Citigroup Offers Five Times Leverage to Bank Depositors to Trade in Foreign Currencies

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It's so crazy that one's first instinct is that it must be a spoof web site. It reads:

> "A Citibank International Personal Bank FX Leveraged Loan Account can help you maximize the most of what you have. It allows you to borrow up to 5 times your deposit balance to trade in foreign currencies, so you may increase your potential investment power." (The italics on deposit balance are ours.)

It turns out that this is a real Citibank offering, a real Citibank web site, and there is a similar deal being offered in Hong Kong by Citibank – one of Wall Street's largest banks – a bank that appears hell bent on setting a Guinness World Record for the most screw ups in one decade.

Putting aside the fact that Citigroup, parent of Citibank, is under investigation for potentially helping to rig foreign currency trading with other global banks, there is the fact that Citigroup simply cannot afford another hit to its reputation – like inducing bank depositors to gamble with five times leverage in the highly complex foreign exchange markets.

A quick refresher is in order. Citigroup is the successor to National City Bank, blamed by Senator Carter Glass of Virginia in 1929 as playing a major role in causing the stock market crash which led to the Great Depression. In 2011, the Financial Crisis Inquiry Commission reported that Citigroup played a pivotal role in the 2008 financial crash, writing further that: "The Federal Reserve Bank of New York and other regulators could have clamped down on Citigroup's excesses in the run-up to the crisis. They did not."

In 1929, the business model worked like this: National City Bank made bad loans and packaged them up as securities and sold them to unwary investors. Last month, Citigroup paid a $7 billion fine for making bad loans and packaging them up as securities and selling them to unwary investors.

During the 2008 to 2010 financial crash, no other bank required as much financial support from the U.S. taxpayer as did Citigroup. The bank received $45 billion in equity infusions; over $300 billion in asset guarantees, and more than $2 trillion in below-market rate loans from the New York Fed. In addition to selling bad debt to investors, Citigroup pushed what it couldn't sell into vehicles off its balance sheet. Tens of billions of that bad debt ended up back on its balance sheet, causing its insolvency in 2008.

The Glass-Steagall Act, enacted in 1933 with sponsors Senator Carter Glass and

Congressman Henry Steagall, separated insured deposit banking from the speculative excesses of brokerage firms and investment banks. That legislative wall existed from 1933 to 1999 and protected our nation all that time from the kinds of abuses of the late 1920s on Wall Street. Nine years after its repeal, the U.S. financial system collapsed again from the exact same causes as in 1929.

No other bank played as great a role in the repeal of the Glass-Steagall Act than Citigroup.

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