Bail-In: The Case Of Spain's Bankia

by Dennis Small

June 3—On May 28, some 200,000 individuals who had once been small savers in Spain's bankrupt Bankia bank, were violently despoiled of what little remained of their original savings. New shares in the nationalized bank went on sale that day, and the price plunged almost instantly from the EU1.35 level holders had been promised, down to EU0.55—a more than 80% drop from their floating price in 2011, when the banking group was formed. The total losses these families face—as do a million or more households with "preferential" shares in other bankrupt Spanish banks—now come to 75-90% of their original deposits.

As such, the Bankia story is a prelude to, and marker for, the broader codification of exactly this thievery that is now underway as the "bail-in" scam promulgated in the Dodd-Frank Act in the United States, and similar legislation under preparation in Europe.

Forbes magazine headlined its May 28 report on the Bankia story: "Spain's Bankia Decimates Savers as Stock Plummets; Police Officer Stabs Banker Who Sold Him Shares." The point should not be lost on those now designing the bail-in policy.

Here's how the fleecing of Bankia depositors evolved.

From Date-Rape to Forced Bail-In

Over recent years, about 1 million depositors in Spain's major banks (400,000 of them were Bankia customers) were "date-raped" by their own bankers, who fraudulently tricked them into purchasing the bank's "preferred shares"—or *preferentes*—with promises of very high rates of return. Marketed as fixed-term deposits, the reality of the *preferentes* is that they were bonds that either could never be cashed in, or carried terms as long as 1,000 years!

When Bankia went bankrupt in May 2012, the FROB, Spain's bank reorganization agency, on explicit instructions from a Memorandum of Undertanding with the detested Troika, imposed a "haircut" (write-down) of 38% on the Bankia *preferentes*, followed by their forced conversion into common stock in Bankia. The victims were promised a per-share value of EU1.35, once the market was allowed to resume trading in Bankia stock.

About a year later, on May 21, 2013, trading in Bankia stock was finally permitted—but only for large institutional investors, who were allowed to take their money and run. Small savers, who held about EU5 billion of the bank's total EU6.85 billion, had to wait another week. Then on May 28, when trading for them was permitted, the share price plummeted from EU1.35 to EU0.57.

Spain's ADICAE (Association of Consumers and Users of Banks, Savings Banks, and Insurance Companies), which has filed numerous lawsuits against Bankia and other banks on behalf of the *preferente* victims, estimates that the combined "double thievery and fraud" amount to a 75% loss in the Bankia case—so far. When the Bankia share price plummets further, which it assuredly will, the losses will become even greater for those still holding stock.

ADICAE denounced the whole scheme as a "premeditated strategy to hide part of the losses," and a "pyramid swindle of the Spanish banking system."

The *Forbes* account explained: "All along, the exchange was a trap for retail investors.... The average Spaniard is suffering, and the situation has gotten to the point where on Sunday, a police officer stabbed a former Bankia employee four times after a heated discussion related to the sale of preferred shares in the failed banking group."