

Dan Rather Reports

Episode Number: 409

Episode Title: Meltdown

Description: Iceland's government collapses after its banks fail. Also, many small, community bankers in the U.S. are whistling through the recession.

TEASE:

ALMAR GUDMUNDSSON, FORMER CAR SALESMAN

We had an address from the former Prime Minister and he ended the talk by saying, "God bless Iceland." Which is unlike America, not-- common a thing for the Prime-- Prime Minister to say. So I think a lot of people stopped then and reflected what on earth is happening to us?

MARK ZANDI, CO-FOUNDER AND CHIEF ECONOMIST, MOODYSECONOMY.COM

Everyone is running for the proverbial bunker at the same time. Consumers are panicked, they're not spending, banks are panicked, they're not making a loan, investors are panicked and they're selling their stocks. And the only way out is for the government to step in and try to convince everybody not to panic. If we don't do that everything is gonna come unraveled and we're gonna be in much worse shape.

ROBERT GAUGHEN, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF HINGHAM INSTITUTE FOR SAVINGS

I think people are proud of their local bank. I think people who live here in town and the surrounding communities look to us-- for some leadership in the community, and-- appreciate the fact that they have an independent bank down here.

DAN RATHER (VOICE OVER)

WE'LL BRING YOU THE NEWS, TONIGHT, ON DAN RATHER REPORTS.

MELTDOWN:

DAN RATHER (ON CAMERA)

GOOD EVENING. GIVEN THE OVERALL STATE OF OUR ECONOMY, PERHAPS IT SHOULD BE THE LEAST OF OUR CONCERNS - THOSE MILLIONS OF PEOPLE AROUND THE WORLD LOSING THEIR JOBS IN OTHER PLUMMETING ECONOMIES. HEAVEN KNOWS, WE'VE GOT ENOUGH TO HANDLE ON OUR OWN RIGHT NOW. BUT LISTEN TO THIS - THE GLOBAL ECONOMIC CRISIS HAS BECOME THE BIGGEST THREAT TO NATIONAL SECURITY FOR THE UNITED STATES. BIGGER THAN TERRORISM. THAT COMES FROM NO LESS OF AN AUTHORITY THAN DENNIS BLAIR, THE NEW DIRECTOR OF NATIONAL INTELLIGENCE, WHO RECENTLY TESTIFIED BEFORE CONGRESS. IN EMERGING, YOUNG DEMOCRACIES, LIKE THOSE IN EASTERN EUROPE AND THE BALTICS, ECONOMIC INSTABILITY IS THREATENING TO BRING THE HOUSE DOWN. ALTHOUGH IT'S RECEIVED LITTLE MEDIA ATTENTION HERE IN THE UNITED STATES, THE UNEASE IS SPREADING ACROSS THE GLOBE. PROTESTS, EVEN RIOTS, ARE OCCURRING ALMOST DAILY IN COUNTRIES WITH LITTLE IN COMMON EXCEPT THEIR EVER WEAKENING BOTTOM LINES. THE PROTESTS ARE AIMED AT THE GOVERNEMENT, BUT IT'S ALL ABOUT THE ECONOMY AND JOBS. FROM GREECE TO LITHUANIA, TO FRANCE, LATVIA AND ITALY, PEOPLE ARE TAKING IT TO THE STREETS AS THEIR COUNTRY'S ECONOMY GOES SOUTH AND THEIR EMPLOYMENT PROSPECTS DISAPPEAR. AND THAT'S ESPECIALLY TRUE IN ICELAND, A TINY ISLAND NATION FAR OFF IN THE NORTH ATLANTIC. IT'S ONE OF THE SMALLEST NATIONS ON EARTH - WHICH MEANS NEARLY EVERYONE THERE HAS FELT THE EFFECT OF A CATASTROPHIC ECONOMIC COLLAPSE.

RATHER (VOICE OVER)

IT IS AN ENVIRONMENT THAT TESTS EVEN THE HEARTIEST OF SOULS. THIS IS THE CAPITOL CITY OF REYKJAVIK. THIS IS NOW THE SCENE OF WHAT THE INTERNATIONAL MONETARY FUND CALLS, RELATIVE TO THE SIZE OF THE COUNTRY, THE BIGGEST BANKING FAILURE IN HISTORY. TINY ICELAND IS SUDDENLY THE ULTIMATE EXAMPLE OF A WORST-CASE SCENARIO - AN ENTIRE WESTERN NATION THAT COLLAPSED, WHEN ITS BANKING SYSTEM WAS BROUGHT DOWN. THE FACT THAT THE ICELANDIC LEADERSHIP LET BANKS MANAGE THEMSELVES RIGHT INTO A COLLAPSE SPURRED RAGE IN EVERY ICELANDER - YOUNG AND OLD, OF EVERY POLITICAL COLOR.

ANGRIMUR PALMASON, FORMER CAR SALESMAN

I am the only one to blame. You know - I should be able to take care of myself, you know. Nobody to blame except myself. But I trusted people and that is my mistake. I trusted the government system of Iceland which was not trustworthy and I have been very unhappy about that.

DAN RATHER (VOICE OVER)

ANGRIMUR PALMASON IS PART OF A PROTEST MOVEMENT THAT BEGAN LAST FALL, WHEN ICELAND'S GOVERNMENT REFUSED TO TAKE RESPONSIBILITY FOR THE BANKING COLLAPSE. THE PROTESTS- OUTSIDE THE PARLIAMENT - WERE UNLIKE ANYTHING ICELAND HAD EVER SEEN BEFORE. RIOTS BROKE OUT AROUND NEW YEARS WHILE GOVERNMENT OFFICIALS WERE BUSY TOASTING THEMSELVES AT THIS RESTAURANT. SUDDENLY PROTESTERS WERE IN A SHOWDOWN WITH A POLICE FORCE THAT HAD VERY LITTLE EXPERIENCE WITH ANY KIND OF VIOLENCE. AS THE POLITICIANS WATCHED IN HORROR, A COUNTRY OF ICE TURNED INTO FIRE AND THEN, THE GOVERNMENT FELL, FOUR MONTHS AFTER THE CRASH. A NEW, LEFT-LEANING INTERIM GOVERNMENT STEPPED IN ON FEBRUARY 1ST OF THIS YEAR LED BY A FEMALE PRIME MINISTER. BUT PROTESTERS STILL GATHER OUTSIDE THE PARLIAMENT. FOR THESE PEOPLE WHO WONDER WHAT HAPPENED TO THEIR JOBS, THEIR PENSIONS AND THEIR FUTURES, THE CHANGE IN GOVERNMENT IS NOT ENOUGH.

GUNNAR SIGURDSSON, CITIZEN'S MEETING OF ICELAND

You are pouring a lot of money into this now from the government from the taxpayers, from the public. Who's paying for this? Just the plain public.

RATHER (VOICE OVER)

GUNNAR SIGURDSSON LEADS A SMALL GROUP OF REVOLUTIONARIES AT WEEKLY EVENING MEETING.

GUNNAR SIGURDSSON

We had people there who were supposed to be the chairmans, the managers, of these companies and they had huge salaries, because they had so much responsibility, they said. Where is the responsibility now? Where are these guys? Where are the big guys in America that had the responsibility of running all these huge companies?

RATHER (VOICE OVER)

SO HOW DID SOME THREE HUNDRED THOUSAND SCANDINAVIANS TURN A FISHING NATION INTO ONE GIANT HEDGE FUND, AND THEN LOSE IT ALL?

THORLEIFUR ARNASON

It's such a short while ago, that if you couldn't fish, you starved. If you didn't - if your sheep didn't live you would actually die with them.

DAN RATHER (VOICE OVER)

THORLEIFUR ARNASON IS ICELANDIC TO THE CORE. HE'S A PLAYWRIGHT HERE AND HE SAYS THE COUNTRY HAS COME A LONG WAY IN SHORT TIME.

THORLEIFUR ARNASON

You know when Europe was writing its magna carta and the Americans were doing the revolution, and the French were storming the Bastille, we were basically just eating rotten food and trying to survive.

RATHER (VOICE OVER)

AND NOT ONLY DID THEY SURVIVE, BUT THEY THRIVED. OVER THE LAST CENTURY, ICELAND BECAME A MODERN EUROPEAN STATE, AND THE UNITED NATIONS RECENTLY NAMED IT THE BEST PLACE IN THE WORLD TO LIVE. HEALTHCARE, EDUCATION AND SOCIAL SERVICES WERE ALL FIRST RATE. ICELAND HAD ALSO BECOME A MAJOR FINANCIAL CENTER. BANKING HERE USED TO BE A LOW-KEY AFFAIR, BUT THAT CHANGED AT THE DAWN OF THE NEW CENTURY, WHEN ALL THREE OF THE NATIONAL, STATE-RUN BANKS WERE PRIVATIZED.

PROFESSOR ROBERT WADE, LONDON SCHOOL OF ECONOMICS

Banks that had done very routine, retail business suddenly were not just privatized but also deregulated.

DAN RATHER (VOICE OVER)

PROFESSOR ROBERT WADE AT THE LONDON SCHOOL OF ECONOMICS HAS ANALYZED THE RISE AND FALL OF ICELANDIC BANKING. AND IT WAS HERE, TO LONDON, THAT MANY OF THE ICELANDIC BANKERS TRAVELLED - TO FLEX THEIR MUSCLES. THEY WERE A NEW BRAND OF ICELANDIC BANKERS – YOUNG AND AGGRESSIVE; OUT TO MAKE MONEY – BY TAKING BIG RISKS.

ROBERT WADE

They went wild-- in a way rather similar to that of the-- savings and loans banks in the United States in the late 1980's. They went off-shore. They bought up all kinds of assets. They financed themselves by borrowing money short-term. And so that Iceland ran-up the second highest ratio of bank assets to Iceland's GDP-- gross domestic product, the second highest in the world next to Switzerland.

RATHER (VOICE OVER)

BUT UNLIKE THOSE EXPERIENCED SWISS BANKERS, MANY OF THE ICELANDERS WERE STRAIGHT OUT OF COLLEGE – THEY WERE ICELAND’S FIRST GENERATION TO EVER TRY INVESTMENT BANKING, THE NEW VIKINGS. THEY BORROWED MONEY IN EVERY CURRENCY THEY COULD GET THEIR HANDS ON TO MAKE MORE MONEY, QUICKLY. THEY PLUNGED INTO THE DERIVATIVES MARKET; THE SECURITIES MARKET AND ALL KINDS OF PRIVATE EQUITY. STEFAN OLAFSSON IS A SOCIOLOGIST AT THE UNIVERSITY OF ICELAND.

STEFAN OLAFSSON, SOCIOLOGIST

The new backers, I mean, they were just young business people. They come from this environment where you are allowed-- quite a bit of freedom, more freedom than you would in most other countries. Iceland is a very flexible country. We-- we-- we have a tradition of-- bending the rules, when they need to be bent.

RATHER (VOICE OVER)

BANKING HAD REPLACED FISHING AS THE NATIONAL IDENTITY, AND THE NEW INDUSTRY EMPLOYED THOUSANDS OF PEOPLE. IN THIS NEW ECONOMY, TO BE A BANKER WAS THE ULTIMATE COOL.

ANDRI SNAER MAGNASON, AUTHOR

These guys became like our local superheros. You know, they were buying up stores abroad, and ten years ago it was in the news when an Icelander opened a pizza place in Denmark.

RATHER (VOICE OVER)

AUTHOR ANDRI SNAER MAGNASON IS PART OF THE SAME GENERATION, AND MANY OF HIS BEST FRIENDS BECAME BANKERS. BUT MAGNASEN CHOSE ANOTHER PATH, AND TODAY HE’S ONE OF THE COUNTRY'S LEADING VOICES.

MAGNASON

Well, we had like 500 range rovers imported to the country, which was more than Sweden and Norway and Denmark put together in range rover import. All of the women in putting were unhappy with their interior design, so they were throwing out all the interior, kitchens, and putting in newly designed stuff. It was a very freaky period.

THORLEIFUR ARNASON

I remember this, I lived in Germany. And at the same time Icelandic companies were buying some airplanes abroad, and Deutsche Bahn was buying some French railway company. And I was comparing it, because I had never heard the Germans in the swimming pool saying “you know, we went and bought a French railway company”, because it was just Deutsche Bahn who had bought it. But in Iceland, even though a private company had bought airplanes, we were buying you know, Easy Jet, and Finn Air, and American Airlines.

ANDRI SNAER MAGNASON

And we were flying private jets. We. You know we, us Icelanders. Now we had, like, ten private jets at the airport.

RATHER (VOICE OVER)

WITH SO MUCH NEW MONEY, AND EASY CREDIT FOR EVERYONE, THERE WAS PLENTY TO SPREAD AROUND - SUDDENLY THE CAPITAL NEEDED A NEW CULTURAL CENTER, INDOOR WATERFALLS AND FANCY RESTAURANTS. IN 2007, THE AVERAGE INCOME IN ICELAND WAS AMONG THE HIGHEST IN THE WORLD. ALMAR GUDMUNDSSON, WHO WORKED AT GLITNIR BANK, HAD HIS SHARE OF THE GOOD LIFE TOO.

ALMAR GUDMUNDSSON, FORMER BANK EMPLOYEE, UNIVERSITY LECTURER

I'm an economist as-- by profession, so-- so I-- I always thought, you know, is this too good to be true? But when you are in this situation and especially when you are given opportunities, personally, in dealing with interesting things, you do not think too heavily about, okay, this is not-- this is too good to be true. You just keep on doing your jobs-- into your new-- new-- opportunities.

SIGRIDUR SIGURJONSDOTTIR, DESIGN PROFESSOR AND BANK CUSTOMER

The banks were doing really well, they were making a lot of money, you know before all this, and I used to think - well they must be so - clever.

RATHER (VOICE OVER)

SIGRIDUR AND HALLDUR LARUSSON LIVE WITH THEIR TWO CHILDREN IN ONE OF THE NICEST PARTS OF REYKJAVIK. SHE HAD PUT ALL OF HER SAVINGS IN ONE OF THE BIG THREE BANKS. AND THEN LAST YEAR, SHE COULDN'T SHAKE THE FEELING THAT SOMETHING WAS WRONG.

HALLDUR LARUSSON

Last February you were worried that the banks might fail. Yes. And everyone was saying don't be ridiculous; you are just being pessimistic.

SIGRIDUR SIGURJONSDOTTIR

And when I remember, I think it was on Friday I went on my online banking, it was a Friday before the 6th – do you remember – I went on and I was going to transfer some money.... and there was like an error, you know the system is down and I immediately said to Halldur, there is something wrong.

ALMAR GUDMUNDSSON

I think the morning of-- 6th of-- October is-- will live in my memory forever. Because obviously, for everybody working in a bank in Iceland at the moment, it was a very-- traumatic day.

RATHER (VOICE OVER)

IT WAS THE DAY THE SKY FELL DOWN. WHEN ALL THREE BANKS IN ICELAND SENT OUT AN SOS – THERE WAS NO MONEY LEFT, AND THE HEAD OF ICELAND'S GOVERNMENT SPOKE TO THE NATION.

ALMAR GUDMUNDSSON

We had an address from the Prime Minister, the-- the former Prime Minister. And he ended the talk by saying, "God bless Iceland." Which is unlike America, not-- common thing for the Prime-- Prime Minister to say. So I think a lot of people stopped then and reflected what on earth is happening to us?

RATHER (VOICE OVER)

IN AN AGE OF CHEAP CREDIT AROUND THE GLOBE, ICELAND'S BANKS HAD KEPT NOTHING IN RESERVE. WHEN THE FREE-FLOW OF MONEY STARTED DRYING UP - THE PARTY SUDDENLY ENDED. AND THE MESS LEFT BEHIND WAS SO GREAT, ICELAND'S GOVERNMENT DIDN'T HAVE THE FUNDS TO BACK THEM UP. DEPOSIT HOLDERS RAN TO GET THEIR MONEY. THE CURRENCY WENT INTO A FREE-FALL. THE STOCK EXCHANGE LOST 98 PERCENT OF ITS VALUE. FINALLY, THE GOVERNMENT SAW NO OTHER OPTION, BUT TO SHUT DOWN ALL THREE BANKS AND MOVE IN.

ALMAR GUDMUNDSSON

I remember-- coming to work that morning and my boss came to me and said-- "Well, you know, a lot of things happened to-- this weekend. But you do not know that we have a new shareholder. And the Icelandic government now owns 75 percent of our bank." And I simply just lost my head completely. And then didn't understand what was happening.

RATHER (VOICE OVER)

ALMAR GUDMUNDSSON AND EVERY OTHER ICELANDIC TAXPAYER HAD JUST BECOME PART OWNERS OF THE BANKS. THEY WERE ALSO SUDDEN DEBT HOLDERS - TO THE TUNE OF AN ESTIMATED 30,000 DOLLARS FOR EVERY MAN WOMAN AND CHILD. AND THAT'S JUST TO BAIL OUT THE BANKS. IN A NATION FAMOUS FOR ITS HOT SPRINGS, THE ENTIRE POPULATION WAS TAKEN FOR A BATH. AND, LIKE A THIRD-WORLD COUNTRY, ICELAND WAS FORCED TO GO TO THE INTERNATIONAL MONETARY FUND FOR AN EMERGENCY LOAN.

STEFAN OLAFSSON

People do realize that things went wrong here.

DAN RATHER (VOICE OVER)

STEFAN OLAFSSON, THE SOCIOLOGY PROFESSOR, DESCRIBES SOMETHING THAT SOUNDS ALL-TOO FAMILIAR AROUND THE WORLD BY NOW - HOW BANKS SIMPLY WENT SHOPPING AND GAMBLING ON CREDIT - HOPING THAT THE VALUE OF EVERYTHING WOULD GO UP FOREVER.

STEFAN OLAFSSON

People who are asking for a long time here, "How is this all possible? How-- how come that these businessmen from this small nation of 300,000 inhabitants, how come that they are so wealthy? How can they buy all these big firms?" But only recently did we discover that this was all borrowed money. This was all borrowed money. They ended up with a banking system which was ten times the size of the-- the gross national product. And-- 80 percent of that was foreign debt. This was as unsustainable as anything can be.

RATHER (VOICE OVER)

NOW, THE FANCY CARS ARE BEING ABANDONED OR SHIPPED ABROAD AGAIN. AUTOMOBILE SALES HAVE COME TO A COMPLETE STANDSTILL. UNEMPLOYMENT HAS SHOT UP TO EIGHT PERCENT, FROM ZERO LAST YEAR. WITH A MAJORITY OF ICELANDIC COMPANIES IN BANKRUPTCY, THE ECONOMY IS AS SOLIDLY FROZEN AS THE LANDSCAPE.

ANGRIMUR PALMASSON

I was a salesman for cars, but now I'm out of a job.

RATHER (VOICE OVER)

ANGRIMUR PALMASSON HAS NO IDEA HOW HE WILL SUPPORT HIS FAMILY.

PALMASSON

If I cannot delay my loans, I will be bankrupt. Within some months. Maybe one year, something like that. If I can delay them, I can maybe survive. But my financial system is in very bad shape at the moment.

RATHER (VOICE OVER)

WITH A BANKRUPT GOVERNMENT – THERE WILL BE NO “STIMULUS BILL” HERE. ABANDONED CONSTRUCTION SITES ARE ALL AROUND THE CAPITAL, AND BY THE MAIN HARBOR, FACING THE PRIME MINISTER’S OFFICE, STANDS A SKELETON OF WHAT WAS TO BE THE NEW CONCERT HALL- A SYMBOL OF GRAND AMBITION, NOW, IT MAY NEVER BE FINISHED.

STURLA JONSSON, CONSTRUCTION COMPANY OWNER

For me, this truck is like a sportscar... 565 horsepower engine in it, and it's light, very, I'd say practical, to use for hauling heavy stuff.

RATHER (VOICE OVER)

STURLA JONSSON LOVED HIS TRUCK. BUT HIS CONSTRUCTION COMPANY IS GONE AND HE HAS NO INCOME. ON THIS DAY, HE WAS FORCED TO RETURN THE TRUCK. IN 2006, HE TOOK OUT A LOW-INTEREST LOAN IN JAPANESE YEN TO BUY IT. THE BANK ENCOURAGED BORROWING IN FOREIGN CURRENCIES – THAT’S WHAT EVERYBODY DID IN ICELAND, HE SAYS.

STURLA JONSSON

They were talking about it in the paper, everybody was talking about it, it was so good to take loan, and they advertised it for Icelandic people. They were almost saying you are stupid if you take Icelandic loan. You should take this one. And you make your plans for the company and for your family and all that stuff. And they did not write at the top of the paper: this is going to be a 100 percent drop, after two years. And you are going to lose everything. They didn't talk about that.

RATHER (VOICE OVER)

WITH A COLLAPSED CURRENCY, HE NOW OWES MUCH MORE THAN WHAT HE PAID FOR THE TRUCK IN THE FIRST PLACE. IN ADDITION, HE WILL NEED TO HELP PAY OFF ICELAND’S COLLECTIVE DEBT.

ANDRI SNAER MAGNASON

Normal people, you know, working in hospitals, or teachers, have no idea about this financial business, and the risks that were taking and we were told -- now they're private, it's not your responsibility, you shouldn't interfere with their business, if they lose then they lose, and that's what pisses people really off, that we were told: don't make a fuss about the wages, don't make a fuss about the jets, don't say anything about the inequality that's being created. It's not your business, it's private. So now that it crashes, and we get all the debt - of course people are furious. It's like somebody just called you and said 'oh your uncle is bankrupt and by the way, he put your name under all the signatures -- it's just the same.

ROBERT WADE

The people who were paid large amounts to protect the public interest were regulators, were the Central Bank and the Icelandic Financial Services Authority.

RATHER (VOICE OVER)

PROFESSOR WADE IN LONDON POINTS NOT TO THE BANKERS, BUT RATHER TO THOSE WHO WERE SUPPOSED TO WATCH OVER THEM.

ROBERT WADE

And it is pretty clear looking back that these two principle regulatory agencies were acting more as cheerleaders of the banks and the investment companies than as regulators. In other words, it was a classic case of regulatory capture.

RATHER (VOICE OVER)

THE GOVERNMENT DOES HAVE A NEW MINISTER FOR BUSINESS AFFAIRS, BUT JUST HOURS INTO OFFICE HE DIDN'T HAVE GOOD NEWS FOR ANYONE IN ICELAND - OR ANY OF THE FOREIGNERS OWED MONEY EITHER.

GYLFI MAGNUSSON, MINISTER FOR BUSINESS AFFAIRS

It's obvious that shareholders will not get anything. Creditors and many of them are Icelandic, but others are also foreign, mainly western European, that they will obviously in many cases lose some portion of what they had lent to the Icelandic banks.

RATHER (VOICE OVER)

IT WILL BE GYLFI MAGNUSSON'S JOB TO CLEAN UP THIS MESS. ONE OF HIS GREATEST CHALLENGES WILL BE TO FIND NEW BANK LEADERS AND BUILD OVERSIGHT AGENCIES, FROM SCRATCH. HIS RECRUITMENT BASE – A TIGHT-KNIT SOCIETY FILLED WITH CRONYISM.

GYLFI MAGNUSSON

Well that is a problem what we have been dealing with forever, and probably that was one of the reasons why the oversight system didn't really do its job, while the banks were growing, but we are painfully aware of that now, and so we'll have to take extra steps. But in a small society you don't have a lot of people to chose from to lead the banks, but I'm pretty sure that we can find enough competent people to lead the banks nevertheless.

DAN RATHER (VOICE OVER)

THERE ARE ALSO SUSPICIONS THAT A LOT OF MONEY HAS DISAPPEARED TO TAX HAVENS, AND SEVERAL OF THE FORMER BANK OWNERS HAVE ALREADY LEFT THE COUNTRY. IN THE MEANTIME, ICELANDERS WILL HAVE TO ADJUST THEIR LIFESTYLE ONCE AGAIN – AND THIS TIME, IT'S ABOUT DOWNSIZING. WAY DOWN.

THORLEIFUR ARNASON

All the signs that this was going down the drain was already there, you know. We'd lived with unreality for so long, so why bother with reality when it showed up, you know. We were like miracle workers.

ANDRI SNAER MAGNASON

But you know in other ways, Icelanders are quite connected to reality. So you know when all this fails, they just go and work in construction and maybe not a big deal about the luxury. Because it's not like you're the fifth generation of luxury. You weren't raised that in luxury, and you don't really have taste or you don't really know how to have three forks on your table. You have no real idea how that works. So - so in many ways it was not such a shock that. Everybody had a grandmother that was saying, that was fussing about what was going on you know, this can't be true and you can't be doing this and where does all this come from.

THORLEIFUR ARNASON

You basically mean because it's easy to get nouveau riche and it's also easy getting nouveau poor. Now we're just nouveau poor.

ROBERT WADE

Iceland shows what can happen in a liberalized, deregulated, financial system. It shows that private, financial markets don't discipline themselves, that boards of banks and shareholders of banks don't keep their firms within prudential limits. And it's a kind of extreme example of the catastrophe that can happen to a whole society that allows a financial system to become the tail that wags the dog, so to speak.

RATHER (VOICE OVER)

THERE'S AN IMPORTANT LESSON TO BE LEARNED FROM ICELAND, SAYS PROFESSOR ROBERT WADE IN LONDON. THE REST OF EUROPE HAS MANY BANKS IN TROUBLE RIGHT NOW, AND WHAT HAPPENED IN ICELAND HAS GIVEN OTHER EUROPEAN LEADERS GREAT PAUSE.

ROBERT WADE

I think that right across Europe-- unemployment is surging. Pension funds are collapsing, and these two things, together-- are fueling great fear and anger, and as the level of fear and anger rises, we will see more and more protests-- in one form or another. So I think we're in for s-- a-- a year or two of quite a lot of social unrest. What we have seen so far is just the beginning.

RATHER (VOICE OVER)

AND BACK IN ICELAND, THE PROTESTERS STILL BRAVE THE COLD EVERY SATURDAY. BUT THESE DAYS, IT'S NOT ALL SHOUTING. IT'S PERHAPS MORE ABOUT DECIDING TO ONCE AGAIN TO STICK IT OUT ON THEIR UNFORGIVING ISLAND - ONE THAT FOR A BRIEF MOMENT HAD SOMETHING MANY SAW AS A MIRACLE, THAT WAS IN TRUTH ENTIRELY MAN-MADE.

RATHER (ON CAMERA)

THE MELTDOWN IN ICELAND. IT SHOULD BE NOTED THAT ICELAND WAS THE FIRST GOVERNMENT TO FALL AS A DIRECT COSEQUESNCE OF THE WORLD-WIDE ECONOMIC CRISIS. JUST WEEKS LATER, THE BALTIC NATION OF LATVIA'S GOVERNMENT RESIGNED AFTER ITS ECONOMY COLAPESED. NOW JUST AHEAD ON THE PROGRAM, A CONVERSATION WITH A NOTED ECONOMIST ABOUT HOW CLOSE THIS COUNTRY WAS TO THE SAME FATE. THAT'S NEXT.

DR. ZANDI:

DAN RATHER (ON CAMERA)

SO HOW CLOSE WAS THE UNITED STATES TO COMPLETE ECONOMIC SHUTDOWN? THAT'S JUST ONE OF THE TOPICS I HAD A CHANCE TO EXPLORE WITH NOTED ECONOMIST, MARK ZANDI. DR. ZANDI IS THE CHIEF ECONOMIST AND CO-FOUNDER OF MOODYSECONOMY.COM. HE'S ALSO BEEN INVITED TO THE WHITE HOUSE REENTLY TO ADVISE PRESIDENT OBAMA ON HOW TO SOLVE OUR ECONOMIC CRISIS.

DAN RATHER

Can what happened in Iceland happen here?

MARK ZANDI, CO-FOUNDER AND CHIEF ECONOMIST, MOODYSECONOMY.COM

I don't think, no. It won't happen here. Iceland-- is-- much like Eastern Europe. They did roughly the same things. Their consumers and households borrowed a lot of money in-- in other currencies. And got themselves into big trouble. Their banks-- in-- borrowed lots of money and invested in a lot of US residential mortgage securities. The same-- loans that are driving our banks under, are driving their banks under. But, unfortunately, their banks are a lot smaller than our banks. And their government doesn't have the same resources as our government. So they can't come to the rescue of their banking system like we can come to the rescue of our banking system.

RATHER

Well, to people in their living room who've seen the Iceland thing, and said "Man, that's terrible what's happened here," what should be their take away from what's happened in Iceland?

MARK ZANDI

Well, you know, I think-- bottom line-- is that those animal spirits that drive economic activity, need to be contained. We don't want to-- we don't want to dash those animal spirits because that creates the entrepreneurial spirit, and the risk taking that's necessarily to invent things that we wouldn't invent otherwise. The internet, the iPod. These are done by people who take big risks.

RATHER

Take big risk. Hoping to get big gain.

ZANDI

Exactly. But-- that's where it's important for our regulators to come in and make sure that the animal spirits aren't completely doused, but they don't get out of the cage completely.

RATHER

Is there any major country in the world that is not in trouble at the moment? Maybe China?

ZANDI

No. China it's-- it's-- the economy is the strongest on the planet. And it's because they have tremendous resources, and they're using it. Talk about stimulus. Their stimulus package is measurably greater than our own, compared to the size of their economy. And they're using that stimulus to help support their economy. So India is also an-- an economy that's doing reasonably well. But, outside of that, it's just different flavors of grey, you know, across the global economy.

RATHER

Did you ever think you'd live to see the day when you would say, "Well, China and India are comparatively pretty good, and we're in a hell of a shape"?

ZANDI

Frankly, not. No.

RATHER

But, as you look around the globe, where are the worst trouble spots, besides our own economy, or potentially the worst trouble spots?

MARK ZANDI

Europe. Particularly Eastern Europe. A lot of the households, eastern European households and businesses borrowed very heavily. And they borrowed money in other currencies. Which-- in the Euro, for example. And-- you know, that-- that's a good thing, when-- when their currency is strong. But when their currency is falling it means that their debt payments are rising, and they can't afford those payments on their debt. Their banks also borrowed very heavily. I mean, if there's a common, kind of, theme to where the problems are, just look for the leverage. Who borrowed a lot of money? They're probably the ones that are in the worst shape. And Eastern Europe borrowed the most money.

RATHER

If they go bust, does that have a boomerang effect on us?

ZANDI

It does. It will hurt the western European economies more. Because it's the western European economies that lent a lot of the money to the Eastern European economies. Now, of course, then that hurts us. Because we do a lot of trading, and there's a lot of financial flows and integration between the United States and-- and particularly western Europe.

RATHER

We've heard talk in various reports of sometime late last year that our economy was, quote, "near total collapse." How close did we come?

ZANDI

Close. Very close. I think if you go back to, say, September of '08, September, October-- the financial system was-- was collapsing.

RATHER

Well, was there a point when we were within days, even hours, of having the whole thing collapse? Or was there a longer time span than that?

ZANDI

No, I'd say days-- weeks. You know, I think if-- nothing-- if the government hadn't stepped in, if-- if we hadn't responded then I think the economy would have effectively shut down in October and November.

RATHER

We haven't had a total collapse. What is a total collapse?

ZANDI

Well, total collapse is-- I can't get an auto loan, I can't get a student loan, I can't get a mortgage loan. Businesses can't get a loan to finance their business. That means I've gotta lay off workers. I can't make- I can't pay them. I mean, I just can't-- you know, every two weeks you get a paycheck. That paycheck comes from your friendly employer. That friendly employer wouldn't be able to give you the paycheck. If you can't get your paycheck, what do you do? You go dip into your savings. And then you start working through that. And you're panicked. And you start cutting back. Everything falls apart. It unravels very rapidly. And so that to me is panic. That is a collapse.

RATHER

Are US banks in a weaker or stronger position today than they were, say four to six months ago?

ZANDI

Stronger. Stronger. Because the government's behind them. The government's got their back. I mean the thing that has happened in the last four to six months is the US government has now said, "We are not going to let major financial institutions fail."

RATHER

Are the banks actually lending money now?

ZANDI

No. They're not. They need more help. We're not there yet. The government has their back, but they now have to provide more help to get the banks on sounder footing. That means the government has to give the banks more capital. That's that cushion they need to be viable concerns. And they have to work to get those troubled loans off the bank's balance sheet. Once the government does that, then the banks will go out and extend out more loans.

RATHER

You mentioned it's very important that banks keep lending. One of the problems is they stopped lending. As I listened to that- why is that so important? Keeping in mind, isn't that, or is it part of what got us into trouble? Banks lending ever more money to ever riskier operations.

ZANDI

Well, what got us trouble was bad lending. Making a loan to a household or a business that could not afford the loan. Good lending is vital, necessary. I mean, most businesses are well run, well managed. If they want to expand their business and go hire somebody, you need your friendly banker to be there to help finance that for you. So we need lending. We just need good lending. We don't need the kind of bad lending that got these banks into trouble in the first place.

RATHER

Trying to pick up from that point, if I'm a welder in Wichita, or a pipefitter in Peoria, why am I not to think, wait a minute, we're just throwing good money after bad. 'Cause the man just said, we put this money in the banks, but they're not yet lending money. We have to put more money into banks. Why is this not a case of just throwing good money after bad and it's not gonna come out very well?

ZANDI

You gotta think about the world without that help. Think about the so called counter factual. I mean, you think about what would have happened if we had not put that money in. And go back to September and October. The banking system would have collapsed. You, as the pipe fitter in Peoria, you'd be out of work right now. In likelihood, you would be out of work. So think about—

RATHER

If the government hadn't put this money in the bank--

ZANDI

Had not put it-- had not put the money in the banks. Now, does that mean you're getting a loan now from the bank? No. But that means they're not calling your loan. That means that, you know, you're-- they're not calling your loan. So the world would have been measurably worse for you if the government had not done what it did. It's not enough yet. But it-- it-- just-- just gotta think about what would have happened without it.

RATHER

Well, let's talk about the nationalizing the banks. First of all, what does nationalizing the banks mean?

ZANDI

There's a lot of definitions. In my nomenclature a nationalization occurs when the taxpayer owns more than 50 percent of the shares in that financial institution.

RATHER

All right. Are we nationalizing banks, whether we call it that or not?

ZANDI

We are nationalizing some. Smaller institutions, smaller banks-- they're being nationalized. In the sense that the government is just coming in taking over their operations and wiping out all the shareholders, and all the debt holders in that institution. I-- there are 8,400 banks, savings and loans and credit unions in the country. If you told me, five years from now, we're-- we've lost 1,000 of them or-- small institutions, in this way, I'd say that sounds about right to me. We're gonna lose a 1,000 of those institutions. That--

RATHER

Sounds scary.

ZANDI

Well, they're small. You know, it's the local institution with one branch, or a couple branches in your local community. If they made one bad commercial mortgage loan, that bank is toast. The big institutions, I don't think any of them, at this point, will be nationalized.

RATHER

We're talking about Citi Bank, Bank of America, those kinds of places.

ZANDI

Correct. Now, it will be, in some cases, close. In the case of Citi Group-- the taxpayer now owns 40 percent.

RATHER

And you think if-- if the taxpayer owned more than 50 percent, by your definition--

ZANDI

We've nationalized them.

RATHER

We've nationalized them.

ZANDI

Yeah, but it-- you know, that's a word. I mean, effectively, I'm not sure what the difference is. I mean, a 40 percent, or 60 percent, the US taxpayer has significant control over Citi Group. Meaning that if Citi Group does things that-- that-- taxpayers don't like they can stop it. Even at 40 percent.

RATHER

I want you to try to -- put in context this debate about whether to, quote, “nationalize” the banks. Which flows almost immediately into a conversation about, quote, “socialism”. Or becoming a socialist country. Magazine cover says we're already a socialist country. Put that in some perspective for me.

ZANDI

I don't think nationalization necessarily leads to socialism. In the sense that what I would define as socialism is that the government would be determining who gets a loan and who doesn't get a loan. I-- I don't think, even if the taxpayer owned 70 percent of Citi Group, that policy makers would be in the business of deciding who gets a loan and who doesn't get a loan. That's just not gonna happen, I don't think, in our system and the way we're set up, and given the political process. So, even with nationalization, I don't-- I don't think we get to socialism-- or some flavor of something we don't consider to be capitalism. We-- that's not gonna happen, I don't think, because I don't think any policy maker wants to see that happen.

RATHER

Does anyone, besides the federal government now, have real capital?

ZANDI

There's actually a lot of capital. But they're not-- private investors are just not gonna invest in these institutions. Because, you know, the private investors-- you know, were jumping in, the-- in during the crisis. The crisis began in summer of '07. Banks were running-- low on the capital they needed. And they did get private capital to come in the first half of 2008. But all those private investors who got in, you know what, they pretty much lost all their money. And so there's-- other private investors who saw this aren't gonna come in until they're absolutely positively sure that they're not gonna lose their money. And the only way to do that is for the government to-- to provide capital right now to the system.

RATHER

As you know, there are financial experts, and no small amount of them, who say some version of this to me. They say, "Listen, it's best to leave the economy alone. Let the situation play itself out. That's the essence of capitalism. It's been proven time and time again. That's the best way to do." What's the problem with that approach, in your view?

ZANDI

I agree with that-- philosophy in most times. Almost all times. I think that's appropriate. I think that has worked well for us as a nation, as an economy. It's the reason why we've had the most dynamic, most productive economy on the planet in the last 100 years. I agree with that. But there are times when the system fails. When everyone is running for the bunker, proverbial bunker at the same time, when consumers are panicked, they're not spending, when businesses are panicked, they're out firing workers, when banks are panicked, they're not-- not making a loan, when investors are panicked and they're not—they're selling their stocks. We are in one of those times. And the only way out, in a reasonably graceful way, and I-- this is as graceful as we can get it, is for the government to step in and fill that breach, and try to convince everybody not to panic. If we don't do that everything is gonna come unraveled and we're gonna be in much worse shape.

RATHER

Well, when does it come to an end? I mean, when does-- when do things get markedly better?

ZANDI

I think-- by this time next year, we get stability. Two years from now I think we can exhale. I think we'll feel like we're getting back on track. We're growing again, creating jobs again. Unemployment is starting to come down again. But that's two years from now-- before we—I think we feel really comfortable about where-- where we're at.

RATHER

You're optimistic about the two, 2 1/2 year time span of what can be done. What worries you the most?

ZANDI

It's confidence. You know, the difference between a-- a recession, a garden variety recession that we've been in ten of them since World War II and a-- and a very severe recession, and we've been in a couple of those, and a depression where, you know, things are-- very seriously bad and everybody's having difficulty, is confidence or the lack thereof. And right now we're panicked. I pick that word carefully because there's an element of irrationality to it, right? I mean, we've run for the bunker. And if everyone's running for the bunker at the same time, we've got a problem. So-- it's-- the policy response is appropriate. It's good. But it's-- it's more than the dollars and cents. It's about convincing people that this is gonna really make a difference in their life. Because if you can't convince them, no amount of policy is gonna make a difference. And that's what I'm most worried about.

RATHER (ON CAMERA)

DR MARK ZANDI. NOW STRAIGHT AHEAD ON OUR PROGRAM, BANKS HERE IN AMERICA THAT ARE BUCKING THE TREND AND ACTUALLY HAVE A VERY SOLID BOTTOM LINE. THAT'S COMING RIGHT UP.

COMMUNITY BANKS:

RATHER (ON CAMERA)

YOU'VE HEARD TONIGHT ABOUT BIG BANKERS BEHAVING RECKLESSLY AROUND THE WORLD. FOR OUR FINAL REPORT, WE RETURN TO THE UNITED STATES, BUT NOT TO WALL STREET. SURPRISINGLY WE FOUND THAT IN CITIES AND TOWNS ACROSS THE COUNTRY, MANY SMALL AND MEDIUM SIZED COMMUNITY BANKS ARE ACTUALLY DOING WELL – LIKE ONE WE VISITED IN MASSACHUSETTS. THIS BANK'S SOLVENT, LENDING MONEY AND EXPERIENCING A SURGE IN BUSINESS. THE BANK'S PRESIDENT HAS A SIMPLE FORMULA FOR SUCCESS THAT HINGES ON A WORD THOSE BIG BANKS DIDN'T SAY OFTEN ENOUGH.

ROBERT GAUGHEN, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF HINGHAM INSTITUTION FOR SAVINGS

You're not always doing a service to the person by making the loan if they can't afford it.

RATHER

You tell people no?

GAUGHEN

Oh, yeah. Yeah, we tell people no.

RATHER (VOICE OVER)

KNOWING WHEN TO SAY NO - IT'S JUST ONE OF THE KEYS TO SUCCESS FOR ROBERT GAUGHEN, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF HINGHAM INSTITUTION FOR SAVINGS. THE BANK HAS BEEN IN TOWN FOR 175 YEARS AND THE BANK WITH A QUAIN T NAME HAS A QUAIN T SLOGAN--

HINGHAM INSTITUTION FOR SAVINGS AD

Simple banking, honest value, happy customers. Now that's simple banking.

RATHER

You see the bank as an important pillar of the community. Would that be too strong?

GAUGHEN

Oh sure. I think-- people are proud of their local bank. I think people who live here in town and the surrounding communities look to us-- for some leadership in the community, and-- appreciate the fact that they have an independent bank down here.

RATHER

Well, community banks such as yours have a reputation for sometimes, maybe all the time, making loans to people who wouldn't ordinarily qualify for loans. It's what's been described to me as, "Well, you know the person in the community, and you judge him by the look in his eye and the shake of his hand. You go ahead and make the loan." Do you make those kind of loans?

GAUGHEN

Yeah, common sense lending.

BANK CUSTOMER

Hi. I'd like to open a checking account, if that's possible.

BANK EMPLOYEE

Sure, we can do that for you. And may I see your license?

RATHER (VOICE OVER)

HINGHAM SAVINGS-- AND SMALL BANKS LIKE IT ACROSS THE COUNTRY ARE GROWING. THEY SAY THEY'RE SEEING AN INFLUX OF NEW BUSINESS AS PANICKED OR ANGRY CUSTOMERS BAIL OUT OF THE BIG BANKS. 70% OF COMMUNITY BANKS SAW AN INCREASE IN DEPOSITS OVER THE LAST YEAR.

BANK TELLER

Is this going in?

BANK CUSTOMER

That's going in and this is coming out.

RATHER (VOICE OVER)

THAT'S BEEN THE CASE HERE IN HINGHAM MASSACHUSETTS. IT'S ONLY A FEW MILES SOUTH OF BOSTON. A POSTCARD NEW ENGLAND COMMUNITY THAT TODAY HAS JUST OVER 20-THOUSAND RESIDENTS. DOWN ON MAIN STREET IS ROBERT GAUGHEN'S BANK.

GAUGHEN

One of our early loans was to Daniel Webster, who used to come down on the stage down to his - a farm that he bought with financing from us, down in Marshfield. So that there's this huge history here.

RATHER (VOICE OVER)

THAT'S WHAT THESE KINDS OF BANKS ARE ALL ABOUT – TIES TO THE COMMUNITY. THEY ARE GENERALLY DEFINED AS HAVING ASSETS OF LESS THAN A BILLION DOLLARS--WHICH MAY SOUND LIKE A LOT, BUT IT'S A FRACTION COMPARED TO THE HUNDREDS OF BILLIONS OF DOLLARS AT THE BIG BANKS. THE NEARLY 8,000 COMMUNITY BANKS IN THE UNITED STATES ACCOUNT FOR 92% OF THIS COUNTRY'S BANKS, BUT COMPARED TO THE BIG BANKS THEY CONTROL A VERY SMALL SLICE OF THE FINANCIAL PIE. WHAT REALLY SETS THEM APART ARE THEIR OLD FASHIONED LENDING PRACTICES – NOT ONLY DO THEY LOAN LOCALLY, BUT THEY OFTEN KNOW THEIR CUSTOMERS BY NAME.

BANK TELLER (TO CUSTOMER)

Here you go Mrs. Maithe. Thank you very much.

RATHER

Do you, or do you not, see this as a return to kind of 1950's style banking?

GAUGHEN

I think there is a return-- of interest in banking organizations that are of a scale that people can appreciate. Some of the larger ones just became so gargantuan-- and did so many different things, in terms of providing you your insurance, and your stock brokerage, and the-- and-- and-- and this crisis has certainly proved that that model doesn't quite work.

RATHER (VOICE OVER)

“DOESN'T QUITE WORK” COULD BE THE UNDERSTATEMENT OF THE YEAR. 2008 WILL LONG BE REMEMBERED AS THE TIME BIG BANKS IN THIS COUNTRY SUDDENLY BECAME VILLAINS. AND THE COMMUNITY BANKS MAY EMERGE AS THE UNLIKELY HEROES.

PHILLIP LONGMAN, NEW AMERICA FOUNDATION

I think the relative success of small-scale banks in this downturn derives mostly from them having stuck to their knitting.

RATHER (VOICE OVER)

PHILLIP LONGMAN WORKS FOR A WASHINGTON THINK TANK TRYING TO GENERATE SOLUTIONS FOR THE FINANCIAL CRISIS. HE THINKS COMMUNITY BANKS, LIKE THE ONE IN HINGHAM, ARE ON TO SOMETHING. THINK OF THE ULTIMATE SYMBOL FOR RESPONSIBLE LENDING FROM THE CLASSIC MOVIE: “IT'S A WONDERFUL LIFE.”

CLIP OF GEORGE BAILEY FROM “IT'S A WONDERFUL LIFE”

Well your money's in Joe's house - that's right next to yours. And in the Kennedy house, and Mrs. Macklin's house, and a hundred others. Why, you're lending them the money to build, and then, they're going to pay it back to you as best they can. Now what are you going to do? Foreclose on them?

LONGMAN

It's hard to imagine George Bailey making-- predatory loans-- with his humble thrift institution. For one thing, he would've had to face his victims in church the next Sunday. But, also he had a business interest-- as a small-scale banker, in making sure that people struck the right balance between -- thrift and borrowing.

RATHER (VOICE OVER)

BUT THAT'S NOT THE WAY THE BIG BANKS HAVE BEEN DOING BUSINESS AS MANY WHO HOLD MORTGAGES FROM THEM ARE FINDING OUT.

LONGMAN

Today, when a homeowner gets behind on a mortgage, who do you call? It's impossible to know who even owns your mortgage, right, because that mortgage has been sliced and diced into various derivative products-- there's thousands of people in institutions around the world own-- own a piece of your mortgage. They don't know who you are. You don't know who they are. There's no way you can all sort of sit down and come to understanding of how we're gonna work this out. So, what happens? Foreclosure over and over again.

RATHER (VOICE OVER)

EVEN THOUGH HUNDREDS OF THOUSANDS OF PEOPLE LOST THEIR HOMES LAST YEAR, FORECLOSURE ISN'T A WORD YOU OFTEN HEAR AT COMMUNITY BANKS. THAT'S BECAUSE THEY KEEP THEIR LOANS, INSTEAD OF SELLING THEM OFF, AND IF YOU'RE HAVING TROUBLE MAKING PAYMENTS YOU SIT DOWN WITH YOUR LOCAL BANKER TO WORK IT OUT.

BANK LOAN OFFICER

Hi Anita, this is Joan at Hingham Savings. How are you?

RATHER

Do you know how many foreclosures you've had this year?

GAUGHEN

In the last seven years, we have done two foreclosure sales, one of them last-- spring and one of them this morning.

RATHER

One of 'em this morning? Before you and I sat down to talk?

GAUGHEN

Yes.

RATHER

But, two over seven years?

GAUGHEN

Yes.

RATHER

That seems extraordinary to me, I don't--

GAUGHEN

It-- it's-- it's low. It's low, yeah.

RATHER (VOICE OVER)

SMALL BUSINESS OWNERS ED AND ELLEN BROWN DO THEIR BANKING AT HINGHAM SAVINGS. THEY OWN AN IRISH PUB CALLED THE SNUG, WHICH IS KNOWN FOR ITS COLD PINTS OF BEER. AND RIGHT NEXT DOOR THEIR FLOWERSHIP, THE GREENERY. THEY'RE DOING OK FOR NOW, AND THEY CREDIT THEIR LOCAL BANK.

ED BROWN, HINGHAM BUSINESS OWNER

I think it's a sense of security. In this environment we're working-- we're living in right now with some of larger banks-- looking for bailouts, and-- and the environment's going right now. From a business standpoint, I feel secure that-- that Hingham's there to stay. I mean, they're-- they're our local bank. They're solvent. Their default ratio is almost-- nil, zero. And it's really that sense of security on the business side of things to be able to walk in and know that the bank's gonna be there next year or next week, or next month. That's really a-- from the business side, it really makes us feel secure doing business with a local bank. They're not going anywhere.

ELLEN BROWN, HINGHAM BUSINESS OWNER

I know for us--you can, you know, probably get a better rate, say, somewhere else with one of these larger banks. But I think that's-- I think people are afraid of the larger banks right now with all of the changes that are going on. So, I do think that you'll definitely see an influx of people trying to maybe, you know, maybe-- you know, that-- that 1/2 percentage isn't really what's that important right now. Maybe getting a good strong bank and staying with them is more important in the long run.

RATHER

Well, when you talk to people, either in your gift shop and flower business, or here, do you hear them or not, expressing some anger about the bailout of--

ELLEN BROWN

Oh yeah.

RATHER

--big banks? Any complaints?

ELLEN BROWN

People are scared. I think it's a-- it's a scary time. I mean, a lot of people lost their investments. And they were counting on that money. And I-- and I think the way that the bailout's being handled is a-- a little scary. Because people don't really know what's going on

RATHER

What about the argument the says-- but-- go along with-- the argument goes, "Listen, that is fine. You went to Massachusetts, you talked to this man at his bank. He seemed to be doin' okay. But our United States of America cannot survive in the global economy based on community banks. We've gotta have big banks. Big banks have gotta be able to compete on an international scale. That's just the way things are-- have got to go." To that you say what?

GAUGHEN

Oh, I think that's absolutely true. Regional banks, or community banks, can't provide the financial support needed for large scale projects. But-- we need those larger organizations, but we need them to be healthy, and we need them to be-- subject to appropriate scrutiny, and regulation, so that they don't get into the kind of difficulties they've gotten into recently.

RATHER (VOICE OVER)

AND WHEN THAT DIFFICULTY SUDDENLY MEANT BILLIONS OF TAX DOLLARS AVAILABLE TO BANKS FROM UNCLE SAM...THE FOLKS AT HINGHAM SAVINGS SAID NO THANKS.

GAUGHEN

No. We have not-- sought nor received any government money. We have no intention of doing that.

RATHER

But you're lending.

GAUGHEN

But we're lending. We're lending because-- we are-- adequately capitalized on our own. We've got a strong capital base. Our earnings are strong, and-- we intend to continue growing in the same fashion we've grown for many years now. I feel very disappointed in some of the leaders-- of the industry, and some of the larger organizations-- because-- they've created this issue of-- a lack of faith in the system.

RATHER

Let's talk about that for a moment. Do you, or do you not see it as in a way rewarding people who failed?

GAUGHEN

Oh, absolutely. Absolutely. I mean, when you look at-- organizations like Citibank and-- you see the kind of lending that some of the larger shops were doing-- they would do 100 percent home equity loans and you just scratch your head and you'd say, "The folks'll have no equity in their house whatsoever. And-- and you're gonna lend 'em that much money? It-- it-- it-- organizations that did that sort of thing-- you wonder where the governance was. I mean, my directors would have-- looked at me like I had six heads doing that kinda business. But-- and their directors were certainly very sophisticated people. But, you wonder what they were thinking.

RATHER (VOICE OVER)

TO MAKE MATTERS WORSE, THE BIG BANKS AREN'T USING THE BAILOUT MONEY TO LEND MORE. THE ONLY THING THE BIG BANKS ARE DOING THESE DAYS, ANALYSTS LIKE PHILIP LONGMAN SAY, IS BUYING UP OTHER BANKS.

LONGMAN

The really scary thing about-- the big bank bailouts that we've had so far is not-- not only does it reward failure, but it also-- makes the big guys bigger. A lot of that TARP money is going to big banks, who are using it to buy smaller banks. So, we're gettin' fewer and fewer banks concentrated in larger and larger institutions, which is that root of the problem in the first place.

HINGHAM INSTITUTION FOR SAVINGS AD

These are difficult times for some banks, but Hingham Savings is doing exceptionally well. Our earnings are up 33%. Prudent lending, local decisions, the highest capital rating. We've done business this way since 1834.

RATHER (VOICE OVER)

BUT MEANWHILE COMMUNITY BANKS ARE TRYING TO REMIND PEOPLE THAT THEY ARE SOLVENT AND WANT TO LOAN YOU MONEY. HOWEVER, SOME OF THESE COMMUNITY BANKS HAVE GOTTEN THEMSELVES INTO TROUBLE. OF THE 25 BANKS THAT FAILED LAST YEAR 16 WERE COMMUNITY BANKS AND MANY HAD MADE QUESTIONABLE LOANS IN PLACES LIKE NEVADA OR FLORIDA WHERE THE REAL ESTATE MARKET HAS NOSEDIVED. IT WAS A CASE OF THE SMALL GUYS FOLLOWING THE LEAD OF WALL STREET. AND ROBERT GAUGHEN, HINGHAM SAVINGS' PRESIDENT REMEMBERS A TIME IN THE EARLY 90S, WHEN IT ALMOST HAPPENED TO HIM.

GAUGHEN

The bank had been stagnant for a while. And we really wanted to reinvigorate it, and so I met with a variety of different consultants to talk to them about how we might go about that. And I remember meeting with some investment bankers from New York who specialized in community banks. And they were very, very articulate folks and they were talking about securities that I really couldn't understand. But, they were very knowledgeable it appeared to me, and I asked one of them. I said, "Well, this is-- this is interesting theory you've got and proposal for us." I said, "But, how long have you done this for?" And he said, "Well, I've done this for a few years." And I said, "Well, what'd you do before that?" And he said-- "I sold condominiums in New Jersey." And I said, "Oh. You sold condominiums in New Jersey?" I said, "I think we'll stick to doin' local loans here, because I-- I-- I just really-- I'm sure you understand what you're talkin' about, but I can't figure it out."

DAN RATHER (ON CAMERA)

AND THAT'S OUR PROGRAM FOR TONIGHT. A FUTURE PROGRAM NOTE, WE'RE WORKING ON A NEW REPORT FROM INSIDE AFGHANISTAN. WE'LL HAVE IT FOR YOU IN A COUPLE OF WEEKS. IN THE MEANTIME, FOR HDNET, FROM NEW YORK, DAN RATHER REPORTING. GOOD NIGHT.