IndyMac Attack

Networks see IndyMac failure as sign of catastrophe on the horizon, but fail to offer historical context or real reasons for downfall.

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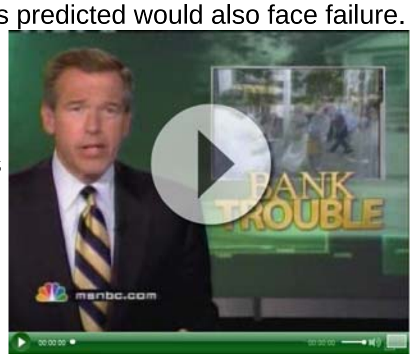
The failure and federal takeover of the California-based IndyMac Bank July 11 signaled a coming financial apocalypse, according to network news reports that predicted "hundreds if not thousands" more bank failures but largely failed to put the event in historical context.

"We saw something today not seen in decades in America," ABC's Charles Gibson incorrectly reported on the July 14 "World News." A brief glance at even recent history shows bank failures are not a new phenomenon, but that didn't stop journalists from hyping this one.

In the 10 days following the Federal Deposit Insurance Corporation (FDIC) announcement that it would take control of IndyMac, the three news networks – ABC, CBS and NBC – aired a combined 41 stories on the subject. Sixteen of the stories predicted catastrophic events to follow IndyMac's downfall, both for IndyMac customers and other Americans whose banks the networks predicted would also face failure.



"Some analysts out there have been calling for literally hundreds if not thousands of regional banks to end up in the situation that IndyMac's in right now," Chris Thornberg, founder of Beacon Economics, said on NBC's July 14 "Today" show.

On the July 14 "Good Morning America" on ABC, correspondent Bianna Golodryga cited one unnamed analyst who predicted that "as many as 300 banks could fail within the next three years."

Many reports cited an FDIC list of 90 "troubled" banks, suggesting the unknown occupants of the list would be next to go under – although IndyMac wasn't even on that list before it failed. The FDIC keeps the list secret to avoid the kind of public hysteria that would lead to bank runs.

But ABC took failure predictions far enough to name several banks its own analysts predicted were in trouble on the July 16 "Good Morning America," in direct contrast to the FDIC's protection of troubled banks to avoid unnecessary panic.

John Reich, director of the Office of Thrift Supervision, rebuked the media in a July 21 speech. His department regulates federally chartered and state-chartered savings associations.

"The IndyMac closing led to further speculation about other banks and thrifts that might be in trouble, fueled by widespread media coverage – especially among television stations – about lists of problem banks developed by research firms and analysts," Reich told the American Bankers Association.

"Seemingly oblivious to the fact that they could drive otherwise healthy banks to fail and push troubled institutions away from potential solutions toward ruin, TV reporters staked out banks on these rogue lists, interviewed customers and stoked public fears," Reich said.

He added that “this behavior goes beyond irresponsible. It’s reprehensible,” and likened shouting “Failure!” in a bank lobby to shouting “Fire!” in a crowded theater.

Some journalists resorted to absurd imagery to drum up fear about bank failures. On the July 14 NBC “Nightly News,” anchor Brian Williams asked reporter Steve Liesman if, “other than my basement, is there any safe haven?”

“There’s always the mattress,” Liesman responded, adding, “but we can’t recommend that so much.”

Depression Connections

But the absurd imagery of hiding money in a mattress wasn’t the worst of journalists’ scare tactics. Some used IndyMac’s failure as another way to connect current economic conditions with the Great Depression, a recently common trend among network reporters.

At least six of the stories referred to Depression-era symbolism, included distraught IndyMac customers hearkening back to the days of the Depression, and even referencing the Christmas classic “It’s a Wonderful Life” with its famous run on the local bank.

A July 12 ABC “World News Saturday” report by Yunji De Nies featured an IndyMac customer making the connection. “I didn’t know this kind of stuff to happen anymore,” Andrew Milukoff said. “I mean, it was 1929, I didn’t know it could happen today in this day and age.”

The CBS “Evening News” featured another IndyMac customer, Lisa Hester Lerner, on July 15. “I think it’s mass hysteria. I think this is similar to what happened during the Great Depression, and everybody wants their money and they want to touch it and hold it and see it.”

But it wasn’t only disgruntled customers making the comparison. Journalists did it too.

“Luckily, most Americans don’t know much more about bank failures than we all learned from watching the Christmastime classic ‘It’s a Wonderful Life’ with Jimmy Stewart,” NBC “Nightly News” anchor Brian Williams said July 14.

He was referring to the 1946 film about small-town banker George Bailey, who must keep the town of Bedford Falls afloat amidst a “run on the bank.” As with any bank run, customers with money in the institution became nervous about its solvency, and all began withdrawing their money at once, putting the bank in actual risk of failure.

The failure of IndyMac, however, is hardly on par with bank failures in the Depression. Historical context makes that obvious.

A Skewed Perspective

Offering historical context has not been high on journalists’ agenda. There were some mentions of the Savings & Loan crisis of the 1980s and other rough years for banks, but most failed to put the IndyMac failure in realistic perspective.

Reports compared IndyMac’s failure to the Great Depression, but didn’t mention there were 4,000 suspended banks in 1933, according to the book “The Banking Panics of the Great Depression.” Five banks have failed in 2008.

Between 1921 and 1933, author Elmus Wicker wrote, “the total number of commercial banks in the US was reduced by one-half.” By contrast, only 55 banks out of almost 8,500 insured by the FDIC have failed in the last 12 years, according to FDIC statistics.

It’s not only the Depression comparisons where journalists have failed to put IndyMac into appropriate historical context. Only seven of the 36 stories included attempts to offer perspective on recent history.

“Not since the savings and loan crisis of the 1980s has a bank this big fallen so hard, so fast,” ABC correspondent Yunji De Nies said on “World News Saturday” July 12. “Customers are stunned.”

The CBS “Evening News” also made the comparison to the Savings & Loan crisis. A graphic on the July 14 broadcast noted that 1,000 banks failed during the crisis. The FDIC reported that between Jan. 1, 1986, and Dec. 31, 1995, a total of 1,043 institutions were closed by the FDIC and the Resolution Trust Corporation (RTC). The institutions held $519 billion in assets.

There were some bright spots of historical context among expert contributors, however, like Mellody Hobson, president of Ariel Investments and a contributor to ABC.

Addressing the dreaded FDIC list of 90 troubled banks, Hobson told “Good Morning America” July 16, “Here’s the thing to keep in perspective: A decade ago back in 1994, there were 575 troubled banks.” Hobson was citing an 84-percent decrease in the number of troubled banks.

“This is a normal part of the business cycle and the economic cycle in this country,” Hobson said. “And I feel that we are sparking some fears here that may lead people to do things that would then lead the banks to fail.”

While CBS’s reporters were busy comparing IndyMac’s failure to the Great Depression, the network’s “The Early Show” featured FDIC Chairman Sheila Bair on July 15 to answer some questions.

“To put this in context, during the S&L debacle there were over 2,000 banks that were closed over a period of time,” Bair said. “The peak was 534 closures in ’87. We’ve had five bank closings this year.”

“I won’t say that banks don’t have challenges right now; they do,” Bair added. “But historically, we’re operating at fairly low levels.”

Financial adviser Ray Martin told “The Early Show” July 14 that IndyMac’s failure “isn’t an occurrence that’s so unique,” noting that 127 banks have been taken over in the last 15 years. “IndyMac is so large, with [$]32 billion in assets and 265,000 deposit customers, it’s a headline maker,” Martin said.

NBC’s Steve Liesman was one of the few reporters to offer historical context of his own accord. On the July 14 “Nightly News,” Liesman told anchor Brian Williams that “we haven’t been through a crisis like this – well, it was back in ’91 when we did go through one that was, by the way, much worse.”

“So far, though, it’s been quite a bit less than we’ve had in the past,” Liesman said of the 90 banks on the FDIC’s troubled list.

Who's Responsible?

More likely to blame a bad economy than the actual culprit for anything that goes wrong in business, the media were no different when it came to IndyMac's failure. Even though the bank is under investigation for fraudulent lending practices, the networks tried to pin its failure on the economy or merely "reckless" lending practices.

On "The Saturday Early Show" July 12, reporter Anthony Mason called IndyMac "another casualty of the housing crisis."

"The Early Show" co-host Maggie Rodriguez tied the IndyMac troubles to "dramatic losses in the stock market" on the July 17 broadcast. And she was hardly the only journalist to paint the bank failure as a sign of a troubled economy.

On the ABC "World News with Charles Gibson" July 14, anchor Charles Gibson saw it as a sign raising questions about the "health of America's banks. We saw something today not seen in decades in America," Gibson incorrectly reported. "Might other banks be in trouble?" he asked.

Contributors joined in as well. Christopher Thornberg of Beacon Economics, a real estate research and consulting firm, said the failure was a sign of impending recession – a theme the media have been pushing for years.

"Yet at this point in time, this is an economy that's clearly tipping into a recession and it's gonna be a – a pretty nasty one," Thornberg said on the July 14 "Nightline." "And what this implies is that there's a lot of regional banks who are gonna be in big trouble over the course of the next couple years, so you really got to watch out."

But the Federal Bureau of Investigation doesn't seem to think IndyMac was just another victim of a bad economy, a housing crisis, or even an impending recession. The FBI is investigating IndyMac and 20 other banks on suspicion of not just irresponsible, but fraudulent lending practices.

The FBI has its suspicions, but only nine of the 41 stories questioned IndyMac's behavior as a lender that offered risky subprime loans. Five stories mentioned that IndyMac was under investigation by the FBI for potential fraud.

"Ann, late word confirming IndyMac is part of an FBI criminal investigation into 21 banks," reporter Jane Wells said on "Nightly News." "The FBI is trying to figure out if there's possible fraud involving some loans, home loans IndyMac made to so-called risky borrowers."

"The Early Show" host Harry Smith accused the bank of making "crazy mortgages, no-look mortgages, no-paper mortgages" on the July 14 broadcast. Expert contributors on ABC and NBC sad "bad loans" brought down the "reckless" lender.

Dave Ramsey, host of "The Dave Ramsey Show" on the Fox Business Network, told ABC's "Good Morning America" July 17 that the economy may not be to blame for IndyMac's failure.

"Maybe some crooks," he said.