

Who Stole My Cheese?

Willy was a typical mouse. He had a wife and two kids, lived in a modest house in the suburbs, and earned his daily cheese by working at the cheese factory. Life had been kind to Willy, and he was able to earn more cheese than the bare minimum he and his family needed to survive. Like hundreds of other mice, he deposited his extra cheese in First Bank, his neighborhood cheese bank. There it was safe, refrigerated, and earning interest.

Willy's tranquil life turned upside down the day he learned his wife's brother Buford was coming for a visit. Willy wasn't particularly fond of Buford. "It's mice like him that give vermin a bad name" he complained to friends at work. Nevertheless, out of respect to his wife he was always polite to Buford and tried to be the perfect host during his visits. Buford always brought his entire family with him. Willy didn't remember for certain, but he thought Buford and his wife Lucinda had seven children of their own, plus Lucinda's sister Mirabella and her three children lived with them. Mice crammed into every square inch of Willy's house during their visits, and they never stayed for less than two weeks. One thing was certain. He was going to need more cheese. So he went to the bank to make a withdrawal.

"Thirty cheeses, please" he said as he handed a withdrawal slip to Throckmorton, the bank mouse.

"Certainly, sir" Throckmorton replied as he placed a cheese and a slip of paper on the counter.

"What's this?" Willy asked as he picked up the paper.

"It's a cheese voucher" said Throckmorton. "Sometimes the bank needs to limit the amount of physical cheese that can be withdrawn on demand. The voucher is essentially a bank draft for the remainder of your withdrawal. You can use it to pay bills, hire contractors, and fulfill all legal debts. It's as good as cheese."

"But I don't want to hire a contractor. I want to eat. I can't eat a voucher. Take it back and give me real cheese."

"I'm sorry sir, but we can't do that. Our policy is clearly explained in the terms of service we sent with your monthly statement. If you want to withdraw large quantities of physical cheese you need to submit a written request and allow us sufficient time to process it." Throckmorton tried to give a friendly, neighborhood banker smile as he said this, but to Willy it looked more like a smirk.

"You send me thirty pages of fine print with every statement!" Willy protested. "You expect me to read that and compare it to the previous month's statement to see if anything has changed?" Realizing this argument was going nowhere, Willy managed to subdue

his anger. In a more civil tone he asked “How much time does it take you to process a request?”

“Well, that depends on our workload” Throckmorton replied defensively. “Usually we can process it within ten days, but under the terms of service we have up to six months to reply. And even then our action is dependent upon our reserves of physical cheese. Technically, you could just get a voucher at the end of six months.”

“Six months!” shouted Willy. “I can’t wait six months. Buford is coming in three days! And what’s all this baloney about reserves of physical cheese? I deposit ‘physical cheese’ every two weeks, when I get paid at the factory. What happened to it? Who stole my cheese?”

“Nobody stole it. It’s helping the community!” Throckmorton replied condescendingly. “We can’t just let cheese pile up in our vault. We couldn’t pay you interest if we did that. We’d have to charge you to store your cheese. And eventually it would go bad. No, we don’t just let it pile up. We lend it to your neighbors, so they can buy houses, and to small businesses, and to the factory where you work. We put your cheese to work building a better community, and they pay us back with interest. That’s how we can afford to pay you interest.”

“If they’re paying you back, then where’s the cheese?” Willy demanded. “I think this is a load of limburger. I’m calling the government!”

And so Willy called the government. Eventually he got a return call from Senator Chinook, the chairman of the Cheese Bank Oversight Committee. He scheduled a hearing in Willy’s home town. “Don’t worry, we’ll get to the bottom of this” the Senator promised. “Heads will roll, I guarantee.”

The hearing was attended by Throckmorton from First Bank, and a few other local banking experts. At the hearing, the Senator demanded Throckmorton explain what had happened to all the cheese. “We loaned it to the community” Throckmorton replied. “I tried to explain that to Mr. Willy when he made his withdrawal. Normally we have enough cheese coming in through deposits and loan repayments that there’s more than enough to cover spot withdrawals. Mr. Willy just happened to ask for more cheese than we felt it was prudent to give out that day. We have to keep some cheese in reserve for other customers.”

“And do you now have enough cheese on hand to give Mr. Willy all the cheese he asked for?” the Senator inquired.

“Well, no.” Throckmorton replied defensively. “The bank has experienced an unusually extended time differential between loan deadlines and repayment incidents. Actually, Mr. Willy’s family is partly responsible for this. His brother-in-law Buford is several months in arrears on a three hundred cheese home loan.”

“You gave Buford three hundred cheeses for that rotten log he lives in?” Willy asked incredulously. “I wouldn’t give you a moldy rind for it!”

“We use an industry standard model to validate all our home loans.” Throckmorton replied. “It clearly showed the house was worth 300 cheeses.”

“What’s this model?” the Senator demanded.

“It’s a linear regression based upon housing prices for the last twenty years” said Quinton mouse, a mathematics professor at the local college. “It’s rather complex, but essentially it predicts that a house’s price will double every seven years. We don’t just use historical data, though. We validate the model against actual housing sales.”

“Such as?” the Senator asked.

“Well, Mr. Buford’s house for one.” Quinton replied defensively.

Willy turned to face Throckmorton. “So you loaned Buford 300 cheeses because the model said the house was worth that much, and then you validated the model based on the fact that the house sold for 300 cheeses?” he asked. “And why on earth did you loan that much cheese to my brother-in-law? He hasn’t had a job in years! He lives on cheese stamps.”

“We’re not allowed to inquire as to whether or not a mouse is capable of paying back a home loan” Throckmorton replied. “Besides, it’s not in our interest to deny loans. We earn our cheese by making loans.”

“That’s outrageous!” shouted Senator Chinook. “Who said you’re not allowed to make certain a borrower can pay back a loan?”

“You did, sir.” Replied Throckmorton. “The Chinook-Tempest law says that home ownership is a legitimate dream of every mouse, and lending institutions must take all reasonable steps to qualify potential borrowers. Our lawyers advised us this means we can’t use current economic status to disqualify applications for home loans. To do so would imply that we could predict the future, which is not reasonable. After all, an applicant could win the lottery. This law really isn’t a problem, though, as we’ve been able to protect our depositors through innovative economic policies.”

“Such as?” the Senator inquired.

“We bundle multiple loans into a mortgage-based security and sell it to another financial institution. Since we only hold the loan for a short time, there’s very little risk the borrower will default while we still have the loan.”

“Doesn’t that put the other institution at risk?”

“No, because we buy special insurance policies called ‘hedges’ that guarantee payment if the security fails to perform.”

“And to whom did you sell Mr. Buford’s loan?” the Senator asked.

“Uhhh, let me see.” Throckmorton searched through some papers in his briefcase. “Oh yes. Here it is. We sold that security to TBAS, The Bank Across the Street.”

“What?!!!” Forrest Mouse, the president of TBAS, shouted in indignation. “You sold us a bum loan? You’d better be ready to back it up with that insurance policy!”

“Oh yes, yes of course.” Said Throckmorton as he rifled through his briefcase. “That security was hedged by, let’s see, oh. It looks like TBAS guaranteed the loan.”

Forrest Mouse’s assistant Timothy whispered something in Forrest’s ear. Because Forrest was hard of hearing, he had to whisper so loudly it was heard by everyone in the room. “We used the mortgage on Mr. Buford’s home to back up that hedge, sir. Home prices never go down, so it seemed like a safe bet.”

Senator Chinook rubbed his forehead in bewilderment. “So you loaned Mr. Buford an outrageous sum based upon what the model said his house was worth, and then you used the sale to validate the model. You knew Mr. Buford wouldn’t be able to pay back the loan, but that didn’t worry you because you sold it to TBAS. TBAS didn’t worry because you had a guarantee, but that guarantee was ultimately backed up by the same house they bought the loan on. Basically, you each show 300 cheeses on your books based on this transaction, so if Mr. Buford defaults you’re out 600 cheeses? Have I got that right?”

“Umm, it may be more than that.” Timothy Mouse volunteered. “I think we bundled that security with some loans we made and sold it back to First Bank. That security was insured, of course, through a hedge from First Bank.”

“Does anyone in the banking industry know what they’re doing?” asked Senator Chinook. “Is there no one who worries about the long term effects of these loans?”

“Isn’t that’s what your committee is supposed to do?” asked Throckmorton. “Don’t you remember when Senator Koonihc from the other party suggested you investigate the home loan situation because he thought the banking industry was too quick to give loans to questionable borrowers? You told him that all mice dream of owning their own home, and you weren’t going to let him conduct a witch hunt that could destroy that dream. You also said that the entire country’s economy was benefitting from the boom in home sales. Personally, I think that was one of the best speeches I ever heard. I made several copies of it and stored them in scattered locations so they’d be safe no matter what.” There was a pause while Senator Chinook considered the implications of this.

“I don’t think we can afford to waste time looking for scapegoats” replied Senator Chinook. “This is a very serious situation. We need to focus our efforts on finding a solution, not dissipate our energy arguing over who’s responsible.”

“What ever happened to ‘Heads will roll?’” thought Willy, but he wisely kept his mouth shut.

“I think I see why there are so many cheese vouchers in the bank, but what happened to the real cheese? Aren’t mice still depositing real cheese?”

Throckmorton just shrugged. “Some of the borrowers haven’t kept up with their mortgage payments, so that cheese isn’t coming in. And a lot of mice have stopped putting cheese into retirement accounts. I think the value of their house went up so much that they feel rich and don’t think they need to save.”

Forrest nodded his head in agreement. “I’m actually seeing a lot of mice pulling cheese out of our bank to buy TV’s, computers, and other gadgets, almost all of which are made overseas. They don’t accept cheese vouchers overseas.”

“What if we just told them the truth?” the Senator asked. “Their houses aren’t worth as much as they thought and the banks are out of cheese. Things will get better if they just start saving again.”

Throckmorton sucked in his breath in horror. “It would be a disaster” he gasped.

“Armageddon” said Forrest.

“The Campli Syndrome” groaned Timothy. “Years ago bankers in Campli Italy invested heavily in feta cheese. Suddenly Denmark flooded the market with cheap apetina and feta crumbled. When word of the losses leaked out, there was a run on the banks. The banks failed. Depositors lost their life’s savings. Businesses couldn’t make payroll. The entire economy collapsed. Campli chaos. Eventually, things got so bad that executives lost their bonuses and stopped making campaign contributions. Ordinary mice couldn’t pay taxes. With no taxes or campaign contributions, the government collapsed. It was the end. Finis. *A feta Campli*”

The room fell silent as the mice considered the implications of this. “Everything said in this room stays in this room” Senator Chinook warned. “I understand the problem, and I promise your government will fix it.”

The fix turned out to be a bank bailout. The government printed thousands of cheese vouchers and gave them to the banks in exchange for the worthless securities. “Quantitative Cheesing” they called it. Willy wondered how an exchange that involved no real cheese could solve the problem, especially since it seemed to him the problem was that the banks had too many cheese vouchers already, but the other mice just told him he didn’t understand finance. Apparently he wasn’t the only one. Quantitative

cheesing didn't put any more cheese into circulation, it just got the bankers off the hook for making bad loans and bankrupted the government. It had other, indirect effects as well.

"Who stole my cheese!" Dagny Mouse demanded during a meeting with Throckmorton. "I can't run my cheese factory without milk, and suddenly the cows won't sell me milk on credit. They're demanding real cheese. I've deposited real cheese in your bank. Thousands of cheeses. And now, when I try to withdraw some to buy milk, you give me cheese vouchers? The cows won't accept vouchers!"

"You can assure the cows that these vouchers are as good as cheese" Throckmorton insisted. "They're backed by the full faith and credit of our government."

"That's the problem" Dagny shot back. "The cows have no faith in our government, not since the government started Quantitative Cheesing. The cows say that will just lead to inflation, making the vouchers worthless. They want real cheese."

"But that . . . I mean . . . how do the cows know about Quantitative Cheesing?" Throckmorton asked. "That's supposed to be a secret."

"You can't keep a secret from the Internet" Dagny said with disdain. "It's all over the web. Stinki Leeks, ZeroCheddar.com, you name it. Unless you give me real cheese today, I'm closing my factory tomorrow! And that means a lot of your customers won't be able to make their mortgage payments this month."

The next day Dagny gathered all the workers at the cheese factory together to tell them that because they couldn't get milk, the factory would have to be closed. Murray Mouse, the union chief steward, immediately protested that this was an unapproved change in the work conditions, and unless Dagny kept the factory open the workers would go on strike. "Suit yourself" said Dagny. "That saves the taxpayers from paying unemployment."

This precipitated a new crisis. Now hundreds of mice were shouting "Who stole our cheese?" Senator Chinook responded by enacting the Community Recovery Acceleration Program, popularly known as the stimu-mouse program. This provided emergency cheese disbursements for filling holes in Swiss, studying stink formation in limburger, and other cheesy projects. It was estimated that tens of mice got jobs through this program. Because so many mice were mad at Dagny, however, the stimu-mouse specifically banned payment to cheese manufacturers. "She ain't getting CRAP!" declared Senator Chinook. This meant Dagny still couldn't buy milk, so she couldn't reopen the factory. With no one actually manufacturing cheese, the stimu-mouse program failed because there was no cheese to disburse. Only cheese vouchers.

Eventually reason prevailed. The cows were suffering too because no one was buying their milk. Dagny was able to work out a deal where they advanced her the milk she needed to resume production, but the cows demanded a higher percentage of the cheese

in return. This meant the workers had to agree to reduced wages, but it was better than having no job at all. The entire country went on an austerity program to pay off its debts.

Senator Chinook eventually held hearings to determine who was responsible for the crisis, but only after carefully selecting the participants so he could set the ground rules. He could not be found responsible, of course, and neither could any members of his party. The banks could not be found responsible, because the economy would be ruined if the mice lost faith in the sanctity of their banking system. The mice who had defaulted on their loans also could not be held responsible, because there were too many of them and they would vote for the other party if they were blamed. They were given the privileged status of “victims.” Willy Mouse couldn’t remember if the inquiry eventually blamed Senator Koonihc, who had since left office and was therefore fair game, or a group of stock brokers who had earned what were termed “obscene profits” from their dealings in cheese futures. Willy didn’t particularly care who was to blame. He had his cheese, and that was all that really mattered.