from the previous year. Its net profit was $11,067 million in 2011, an increase of 4.4 percent from the 2010 fiscal year. (MarketLine-Citi, 2011).

Key Employees:

Citicorp's chief executive officer is Michael Corbat, who was just recently appointed (Citigroup, 2012). Previous CEO Vikram Pandit resigned abruptly in October after holding the position since 2007. He earned compensation totaling more than $14.8 million. The company employs 13 senior management team members and has an 11-member board of directors. (Marketline-Citi, 2012).

In the News:

The Associated Press and other media outlets reported on Nov. 12 that Citigroup paid former CEO Vikram Pandit, who abruptly resigned last month, a bonus of $6.7 million for work he did for the bank this year. The bank also paid $6.8 million to its former chief operating officer, John Havens. Havens left the bank at the same time Pandit did. Citi called the payments "incentive awards," saying the two men weren't entitled to severance payments after resigning (USA Today, 2012).

Citigroup is facing a lawsuit filed by Sealink Funding Ltd. related to the sale of residential mortgage-backed securities worth $513 million. Sealink accuses Citi of presenting misleading facts and withholding information about the underwriting criteria adopted while issuing the loans, which were later pooled, securitized and sold to investors (NASDAQ, 2012).

Alignment and Income:

Bank of America relies on all of its streams to make itself the giant it is. In 2011, it only showed a net income of slightly less than $1.45 billion dollars. The main areas of income that Bank of America relies upon are deposit accounts, card services, mortgages, global commercial banking, global banking & markets, and global wealth & investment management, and everything else that was not included in the previous six categories. Brian Moynihan sits over each of these areas in his position of CEO.

From its deposit accounts Bank of America realized an income of $1.19 billion from interest and fees collected. The deposit accounts are up in volume as Bank of America predicts in the 2011 annual report because customers prefer the liquidity of deposit accounts in uncertain times. Card Services brought in an even higher amount of revenue resulting in an income of $5.88 billion dollars. This was up from a loss in 2010. That is when the Federal government implemented some consumer protection rules. That took a large bite out of Bank of America's income. The uncategorized segment made $4.99 billion. The newest part of it is international credit cards, but it is mainly the bank's own investing actions, including some mortgage securities (BOA Annual Report, 2012).

Even with the uncertainty throughout the world with the European financial crisis, Bank of America still made $4.4 billion from Global Commercial Banking. What is in this section of the company is mainly commercial lending to governments and companies with sales up to $2 million. Bank of America also received $2.97 billion from Global Banking & Markets. Everything from mortgage backed securities to government bonds are traded and underwritten in this department. "Working capital management and treasury solutions" are the goals of this section of the company. Global Wealth & Investment Management brought in an income of $1.64 billion. This includes the investment arms of US Trust, *U.S. Trust, Bank of America Private Wealth Management,* and *Retirement Services* along with newly acquired Merrill Lynch Global Wealth Management (BOA Annual Report, 2011).

The Consumer Real Estate Services is where Bank of America is taking a beating (exibit 3). Included in this segment are home loans (first mortgages and home equity lines of credit), the servicing of older retained loans, and other real estate related products. It incurred a loss of $6.36 billion in this segment in 2011. Bank of America is attempting to turn this unit around. It has modified over 1 million home loans for borrowers since 2008 to help retain them as customers and save their homes from foreclosure. These costs are being realized in the reported loss (BOA Annual Report, 2011).

We've got to get that fixed

Certain loan products were priced higher to discourage their addition to the portfolio as a way to balance the portfolio mix. Bank of America is also trying to lower the volume of files that are put before its underwriting staff. So, the higher rates will send potential borrowers elsewhere, lowering the market share that Bank of America has. It also left the correspondent business late in 2011. This not only reduces the volume coming in, but it gives Bank of America more control over the loans it closes, removing the reliance on unknown mortgage brokers (BOA Annual Report, 2011).

At the end of 2011 the company had $2.1 trillion in assets and 282,000 employees. The company is implementing a two-phase program called *Project New BAC*. It is a streamlining process that has been adopted to eliminate redundancies and reduce the expenses. This will allow the firm to be more in-line with the processes making the company run more efficiently. The first phase of the plan was laid out in September 2011. In Phase I the company turned its focus to Deposits, Card Services, and CRES. The elimination of 30,000 positions was suggested and is in the process of being implemented by eliminating currently unfilled jobs and by attrition. Phase II began its examination on the other divisions in October 2011. When that investigation is complete it is expected that more positions will be eliminated. This time it will not only be by attrition and unfilled positions, many existing and filled positions are expected to be eliminated (BOA Annual Report).

Looking Ahead

Bank of America has set itself up for a position to downsize over the upcoming years. The acquisitions of many companies over the past few years have given the company a bit of bloat. The Project New BAC will help get the company to a more manageable size. The distressed mortgage portfolio will be a factor for years to come. Late payments and defaults will still be a thorn in the side, but the modifications will continue making the payments less of a burden for the customers. Bank of America is now the second largest bank while dealing with all the issues put before it (exibit 4). New legislation like the Dodd-Frank Act and credit card reform laws will change the way all banks do business and price their products. The future of Brian Moynihan is still in doubt according to some experts. How he leads the recovery will more than likely determine his future. If he can make a dramatic turnaround, he may gain favor with the board of directors and he can lead the New BAC.

Exhibit 1

Compensation for Key BOA Executives

Name	Title	Salary
Brian Moynahan	President and CEO	7,000,000
Gary Lynch	Global Chief of Legal, Compliance, and Regulatory Regulations	7,000,000
David Darnell	Co-COO	8,000,000
Bruce Thompson	CFO	10,000,000
Thomas Montag	Co-COO	12,000,000

(Marketline, 2011)

2011 CEO Compensation Comparison

James Dimon	Chairman and CEO	JP Morgan Chase & Co.	$23,105,415
John G. Stumpf	Chairman, President and CEO	Wells Fargo & Co.	$17,900,000
Vikram Pandit	CEO	Citigroup Inc.	$14,857,103
Brian T. Moynihan	President and CEO	Bank of America Corp.	$7,000,000

(Marketline, 2011)

2011 Bank of America Division Income	(in billions)
Deposit Accounts	1.19
Card Services	5.88
Other	4.99
Global Commercial Banking	4.40
Global Banking and Markets	2.97
Global Wealth & Investment Management	1.64
Consumer Real Estate Servicing	(6.36)

(Bank of America, 2011)

2011 Total Assets Comparison	(in millions)
JP Morgan Chase & Co.	$2,265,792
Wells Fargo & Co.	$1,313,867
Citigroup Inc.	$1,365,000
Bank of America Corp.	$2,129,046

(Marketline, 2011)

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Bank of America: The Case Analysis

Bank of America is the largest bank in the world for now. The case is an attempt to see how the bank got to the point where it is today. It was interesting to follow the flow from two small banks through their histories and how they became one large institution. Now, acting as the one entity, Bank of America, there are many pressing issues facing it. The firm has many internal problems before even addressing the external environment. This is not only the competitors in the market but also the environment itself. The case addresses some of them and what strategies Bank of America uses to survive amidst the challenges before it.

Five points that the case tried to address are:

1. What are some pressing key issues? What is the most critical general environmental dimension? What does the industry look like?
2. What are the firm's strengths and weaknesses? What does the firm have a sustainable competitive advantage in? Who should the firm pursue a joint venture with?
3. What is the firm's business-level strategy? Is the firm using a blue ocean strategy?
4. Is the firm diversified? What are its ethics and values? Is the firm optimally organized?
5. What about the additional areas? Is the firm led properly?

Addressing these points will show how Bank of America arrived to its current position. It will also examine if it making the correct decisions to survive.

Case Analysis

1. What are some pressing key issues?

There is a couple of key issues that Bank of America is facing. The biggest is the continued fallout from the housing bust of 2008. Bank of America lost money in only one of its seven divisions in 2011. The one in question was the Consumer Real Estate Services (CRES). The loans that have been defaulted on have been an anchor around the neck of the bank.

What is the most critical general environmental dimension?

The cost critical dimension is new legislation that is intended to protect consumers. Credit card regulations make it harder for banks to make money from fees on accounts. With the securitization of these accounts, they have to have ways to make money. If there is not money to be made, they will not be sold, and the banks will have to keep all revolving debt on the books.

The bigger government regulation is in the real estate area. The shadow banking process made loans easy to sell in the form of mortgage-backed securities. When the loans were being closed, and payments were made, Investors were willing to leverage the entire amount of the loan to get the income from interest. As underwriting let more risky loans into the pools, defaults entered the picture. When the loans were no longer an income stream, the investors in the form of shadow banks lost trillions of dollars. The activities of the shadow banks were not subject to government regulation of liquidity and insurance. After the government bailed out these institutions, the Dodd-Frank Act was enacted to give the Federal Reserve more oversight over these institutions. If they feel that the firm is not working as prescribed, sanctions as strong as disposing of the institutions are available to insure that there is no collapse like that of 2008. This keeps underwriting in line. This allows them to make sure the securities are viable purchase options for the desirable markets of mortgages.

What does the industry look like?
The industry is still quite attractive despite the issues that are out there if one uses Porter's Five Forces Model. Examining Buyers, Entrants, Suppliers, Substitutes, and Interfirm Rivalry the decision can be made whether it is.

- Buyers- Buyers have limited power in banking. There are large amounts of them, and they are each only small drops in the bucket. The banking and finance industry has a product to fit most any customer. Most customers are loyal in their day-to-day banking when the bank is a full-fledged bank instead of just a single-service office.
- Entrants- Economies of scale give the larger banks definite advantages. This keeps small and new start-ups from trying to enter and compete in the market. Brand loyalty helps out in keeping new entrants out as do prepayment and early withdrawal fees. The case showed that it is difficult, and time consuming to be granted a charter to open a new bank
- Suppliers- It was stated in the case that the Federal Reserve is the only true supplier of money in the United States. A single supplier is not the downside that it would be in any other industry. The Federal Reserve is charged to make banking services available to citizens. There is no threat that the supplier that Federal Reserve is going to step in and try to be a bank and take business from Bank of America or any other bank.
- Substitutes- There really isn't a substitute for a bank. To borrow money someone must know someone that is liquid in his or her assets that is willing lend money. The other option is to go to a bank for a loan. As for savings, there was a term used for cash saved that was called mattress money for cash stashed under the bed. There really are no viable substitutes on the market.
- Interfirm Rivalry- There is a high amount of interfirm rivalry among the larger banks. There are a few larger ones that do dominate, so they compete against each other. This is the least appealing sector of Porter's Five Forces Model.

2. What are the firm's strengths and weaknesses?
Strengths that Bank of America has are mainly based off of its size. It has achieved both economies of scale and scope. Tasks can be handled in cheaper manners due to the average costs being lower because the fixed costs are spread over many tasks. The size also gives Bank of America the ability to offer a wide mix of products to its customers. A deposit account holder can now be targeted for auto loans, mortgage products, retirement products, and investment portfolios. It also allows the company to diversify. Even with the gigantic hit that the Real Estate sector took, the gains in the other six divisions allowed Bank of America to be profitable in 2011.

What does the firm have a sustainable competitive advantage in?
Bank of America is the lender that specializes in small businesses. The campaign that is seen on television commercials will remain sustainable as long as the company stays on that marketing push, or the level of service is diminished when Project New BAC is fully implemented with smaller employee levels to support the business needs.

Who should the firm pursue a joint venture with?
Bank of America is not in a position to join in a joint venture with any other firm. It makes no sense for them to do so at this time. Bank of America is primed to continue making nonequity alliances with firms that need the services that Bank of America offers. This is the model that works

for Bank of America. It should continue. Bank of America needs to get itself in an efficiently functioning position before moving into another culture blending experiment.

3. What is the firm's business-level strategy?

Bank of America uses a cost-leadership approach to their business. While commercials and advertisements try to show the firm as a differentiated firm, Bank of America is trying to bring products to the masses that fit the needs of everyone. To keep costs down it is implementing Project New BAC. This has eliminated 30,000 positions in the first phase, and many more are to come from the higher end products. With the new consumer protection laws that allow banks to make less off of consumers, cost-cutting measures are necessary.

Is the firm using a blue ocean strategy?

No, the firm is not using a blue ocean strategy. It is competing for a limited, existing demand against all other firms in the banking and finance industry.

4. Is the firm diversified?

Bank of America does offer a diverse product line. However, it is not diversified, per se. It operates in just the finance and insurance industry. With mortgage foreclosures on its books, it does not venture into the real estate field. It treats the distressed properties like any other commodity and trades them. Someone else deals with the real estate aspect of things.

What are its ethics and values?

From the vision statement, its biggest concerns are being open to all diverse kinds of employees. They say that work-life balance is key, as well. Low-Moderate income customers are also said to be a focus of Bank of America. It can be debated if this is an act of goodwill, a result of government pressures, or if these customers are just other income streams.

Is the firm optimally organized?

With the major corporate acquisitions over the past seven years that occurred while the economy was in crisis, Bank of America is not where it needs to be. Divisions have been set up to handle different product sets that the bank offers. While this is a positive occurrence, sizes and volumes are not correct at this point. Project New BAC will address any divisions that are not the correct size for efficiency. While these sizes are under scrutiny, it is not out of the realm of possibilities that division realignment could occur. Certain mortgage products have had their rates increased in order to discourage origination. It appears that the operations staff is at a size close to what management feels is correct for the firm. The volume of loans coming through that area is too much. This strategy will shrink the number of loan officers as they will not produce the volume of originations to meet income expectations.

5. Is the firm led properly?

This question is still to be answered. Brian Moynihan seemed to have a good pedigree when he moved to Bank of America after the FleetBoston acquisition. When Ken Lewis left unceremoniously the position of CEO at Bank of America, the company could not find any strong and experienced CEO to step into the position. Moynihan was already in the company. He was willing to step in and take a job that no one qualified seemed to want.

There seems to be little respect for this first-time CEO. The board is apparently waiting for the right person to come along and move on from Moynihan. He seems to be the puppet put into place in order to take the fall for any downturn Bank of America may take. Moynihan, the leader of the

second largest bank in the world, is not even the highest paid executive in his company. He is also paid less than the CEOs of top competing firms.
Moynihan does seem to be bucking the trend that the bank has got to grow continuously in order to be successful. Ken Lewis' hasty purchase of the troubled firm of Countrywide was not lost on him. This is a "time will tell" area.

What about the title of the case?
The answer is an obvious no. Getting bigger for the sake of saying the company is the largest does not work. A mortgage giant is purchased to increase that portfolio. It was troubled and too big. This is the area that bank of America is losing money. All the other acquisitions have led to a workforce that is too big for the demand put upon it in mot divisions. However, the goal was to say that Bank of America was the biggest. Now that has been realized, it is time now to be the best for its customers and shareholders.

Update

Bank of America is still acknowledging legal suits brought against them based on the mortgage issues and the acquisition of Merrill Lynch. These show no sign of ending soon.

As for Aaron Ferguson, he left the industry. His staff moved on to another firm.