2011 Wall Street Fraud

"FALSUM IN UNO, FALSUM IN OMNIBUS"
false in one thing, false in everything

***Psychopaths** gain satisfaction through antisocial behavior, and do not experience shame, guilt, or remorse for their actions. Psychopaths lack a sense of guilt or remorse for any harm they may have caused others, instead rationalizing the behavior, blaming someone else, or denying it outright. Psychopaths also lack empathy towards others in general, resulting in tactlessness, insensitivity, and contemptuousness. All of this hampers their tendency to make a likable first impression; psychopaths have a superficial charm about them, enabled by a willingness to say anything to anyone without concern for accuracy or truth. Shallow affect also describes the psychopath's tendency for genuine emotion to be short-lived, glib and egocentric, with an overall cold demeanor. Their behavior is impulsive and irresponsible, often failing to keep a job or defaulting on debts. Psychopaths also have a markedly distorted sense of the potential consequences of their actions, not only for others, but also for themselves. They do not deeply recognize the risk of being caught, disbelieved or injured as a result of their behavior.*

Read just about any article in the financial press about a Securities and Exchange Commission settlement with some accused fraudster, and you probably will see two lines bound to get a lot of eyes rolling.

One is that the "defendant neither admitted nor denied the SEC's claims". The other is that the "penalties include a court injunction or SEC order barring the alleged crook from breaking the securities laws in the future", as if it had been perfectly legal to violate them beforehand.

No one, it seems, ever gets nailed for anything!!!

They are behaving like hooligans, switching on the printing press and tossing them around the whole world, forgetting their main obligations." What appears to have angered the former KGB spy is the end of QE2. According to RIAN: "Putin's comments came in the wake of the completion of the US' quantitative easing (QE) 2 program on June 30, in which the Federal Reserve bought $600 billion worth of its Treasury bonds

Let begin! Year to Date 2011

Bank of America Settles With Thompson's Dynasty Over $5.9 Billion Adviser

By Bill Koenig - Jan 24, 2011 4:01 PM ET

Dynasty Financial Partners said it has reached an agreement with Bank of America "resolving all issues" related to the departure of Michael C. Brown and some members of his team from Bank of America/Merrill Lynch's private wealth management division.

Angelo Mozilo Settles Lending Suit for $6.5 Million

By Joel Rosenblatt - Feb 2, 2011 7:34 PM ET

A woman walks past a Countrywide Home Loan office in Gahanna, Ohio on Jan. 11, 2008. Photographer: Gary Gardiner/Bloomberg News

Former Countrywide Financial Corp. Chief Executive Officer Angelo Mozilo and ex-Chief Operating Officer David Sambol agreed to $6.5 million settlement to resolve a predatory lending lawsuit filed by California.

Money from the accord will be used for a relief fund to aid foreclosures and mortgage delinquencies, state Attorney General Kamala Harris said today in a statement.

Deutsche Bank May Lose Top Court Swap Case, Judge Says

By Karin Matussek - Feb 8, 2011 9:33 AM ET

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Business ExchangeBuzz up!DiggPrint Email . The headquarters of Deutsche Bank AG in Frankfurt. Photographer: Hannelore Foerster/Bloomberg

Deutsche Bank AG, Germany's biggest bank, may lose a ruling in the first case heard by the country's top civil court over an interest-rate swap the lender sold to companies and local governments, a judge said.

The bank may have violated its duties when advising Ille Papier Service GmbH on a swap purchase, Federal Court of Justice Presiding Judge Ulrich Wiechers said at a hearing today. The lender may have had the duty to disclose an initial negative market value that covered its fees or even to advise the company not to buy the product, he said.

"When advising in financial matters, the bank must guard the interests of its customer alone," Wiechers said at the hearing in Karlsruhe. The assessment is preliminary and a ruling is scheduled for March 22."A conflict of interest must be disclosed. That the bank earned money from the initial market value may be such a conflicted interest."

http://www.bloomberg.com/news/2011-02-08/deutsche-bank-may-lose-case-in-high-german-court-over-swaps-judge-says.html

Bank of America to Pay $410 Million to Settle Overdraft Manipulation Claim

By David E. Rovella - Feb 5, 2011 10:56 AM ET

inShare.15More

Business ExchangeBuzz up!DiggPrint Email .Bank of America Corp., the largest U.S. lender by assets, agreed to pay $410 million to settle lawsuits alleging deceptive practices in the management of customer accounts that led to excessive fees for overdrafts.

The settlement was dated Jan. 27, according to a court filing by Bank of America and lawyers for consumers. Overdraft class actions, unified in 2009 from across the country in Miami federal court, alleged breach of contract, unjust enrichment and usury by more than two dozen banks. Institutions including Citigroup Inc., JPMorgan Chase & Co. and Wells Fargo & Co. were named in related lawsuits.

Miami resident Ralph Torres described in his suit against Bank of America how he opened an account in 2000 after seeing advertisements for "free checking." Torres alleged he was tricked into believing he had more money in his account than was the case, and that Bank of America debited his funds in a way that made it more likely he would incur overdraft fees.

"The bank actively provides false or misleading balance information to these customers, including plaintiff, that in turn deceives these customers into making additional transactions that, in turn, will generate even more overdraft fees for the bank," Torres's lawyers wrote in the complaint.

http://www.bloomberg.com/news/2011-02-05/bank-of-america-to-pay-410-million-to-settle-overdraft-case.html

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SEC files fraud lawsuit against three former former IndyMac executives [Updated]

February 11, 2011 | 2:40 pm

Targeting executives of the housing boom's biggest stated-income lender, the Securities and Exchange Commission has accused former IndyMac Bancorp Chief Executive Michael W. Perry and two former chief financial officers of defrauding investors at the failed Pasadena savings and loan.

The civil lawsuit, filed Friday in Los Angeles federal court, contends that Perry and former CFOs A. Scott Keys and S. Blair Abernathy misled investors about the crumbling financial condition of IndyMac and its IndyMac Bank operating unit by filing false disclosures with the SEC.

"The three executives regularly received internal reports about IndyMac's deteriorating capital and liquidity positions in 2007 and 2008, but failed to ensure adequate disclosure of that information to investors as IndyMac sold millions of dollars in new stock," the SEC said in a news release

Citigroup Settles Fraud Cases Tied to Texas Mortgage Assigner

By Donal Griffin and Dakin Campbell - Feb 8, 2011 12:00 AM ET

A Citi logo appears on a sign above a Citibank branch in the ground floor of Citigroup Inc. headquarters in New York. Photographer: Daniel Acker/Bloomberg

Citigroup Inc., the third-largest U.S. bank, settled or lost at least five claims in 2010 brought by borrowers who accused the bank of filing fraudulent mortgage documents provided by a Texas firm.

In the most recent settlement in December, a bankrupt homeowner in Wappingers Falls, New York, challenged Citigroup's use of a mortgage "assignment," which shows the transfer of ownership of a mortgage. It was signed by an employee at Orion Financial Group Inc., a Southlake, Texas, firm that provides document services to lenders.

The document was "of fraudulent nature and questionable origin," the borrower's attorney, Linda Tirelli, wrote in an August objection to the bank's claim at U.S. Bankruptcy Court in New York. Citigroup created and filed the assignment after proceedings began because it otherwise couldn't prove its right to collect the debt, she wrote in an e-mail. The bank denied the allegations and didn't admit liability in the settlement.

Attorneys general in 50 states are investigating the industry's use of mortgage assignments as part of a wider probe into faulty foreclosure methods, according to Geoff Greenwood, a spokesman for Iowa attorney general Tom Miller. Last month, a Massachusetts court ruled that two foreclosures by Wells Fargo & Co. and U.S. Bancorp were invalid because assignments presented in those cases failed to prove the chain of ownership of the mortgage, sending financial stocks down.

Connect the Dots

Bankruptcy judges are "appropriately skeptical" when mortgage servicers claim to have assignments, said Keith Lundin, a U.S. Bankruptcy Court judge in Nashville, Tennessee, in an interview.

"They've got to show me more than their swearing that they have the right," he said. "They're going to have to connect up the dots back to the note and the security agreement, which would be the mortgage."

Harold Lewis, an executive with the CitiMortgage subsidiary, told Congress in November that the bank reorganized foreclosure operations last February, helping it avoid the faulty affidavit-signing practices that forced peers such as JPMorgan Chase & Co. to temporarily halt home seizures last year.

Citigroup paid almost $82,000 in opponents' legal costs when settling challenges to four bankruptcy claims that used Orion letters in 2010, according to agreements filed with federal bankruptcy courts in New York and Arkansas. The bank reduced interest rates on the remaining debt by an average of 49 percent, while cutting the outstanding mortgage balance in three cases by a combined $55,000, the filings show

Madoff Fraud = The Emperor Has No Clothes.

By Shira Ovide

J.P. Morgan was "at the very center" of the Bernie Madoff investment fraud, according to a lawsuit unsealed today against the bank.

(Click HERE to read the lawsuit against J.P. Morgan.)

The lawsuit was filed first in December by the trustee seeking to recover money for victims of the Madoff fraud. But the lawsuit had been filed under seal. The sealed version of the lawsuit (click HERE to check it out) was just two pages, and contained no text except for the names of the trustee's firm and his attorneys.

The unsealed version is 115 pages dripping with claims that J.P. Morgan hid its long-held suspicions that Madoff's reported investment gains were too good to be true, as The Journal's Michael Rothfeld is reporting. The trusee, Irving Picard, is seeking more than $6 billion from J.P. Morgan.

The opening salvo of the lawsuit caught Deal Journal's attention. It juxtaposes an email about a J.P. Morgan official skeptical about Madoff with a famous line from a Hans Christian Andersen tale.

http://blogs.wsj.com/deals/2011/02/03/madoff-fraud-the-emperor-has-no-clothes/

UBS Tax-Fraud Charge Is Dropped by U.S. Prosecutors

By David Voreacos - Oct 22, 2010 12:44 PM ET

The U.S. Justice Department dismissed a landmark criminal case against UBS AG that prompted the bank to admit it helped Americans evade taxes.

Prosecutors said today that Zurich-based UBS, the largest Swiss bank, complied with an 18-month agreement signed in February 2009 to defer prosecution on a charge of conspiring to defraud the U.S. by helping 17,000 Americans hide accounts from the Internal Revenue Service.

As part of the agreement, UBS paid $780 million, admitted fostering tax evasion from 2000 to 2007 and handed over account data on more than 250 U.S. clients, piercing the veil of Swiss bank secrecy. UBS later turned over information on 4,450 more accounts. Prosecutors said UBS honored its pledge to end its cross-border business and cooperate with the government.

"The United States agreed that if UBS AG fully complied with all of its obligations," the case would be dismissed, Justice Department lawyers said in a motion in federal court in Fort Lauderdale, Florida. "The

Karina Byrne, a UBS spokeswoman, declined to comment.

http://www.bloomberg.com/news/2010-10-22/u-s-ends-ubs-deferred-prosecution-accord-in-conspiracy-case.html

Merrill to Pay $10 Million for Misusing Customer Information

By LIZ MOYER

With proprietary trading under the regulatory microscope, the Securities and Exchange Commission charged Bank of America Corp.'s Merrill Lynch with securities fraud for misusing customer information and charging undisclosed trading fees.

Merrill paid $10 million to settle the charges, which focus on communications between the firm's proprietary and market-making stock trading desks from 2003 to 2007. Bank of America bought Merrill in January 2009.

Separately, in a lawsuit filed in Manhattan federal court, bond insurer Ambac Financial Group Inc. Bear Stearns executives were aware of problems in the loan portfolios underlying securities that Ambac insured that later went bust, and that Bear Stearns was placing trades indirectly betting on Ambac's demise.

Allegations of misleading actions by bankers have been rife since the financial crisis. In July, Goldman Sachs Group Inc. paid $550 million to settle SEC claims it misled investors in a collateralized debt obligation it arranged with the help of a hedge-fund manager who was taking a position that bet against that offering.

The proprietary desk, formed in February 2003, had initial authority to trade $1 billion on Merrill's behalf. Employing one to three traders from its founding until February 2005, the Equity Strategy Desk occupied space on the same floor that was home to traders in the firm's market-making operations, which handled orders for institutional customers.

The SEC charged that the two groups improperly shared information about customer orders, which Merrill's proprietary traders then used to execute trades on the firm's behalf.

Such behavior has long been a criticism of Wall Street's proprietary-trading business, but usually the concern is "front-running," or trading ahead of customer orders. In Merrill's case, the allegations are the opposite. The SEC says the proprietary trades were executed minutes after the customer orders were completed.

"Back-running" could be a concern for other banks, according to Georgetown University finance professor James Angel, who said the SEC's findings in the Merrill case serve as a "huge warning" to other banks to avoid situations in which customer information can be mishandled

Nasdaq Confirms Breach in Network .Article Stock Quotes Comments (6) more in Markets.

BARRETT, JENNY STRASBURG And JACOB BUNGE

The company that owns the Nasdaq Stock Market confirmed over the weekend that its computer network had been broken into, specifically a service that lets leaders of companies, including board members, securely share confidential documents.

The fact that the Web-based service, called Directors Desk, was penetrated could lend credence to one theory that law-enforcement authorities investigating the matter are considering, namely that hackers may be aiming to extract nonpublic inside information that could be used illegally to gain a trading edge.

The Wall Street Journal reported Friday night that outsiders had repeatedly penetrated the computer network of Nasdaq OMX Group during the past year. The exchange's trading platform—the part of the system that executes trades—wasn't compromised, these people said.

The company and people familiar with the investigation say as far as they can tell no information from Directors Desk, which is operated separately from Nasdaq's trading platform, was taken or compromised.

On Saturday, Nasdaq said that after the Journal's report, it immediately decided, in consultation with authorities, to inform customers. Prior to that, the company said, the Justice Department had asked that it refrain from notifying customers until at the earliest Feb. 14 to facilitate the investigation. A spokesperson for the department declined to comment.

Nasdaq spokesman Frank DeMaria said Sunday that the company detected the security issue in October or November and reported it to the Securities and Exchange Commission, the Federal Bureau of Investigation and the Justice Department.

The files in question were removed and Nasdaq made modifications to the system as a deterrent, he said. He declined to give further details about changes NASDQ

An NYSE spokesman said the company doesn't comment on security matters. He said the eGovDirect system is operated separately from NYSE trading.

People familiar with the Nasdaq case say that while the specifics of that hacking aren't particularly egregious in a world where corporate networks are attacked daily, the case has raised alarms in the government because of the potential implications of compromising Nasdaq, which runs one of the world's most-important exchanges.

The Secret Service began its investigation more than a year ago, according to people familiar with the matter. Government resources devoted to the effort increased significantly in late 2010, when routine computer security checks by the company revealed hackers had installed so-called malware files inside

Directors Desk, the people say. Malware is a term for malicious software created by hackers to help them break into or disrupt computer networks.

http://online.wsj.com/article/SB10001424052748703989504576128632568802332.html?KEYWORDS=wall+street+fraud

Big Fine Over Bug in 'Quant' Program

- **FEBRUARY 4, 2011, 9:08 A.M. ET**

EAGLESHAM And JENNY STRASBURG

A unit of French insurer AXA SA agreed to pay $242 million to settle fraud accusations by the Securities and Exchange Commission that it hid from clients for nearly a year a serious software glitch in a quantitative investment model.

The agreement—announced Thursday by the SEC, AXA Rosenberg Group LLC and two subsidiaries of the Orinda, Calif., firm—is the first of its kind against quantitative investment funds. Such funds use sophisticated computer models to determine trading strategies.

The SEC has intensified its scrutiny of quantitative-trading firms since last year's "flash crash," which deepened concerns that rogue computer models could unleash chaos in financial markets.

"This is a wake-up call to quant managers who might otherwise rely on a secretive culture and complex computer models to keep material information from investors," Bruce Karpati, co-chief of the SEC's asset-management unit, said in an interview.

AXA Rosenberg, which has $31 billion in assets, didn't admit or deny wrongdoing as part of the settlement.

Terms of the deal call for the firm to pay a $25 million fine, hire an outside consultant to strengthen its compliance controls and repay investors $217 million in losses caused by the error.

The SEC said a coding error disabled certain risk-management controls, causing 608 of AXA's 1,421 client portfolios to suffer losses.

The investment-management firm notified clients of the coding error last April. In June, AXA said that two top employees "acted to limit dissemination of information regarding the error and to preclude discussion about its correction and communication at the proper levels in the firm."

AXA said Thursday that it hopes the settlement will mark the "beginning of a new era." Investors have punished AXA Rosenberg since the glitch was disclosed, withdrawing half of the $62 billion in assets under management as of April.

http://online.wsj.com/article/SB10001424052748704376104576122642878858736.html?KEYWORDS=wall+street+fraud

Mubarak family fortune could reach $70bn, say experts
Egyptian president has cash in British and Swiss banks plus UK and US property

Guardian.uk

President Hosni Mubarak's family fortune could be as much as $70bn (£43.5bn) according to analysis by Middle East experts, with much of his wealth in British and Swiss banks or tied up in real estate in London, New York, Los Angeles and along expensive tracts of the Red Sea coast.

After 30 years as president and many more as a senior military official, Mubarak has had access to investment deals that have generated hundreds of millions of pounds in profits. Most of those gains have been taken offshore and deposited in secret bank accounts or invested in upmarket homes and hotels.

According to a report last year in the Arabic newspaper Al Khabar, Mubarak has properties in Manhattan and exclusive Beverly Hills addresses on Rodeo Drive.

His sons, Gamal and Alaa, are also billionaires. A protest outside Gamal's ostentatious home at 28 Wilton Place in Belgravia, central London, highlighted the family's appetite for western trophy assets.

Amaney Jamal, a political science professor at Princeton University, said the estimate of $40bn-70bn was comparable with the vast wealth of leaders in other Gulf countries.

"The business ventures from his military and government service accumulated to his personal wealth," she told ABC news. "There was a lot of corruption in this regime and stifling of public resources for personal gain.

"This is the pattern of other Middle Eastern dictators so their wealth will not be taken during a transition. These leaders plan on this."

Al Khabar said it understood the Mubaraks kept much of their wealth offshore in the Swiss bank UBS and the Bank of Scotland, part of Lloyds Banking Group, although this information could be at least 10 years old.

There are only sketchy details of exactly where the Mubaraks have generated their wealth and its final destination.

http://www.guardian.co.uk/world/2011/feb/04/hosni-mubarak-family-fortune

“Gold deposits" with no relation to actual gold

It has also now come out that most "gold" that is traded on the markets is **not** backed by the actual metal itself. For years, most people have assumed that the London Bullion Market Association, the world's largest gold market, had actual gold to back up the massive "gold deposits" at the major LBMA banks. But that is not the truth at all. Industry insiders are now revealing that LBMA banks actually have approximately a hundred times more gold deposits than actual gold bullion. When most people think they are buying gold what they are actually buying is pieces of paper that say that they own gold. Meanwhile they are being charged huge storage fees to store the gold.

Read more: http://www.businessinsider.com/11-examples-of-recent-corruption-on-wall-street-2010-4#gold-deposits-with-no-relation-to-actual-gold-2#ixzz1DNtDVuvI

BOMBSHELL – Whistle Blower Comes Forward With Solid Proof The Price Of Gold And Silver Is Being Manipulated By Major Financial Institutions

« 12 Reasons Why Millions Of Americans Are Incredibly Angry About The State Of The U.S. Economy   The Massive Tidal Wave Of Illegal Immigration That Threatens To Destroy The United States Economy »

BOMBSHELL – Whistle Blower Comes Forward With Solid Proof The Price Of Gold And Silver Is Being Manipulated By Major Financial Institutions

For a long time many of us have had very serious suspicions that the prices of gold and silver were being highly manipulated. But now, thanks to the mind blowing testimony of one very brave whistle blower, the blatant manipulation of the world gold and silver markets is being blown wide open. What you are about to read below is absolutely staggering. Once the American people learn how incredibly corrupt the world financial system is, it is going to change everything. The government that we are all trusting to guard the integrity of the financial system is failing to do that job. It turns out that the Commodities Futures Trading Commission has been sitting on solid evidence that the elite banking powers have been openly and blatantly manipulating the price of gold and silver. Even though they were basically handed a "smoking gun", they have done absolutely nothing with it. But now the information has gone public and the CFTC is red-faced.

Back in November 2009, Andrew Maguire, a former Goldman Sachs silver trader in Goldman's London office, contacted the CFTC's Enforcement Division and reported the illegal manipulation of the silver market by traders at JPMorgan Chase.

Maguire told the CFTC how silver traders at JPMorgan Chase openly bragged about their exploits - including how they sent a signal to the market in advance so that other traders could make a profit during price suppression episodes.

Traders would recognize these signals and would make money shorting precious metals alongside JPMorgan Chase. Maguire explained to the CFTC how there would routinely be market manipulations at the time of option expiries, during non-farm payroll data releases, during commodities exchange contract rollovers, as well as at other times if it was deemed necessary.

On February 3rd, Maguire gave the CFTC a two day warning of a market manipulation event by email to Eliud Ramirez, who is a senior investigator for the CFTC's Enforcement Division.

Maguire warned Ramirez that the price of precious metals would be suppressed upon the release of non-farm payroll data on February 5th. As the manipulation of the precious metals markets was unfolding on February 5th, Maguire sent additional emails to Ramirez explaining exactly what was going on.

And it wasn't just that Maguire predicted that the price would be forced down. It was the level of precision that he was able to communicate to the CFTC that was the most stunning. He warned the CFTC that the price of silver was to be taken down regardless of what happened to the employment numbers and that the price of silver would end up below $15 per ounce. Over the next couple of days, the price of silver was indeed taken down from $16.17 per ounce down to a low of $14.62 per ounce.

Because of Maguire's warning, the CFTC was able to watch a crime unfold, right in front of their eyes, in real time.

So what did the CFTC do about it?

Nothing.

Absolutely nothing.

Which is extremely alarming, because the size of this fraud absolutely dwarfs the Madoff or Enron scandals. In fact, this fraud is so gigantic that it is not even worth comparing to any of the other major financial scandals of recent times.

But Maguire did not give up. He sent several more emails to the CFTC detailing the open manipulation of the gold and silver markets.

The CFTC did not reply.

Finally he sent them a final email: "I have honored my commitment to assist you and keep any information we discuss private, however if you are going to ignore my information I will deem that commitment to have expired."

The reply by the CFTC?

"I have received and reviewed your email communications. Thank you so very much for your observations."

No action.

No acknowledgement that anything was wrong.

No recognition that a massive crime had been committed.

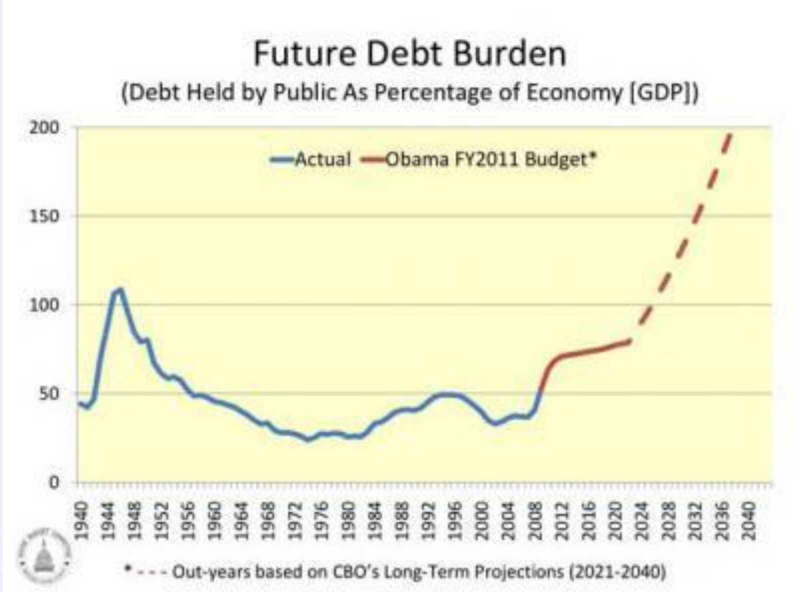
Fortunately, that was not the end of it.

On March 25th, the CFTC held a hearing on alleged manipulation in the gold market by the major banking powers.

Maguire wanted to testify during that hearing but he was not invited.

http://theeconomiccollapseblog.com/archives/bombshell-whistle-blower-comes-forward-with-solid-proof-the-price-of-gold-and-silver-is-being-manipulated-by-major-financial-institutions

A national debt that dooms our children



But the biggest financial fraud of all is being committed against the American people. The exploding U.S. national debt threatens to destroy the financial future of literally generations of Americans. It is obscenely immoral to saddle our children and our grandchildren with the biggest mountain of debt in the history of the world. If they get the chance, future generations of Americans will look back and curse this generation for what we have done to them.

Read more: http://www.businessinsider.com/11-examples-of-recent-corruption-on-wall-street-2010-4#a-national-debt-that-dooms-our-children-11#ixzz1DNuaKwHs

Rich Take From Poor as U.S. Subsidy Law Funds Luxury Hotels

By David Dietz - Feb 8, 2011 12:01 AM ET
Bloomberg Markets Magazine

Renovation at the Blackstone Hotel in Chicago qualified for a federal subsidy due to the neighborhood's 26 percent poverty rate. Photographer: Michael L. Abramson/Bloomberg Markets

The landmark Blackstone Hotel in downtown Chicago, which has hosted 12 U.S. presidents, opened in 2008 after a two-year, $116 million renovation. Inside the Beaux Arts structure, built in 1910, buffed marble staircases greet guests spending up to $699 a night for rooms with views of Lake Michigan.

What's surprising isn't the opulent makeover: It's how the project was financed. The work was subsidized by a federal development program intended to help poor communities.

The biggest beneficiary of taxpayer help for the Blackstone revamp was Prudential Financial Inc., the second-largest U.S. life insurer. The company got $15.6 million in tax credits from the U.S. Department of the Treasury for helping to fund the project, according to Chicago city records, Bloomberg Markets magazine reports in its March issue.

JPMorgan Chase & Co., the second-largest U.S. bank by assets, also took in money by serving as a lender and the monitor of Blackstone construction financing, city records show.

Since 2003, some of the world's biggest financial companies, including Goldman Sachs Group Inc., U.S. Bancorp, JPMorgan Chase and Prudential, have taken advantage of a federal subsidy that will cost taxpayers $10.1 billion -- and most of the public has never heard of it.

Investors have used the program, called New Markets Tax Credits, to help build more than 300 upscale projects, including hotels, condominiums, office buildings and a car museum, on streets far from poverty, according to Treasury Department records released through a federal Freedom of Information Act request.

Against Intent

Money spent on high-end development could have been used to build more than 1,000 job-training centers, medical clinics and schools. The program, endorsed by Republican Senator Rick Santorum and House Speaker Dennis Hastert and adopted by Congress, was signed into law by President Bill Clinton in 2000.

Building high-end commercial projects goes against the intent of the New Markets program, says Cliff Kellogg, a former senior policy adviser at the Treasury Department who helped design New Markets.

“Things like luxury hotels are entirely contrary to what we set out to do,” says Kellogg, who’s now a bank consultant. “Some hotels may create jobs and spur other nearby investment, but you have to ask if these projects prevent worthwhile ones from getting done.”

Some of the subsidized luxury projects may not have required federal aid at all, the Government Accountability Office found in a 2010 study.

“Cherry-Picking”

“The way the rules are written, it’s allowing a kind of cherry-picking by financial institutions to find favorable census tracts,” says Virginia Parks, a social services professor at the University of Chicago. “It’s so easy to qualify that all you need to do is hire a good demographer. It’s not rocket science.”

Scores of New Markets projects have benefited poor communities. The program has helped develop job-training centers, charter schools and housing in severely impoverished locations stretching from the Watts section of Los Angeles to Appalachia in Kentucky and other states.

From 2003 to 2008, 25 percent of project investments, or $3.9 billion, went to tracts with family poverty rates above 30 percent, according to Treasury and census records. Using individual rates alone, Treasury calculates that figure as 49 percent, Luecht says.

more

http://www.bloomberg.com/news/2011-02-08/rich-taking-from-poor-as-10-billion-u-s-subsidy-law-funds-luxury-hotels.html

LAWFEBRUARY 8, 2011, 3:47 P.M. ET.

U.S. Targets Hedge Funds in Latest Wave of Insider Charges

By MICHAEL ROTHFELD, SUSAN PULLIAM And JENNY STRASBURG

U.S. officials on Tuesday unsealed insider-trading charges against three hedge-fund portfolio managers and a hedge-fund technology analyst, opening a new front in the government's insider-trading probe.

Investigators have been scrutinizing the relationship between hedge funds and so-called expert networks—companies that pair investment firms with public-company employees working on the side as consultants to provide insight into their companies and industries. Such conversations aren't supposed to include material nonpublic information, but sometimes do, prosecutors say.

View Full Image

European Pressphoto Agency

Preet Bharara, left, United States Attorney for the Southern District of New York, discusses the insider trading charges during a press conference in New York. At right is Robert Khuzami, director of the SEC's division of enforcement.

Eight employees or consultants of Primary Global Research LLC, a Mountain View, Calif., expert-network firm, have been previously charged in the case.

The latest developments indicate the government's investigation is moving beyond expert-networking firm employees to focus on hedge-fund employees who allegedly engaged in insider trading.

Two of the former hedge-fund managers charged on Tuesday recently worked at giant hedge fund SAC Capital Advisors LP. Donald Longueuil, 34 years old, worked at CR Intrinsic Investors LLC, a divison of SAC Capital Advisors until the middle of last year, and Noah Freeman, 35, worked at SAC's Boston office until January 2010, according to people familiar with the situation.

Samir Barai

The involvement of the two former SAC managers adds to a growing list of former employees of SAC and funds with ties to SAC that have become ensnared in the government's investigation.

SAC hasn't been accused of any wrongdoing, and Jonathan Gasthalter, an SAC spokesman, said the company is cooperating with the investigation.

"We are outraged by the alleged actions of two former employees, which required active circumvention of our compliance policies and are egregious violations of our ethical standards," he said.

He noted that the government alleges that their improper conduct together began at their prior firms in 2006 and continued after they joined SAC in mid-2008. Both were dismissed by SAC for poor performance, he said.

The government's complaint detailed the drama that unfolded in November after the Wall Street Journal broke news of a large insider-trading investigation involving "expert network" companies

http://online.wsj.com/article/SB10001424052748704364004576132012337029594.html?mod=WSJ_hp_LEFTWhatsNewsCollection

The world's dumbest banks

Posted by Colin Barr

February 9, 2011 6:36 am

Ireland's disastrous banks continue to punch above their weight.

Anglo Irish, the third-biggest Irish bank, announced this week that it expects to post a 2010 loss of 17.6 billion euros ($24 billion). That's the fifth-biggest banking loss on record (see chart, right), and the first new entry on the list since the global meltdown of 2008.

Hanging with the wrong crowd

Joining the ranks of the biggest banking losers is an accomplishment in itself, of course, particularly now that the global run on financial institutions has ended (even if the one on the to-big-to-succeed Irish banks continues and threatens, perhaps, to spread elsewhere).

But what makes Anglo Irish's loss even more remarkable is how dinky the bank is relative to some of its neighbors on the global dumbest list. Anglo Irish is truly the little bank that couldn't.

The biggest loss belongs to Royal Bank of Scotland (RBS), which was the biggest bank in the world at the time of its $34 billion 2008 loss, with $3.86 trillion in assets. It was bailed out by the U.K. Treasury. Also on the list is Citi (C), which had $1.9 trillion in assets when it took support from the U.S. government initially valued at more than $300 billion.

Fortune Mag on more Dumb Banks

For example, SunTrust (STI) is in the midst of a lawsuit related to a case with AIG (AIG) concerning "a product SunTrust created in 2005, which allowed borrowers to get an interest-only first-lien mortgage plus a second-lien mortgage, with the two loans adding up to 100% of a home's value," according to the Wall Street Journal, which notes, "banks, insurers and investors [are] jostling over who should shoulder painful losses on subprime loans." (SunTrust does not favor new requirements that banks retain credit participation in loans they originate.)

SunTrust isn't alone. Allstate (ALL) has sued Bank of America (BAC), claiming Countrywide (Bank of America purchased Countrywide in 2008) misrepresented mortgage investments it sold. The bank received a letter in October from a number of institutions that invested in mortgages originated by Countrywide, including the Federal Reserve Bank of New York, calling for Bank of America to repurchase the mortgages.

One Big Chart That Explains Why Munis Won't Cause A Crisis

Joe Weisenthal | **Feb. 11, 2011, 9:43 PM** | **151** | **2**

We've pointed this out before, that unlike with other credit instruments, munis are unlikely to pose systemic risk (even with a lot of defaults) simply because they're not typically owned by systemically important institutions.

Most are owned by individuals -- people who are small enough to fail.

This chart from Bank of America/Merrill Lynch's Global Credit Strategy Outlook Conference Call breaks it down.

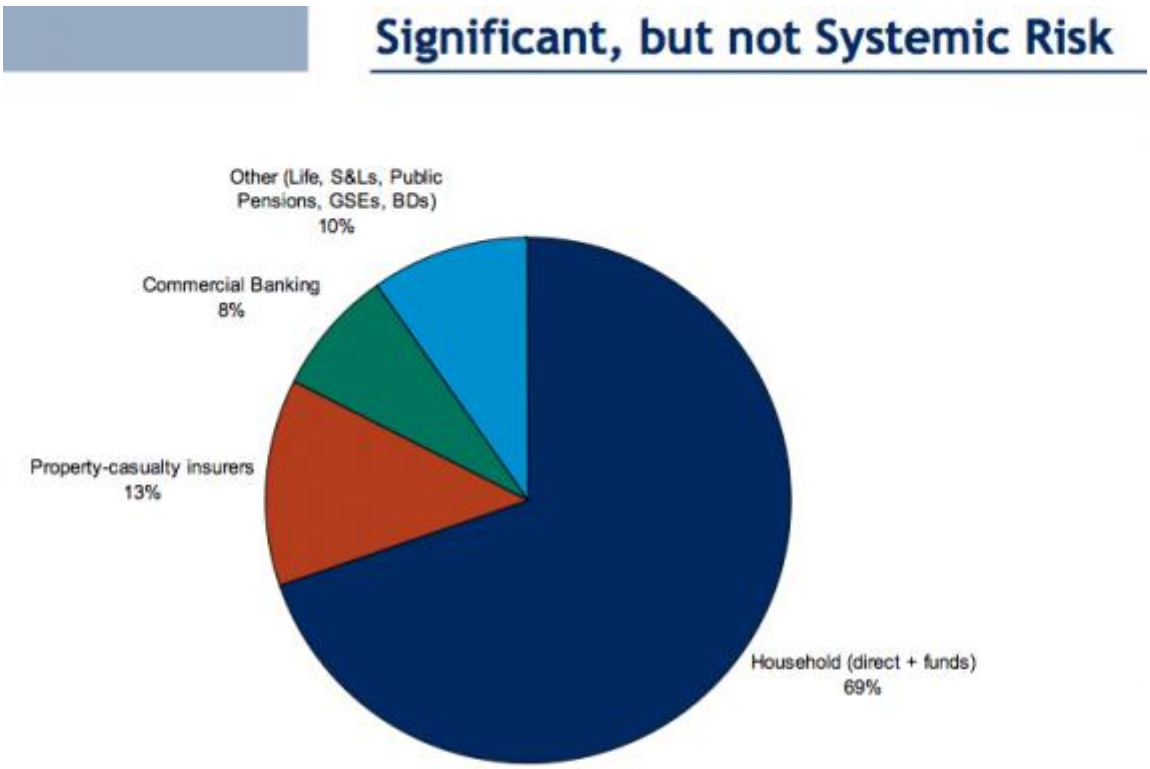


Image: Bank of America

Now, what about the impact on property-casualty insurers?

All told, they account for about 25% of holdings.

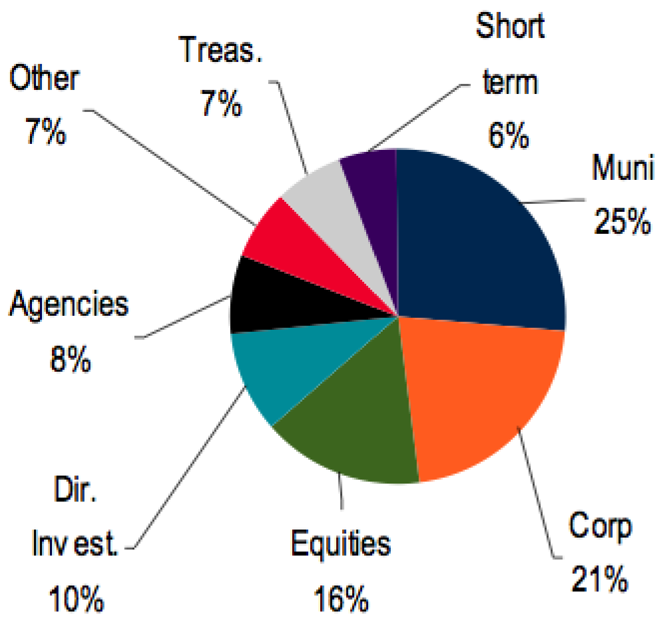


Image: Bank of America

By their estimates, an "extreme" level of muni defaults would lead about 5% equity hit for these companies.

Tags: Muni Bonds | **Get Alerts for these topics »**

Read more: http://www.businessinsider.com/who-owns-muni-bonds-2011-2#ixzz1DiEOzzMo

Krawcheck Slaps Cut-Pay Garden Leave on BofA Advisers

By Hugh Son - Feb 18, 2011 12:00 AM ET

inShare.4More

Business ExchangeBuzz up!DiggPrint Email . Sallie Krawcheck , head of Bank of America's wealth management division, is seeking to stem defections as rivals jockey to manage money for high-net-worth individuals. Photographer: Jin Lee/Bloomberg

Bank of America Corp., which lost a financial adviser with $5.9 billion in client assets to a rival in December, told some workers to sign agreements forcing them to go on reduced-pay "garden leave" if they plan to resign.

Employees of the bank's U.S. Trust unit received the notice this week ahead of 2010 bonus payments and were told their continued employment hinged on agreeing to the new policy, said a person with knowledge of the correspondence. Advisers who previously could resign after two weeks are now forbidden from soliciting their clients for eight months, according to a copy of the document obtained by Bloomberg News.

"They're sending the message, 'Make no mistake, you will incur our wrath, this is not a place you want to leave,'" said Mindy Diamond, president of Diamond Consultants LLC, a Chester, New Jersey-based executive-search firm. "It's very rare that a company would have garden-leave provisions for producers, and I think this could backfire if people view it as draconian."

Sallie Krawcheck, head of Bank of America's wealth management division, is seeking to stem defections as rivals jockey to manage money for high-net-worth individuals. U.S. Trust last year lost Michael C. Brown, whose clients had a typical net worth of $50 million. He joined a startup co-founded by former Citigroup Inc. executive Todd S. Thomson.

William Halldin, a spokesman for Charlotte, North Carolina- based Bank of America, declined to comment. The new policy affects some of U.S. Trust's 4,000 employees. Bank of America ranks first among U.S. lenders by assets and deposits.

No Bonus

At U.S. Trust, associates who choose to resign "may be assigned whatever duties" the firm decides during a 60-day leave, according to the policy. They'll forfeit bonuses and must wait another six months before soliciting former clients or colleagues to join their new venture, according to the document.

Garden leave, a term used in the U.K., refers to the period after giving notice in which an employee remains on payroll while hypothetically not doing anything connected to the brokerage industry.

Employees must also agree that they aren't subject to the so-called broker protocol, a voluntary recruiting agreement that allows departing advisers to solicit clients without getting sued. Whether U.S. Trust advisers were part of the protocol was disputed in the lawsuit Bank of America filed against Brown and three of his colleagues in December. The bank settled the case in January for undisclosed terms.

Recruiting Trouble

"Your employment is further conditioned upon your agreeing" to the terms of the letter, Bank of America wrote this week. "Should you not comply with these terms, you agree that the company shall have the right to enforce them" through court-ordered actions.

The new policy pertains to workers including private client advisers, portfolio managers and trust officers, according to the document. Garden leave is typically part of employment contracts for senior executives, not employees who deal with clients face-to-face, Diamond said.

Enticements to depart a firm are at "an all-time high" with compensation packages at the biggest brokerages worth as much as 350 percent of an adviser's trailing 12-month revenue, said Diamond.

The new U.S. Trust policy "could hobble their efforts in recruiting," said Jonathan Henschen, a broker recruiter based in Marine on St. Croix, Minnesota. "If you have to wait eight months before you can approach your old clients, it will drastically affect your client-retention rate in the first year. People will look at that and say, 'I'm not going there.'"

Weak Performance

Bank of America, citing "weak new relationship acquisition performance," also overhauled U.S. Trust employee compensation by mandating that advisers must add at least three new high-net- worth clients in 2011 to be eligible for discretionary awards, according to a separate document.

U.S. Trust, founded a decade before the Civil War, was purchased by Charles Schwab Corp. in 2000. Bank of America created its wealth management division in part by buying U.S. Trust for $3.3 billion in 2006 and purchasing Merrill Lynch & Co. in 2009. The company has about 20,000 brokers, advisers and wealth-management bankers with $2.2 trillion of client balances as of Dec. 31, according to a presentation.

Brown managed about $5.9 billion in client money at U.S. Trust, according to Barron's, which ranked him 28th on its 2009 list of the top 100 U.S. financial advisers. His new company, New York-based Dynasty Financial Partners, offers research and a technology platform for independent advisory firms.

Brokerages are focusing on the wealthiest individuals to boost profit margins. JPMorgan Chase & Co., Citigroup, Goldman Sachs Group Inc. and Deutsche Bank AG are hiring bankers devoted to helping affluent clients. Assets under management at the four top brokerages slipped 16 percent to $4.75 trillion from 2007 through 2009, while jumping almost 14 percent to $1.54 trillion at independent firms, according to researcher Aite Group LLC.

To contact the reporter on this story: Hugh Son in New York at hson1@bloomberg.net;

To contact the editor responsible for this story: Rick Green in New York at

Mutual Funds' Muni-Debt Prices Are Questioned

By JEAN EAGLESHAM, MICHAEL CORKERY And CARRICK MOLLENKAMP WALL STREET JOURNAL 2/18/2011

The Securities and Exchange Commission is investigating whether some mutual funds have overstated the value of risky municipal bonds that are thinly traded, according to people familiar with the matter.

The SEC probe, which is part of the agency's broader effort to investigate possible abuses in the municipal-bond market, comes at a time of concern about financial stresses on municipal borrowers.

Got Liquidity?

The high yield municipal-bond market tends to be less liquid than the high yield corporate debt market, analysts say.

	Market value (billions)	Number of issues	Average issue size (millions)
Barclays Capital U.S. High Yield Index*	$970.7	1,873	$518.2
Barclays Cap Municipal High Yield Index*	$53.9	3,174	$16.9

*As of Feb. 16, 2011

Source: Barclays Capital

The agency's concern is that investors in high-yield muni-bond mutual funds could be misled about the true value of their investment, according to people familiar with the matter.

These people cite the weakened muni market of the past few months. Fund managers have had to sell high-quality liquid assets in their portfolio to come up with cash as investors have withdrawn money from muni funds at an unprecedented rate.

In high-yield funds, which invest in "junk"-rated bonds, that selling can leave these bonds representing a higher proportion of the remaining assets. That change increases the odds that mismarking of these less-liquid assets overstates a fund's value, masking losses.

From mid-November through last week, muni-bond mutual funds have suffered net outflows of about $24.7 billion, according to Thomson Reuters unit Lipper FMI.

A spokesman for the SEC declined to comment.

Valuation problems don't necessarily signal bad intentions. Many municipal junk bonds are held by only a few of the approximately three dozen mutual funds that specialize in such risky bonds.

Many junk muni-bonds are thinly traded, making it potentially difficult to identify the current value of the bonds, some analysts say.

"There just aren't that many investors transacting in them thus compromising the integrity of the evaluation," says Thomas Doe, chief executive of research firm Municipal Market Advisors in Concord, Mass.

Valuation questions about illiquid securities have long been a concern among market participants and regulators, including during the subprime-mortgage loan crisis.

In an SEC case against broker-dealer Morgan Keegan & Co., regulators allege that a subprime fund manager there manipulated the prices of bond funds that were having losses. In April 2010, the SEC charged Morgan Keegan and two employees with civil fraud. "The case is ongoing and we look forward to resolving this as soon as possible," a Morgan Keegan spokeswoman said.

Rated junk muni-bonds total about $54 billion in value, a small slice of the $2.9 trillion municipal debt market.

There also are nonrated junk muni bonds that are considered even riskier.

'Dirt Bonds'

Scrutiny of junk muni-bond values by the SEC includes "tobacco bonds" as well as "dirt bonds," according to people familiar with the matter.

Tobacco bonds have been sold by states and are backed by payments from tobacco companies that flow from legal settlements in the late 1990s.

- DOW JONES CAPITAL MARKETS REPORT

  Small Muni Borrowers Push Renewal of Bank Incentives

- Dow Jones Capital Markets Report

Pimco Sees 'Compelling Value' in Some Munis

- Chicago Tribune

Muni Bond Market Comes Off Ledge

Dirt bonds helped finance infrastructure for housing developments in U.S. states such as Florida and California. Homeowner assessments were supposed to cover the bond debt. But the housing downturn meant some developments weren't built, drying up the cash stream to pay the bond debt.

In some cases the bonds haven't changed hands for a few years, according to trading records of the bonds. In those instances, mutual funds hire pricing services to come up with a value.

The valuation controversy surfaced in a lawsuit filed in 2009 against OppenheimerFunds Inc., a unit of Massachusetts Mutual Life Insurance Co.

Investors in Oppenheimer California Municipal Bond Fund allege that the fund manager stated in prospectuses that securities were valued at "fair value" and that the fund operator would monitor the accuracy of prices used to value securities.

Instead, the lawsuit alleges, the California fund's assets were "greatly overvalued," resulting in overall inflated net asset values, or NAVs, for the fund.

The fund's net asset value tumbled to $6.36 a share in November 2008 from $11.44 per share in September 2006, a decrease of about 44%.

According to the lawsuit, pending in federal court in Denver, the average loss for similar funds during the same period was about 11.5%.

OppenheimerFunds has asked a judge to dismiss the suit, saying in court documents that the "Funds' assets were fairly valued … using a consistent process that met all regulatory standards."

In a statement, OppenheimerFunds said that the lawsuit lacked merit and that "we continue to defend ourselves vigorously."

The firm's spokeswoman declined to comment on the SEC probe.

According to recent annual and semiannual reports, OppenheimerFunds Rochester National Municipals Fund has marked down the value of many of its dirt-bond holdings in some cases by as much as 50%.

Other large municipal high-yield investors include mutual funds run by Franklin Templeton Investments, a unit of Franklin Resources Inc.; Invesco Van Kampen, a unit of Invesco Ltd.; Nuveen Investments LLC; and Goldman Sachs Group Inc. Representatives for the funds declined to comment on the SEC probe.

A civil fraud lawsuit filed by the SEC in a 2003 case stemmed from similar valuation issues that the agency is examining now, people familiar with the matter said.

The agency accused Heartland Advisors Inc., some of the Milwaukee asset manager's executives and pricing service FT Interactive Data of fraud related to Heartland municipal-bond funds. The funds sustained declines in net asset values in 2000 when their holdings of some high-yield municipal bonds were written down.

'Deliberate Mispricing'

The write-down was an attempt to correct "months of deliberate mispricing," the SEC alleged.

In 2008, Heartland and some of its executives agreed to pay $3.9 million as part of a settlement. FT Interactive Data, owned by Interactive Data Corp., agreed in 2003 to pay a fine of $125,000 and adopt new valuation procedures for high-yield municipal securities. The companies and individuals concerned didn't admit or deny wrongdoing.

Write to Michael Corkery at michael.corkery@wsj.com and Carrick Mollenkamp at carrick.mollenkamp@wsj.com

Themis Trading On The SEC's Flash Crash (Non)

Circuit BreakersCommodity Futures Trading CommissionEquity MarketsFINRAGETCOPre-TradeRisk ManagementThemis Trading

The report is out. Click here to read the 14 page report. The Joint CFTC/SEC committee makes 14 recommendations which they intend to focus on to ensure the integrity of our connected market place. We would like to highlight the 3 recommendations that we think are "news" today, and that we have particularly expressed concern about over recent years: Recommendations 10, 11, and 12, which deal with order cancellation fees, internalization, and trade-at rules. Missing in the report, however, is any discussion of proprietary exchange data feeds, the proliferation of exchanges, or minimum order life. Also, this report is a stark contrast to the September 30th report, which focused more extensively on an algorithm trading eMini futures from a large money manager. The HFT community, at that time, focused on that aspect of the report extensively. This report is an improvement, as it does begin to examine structural inefficiencies and risks in our current market structure.

SEC Says Ex-Goldman Director Gupta Tipped Rajaratnam

By Joshua Gallu - Mar 1, 2011 12:01 PM ET

Rajat Gupta, former Goldman Sachs Group board member. Photographer: Seokyong Lee/Bloomberg

Rajat K. Gupta, a former Goldman Sachs Group Inc. board member, was sued by U.S. regulators on claims he passed inside information to Galleon Group founder Raj

Rajaratnam ahead of deals including Berkshire Hathaway Inc.'s $5 billion investment in Goldman Sachs Group Inc.

Gupta also tipped Rajaratnam on quarterly earnings at Goldman Sachs and Procter & Gamble Co., where he also served as a board member, according to a Securities and Exchange Commission administrative order filed today. Rajaratnam and others made more than $18 million trading on the tips, the SEC said.

"Gupta was honored with the highest trust of leading public companies, and he betrayed that trust by disclosing their most sensitive and valuable secrets," SEC Enforcement Director Robert Khuzami said in a statement.

A phone call to Gary Naftalis, Gupta's attorney, wasn't immediately returned. Ed Canaday, a spokesman for Goldman Sachs in New York, declined to comment on the accusations against Gupta, who left the company's board last year. Rajaratnam is fighting SEC and Justice Department insider-trading claims.

The SEC said administrative proceedings will take place to determine whether Gupta will have to pay any fines or face other penalties such as a bar from serving as an officer or director at a public company.

Guess How Many Seconds Rajat Gupta Waited Before Calling Raj After Blankfein Told Him Q4 2008 Earnings Were Bad

Katya Wachtel | Mar. 1, 2011, 12:43 PM | 9,682 | 18

After telephone calls with Lloyd Blankfein about Goldman's profits and Berkshire Hathaway's $5 billion investment, former Goldman Sachs board member Rajat Gupta, who was just charged with insider trading, didn't wait one minute before calling Raj Rajaratnam with the good -- and bad -- news.

You'd think that Gupta would have made some attempt to keep his alleged insider trading under wraps.

Nope!

Example: On one call in 2008, Gupta got off the phone with the Board at 3:56 pm. He had just learned that Berkshire Hathaway would make a $5 billion investment in the bank, which would go public the next day.

He called Raj on the same line at 3:57 pm -- not even a full minute after learning of the enormous new stake.

Raj was able to place a trade before the close of markets that day.

And according to the SEC's complaint against Gupta, Gupta called Raj immediately after finding out material information about Goldman more than once.

After he disconnected from a call about sliding profits with Blankfein himself,, Gupta didn't wait more than **23 seconds** before he telephoned Raj.

More on the Berkshire Call

On September 23 of 2008, a Special Telephonic Meeting of the Goldman Sachs Board was convened at 3:15 p.m. During the call, the board considered the $5 billion preferred stock investment by Berkshire and a public equity offering.

This was big news for Goldman, and Gupta knew it.

Warren Buffet's company, "was one of the most respected and influential investors" in the country, and news that it would take such a large stake in the bank at a time of great market volatility, would not only get the tick of approval the public, but more importantly, would inspire investor confidence.

Gupta stayed on the call until 3:53 pm, according to the SEC.

He disconnected. And then, without hesitation -- without even a seconds break -- Gupta called Rajaratnam from the same line, the complaint says.

"Within a minute after this telephone conversation, at 3:56 p.m. and 3:57 p.m., and just minutes before the close of the markets, Rajaratnam caused the Galleon Tech funds to purchase more than 175,000 additional Goldman Sachs shares," according to the complaint.

On The Phone With The Lloyd

On October 23, 2008, Blankfein, CFO David Viniar, and other senior Goldman execs at conducted a Board posting call during which they informed the other board members of the bank's financial situation.

It was 4:15 pm. Gupta dialed in when the meeting began, and disconnected at 4:49 p.m according to the SEC.

Within 23 seconds of disconnecting from the call, Gupta allegedly called Rajaratnam. They spoke for 15 minutes, and the next morning when the market opened, Galleon began liquidating its holdings of Goldman stock, according to the SEC. Galleon avoided losses of over $3 million with the information allegedly supplied by Gupta.

Gary Naftalis, Gupta's lawyer says that the "SEC's allegations are totally baseless," and his client "has done nothing wrong and is confident that these unfounded allegations will be rejected by any fair and impartial fact finder."

Read more: http://www.businessinsider.com/rajat-gupta-called-raj-rajartnam-as-soon-as-he-discovered-berkshire-hathway-investment-2011-3#ixzz1FUiEye6h

Beazer's McCarthy to Repay $6.5 Million to Resolve SEC Claims

By Joshua Gallu - Mar 3, 2011 3:28 PM ET

Beazer Homes USA Inc. (BZH) chief executive officer Ian McCarthy agreed to return $6.5 million in a clawback of compensation he received during a period when the firm was accused of committing accounting fraud, the Securities and Exchange Commission said.

McCarthy, 58, had failed to reimburse Beazer for bonuses and other incentive-based pay during the 12-month period after the company filed fraudulent financial statements for 2006, the SEC said today in a complaint filed today at federal court in Atlanta. His settlement with the SEC, which includes $772,232 in stock-sale profits and more than 78,000 shares of restricted stock, represents his entire 2006 bonus, the agency said.

The Sarbanes-Oxley Act of 2002 gave the SEC authority to seize bonuses and stock-sale profits from CEOs and finance chiefs at firms that restate earnings because of misconduct even if they weren't involved in the violations. McCarthy, who wasn't accused of committing fraud, settled without admitting or denying wrongdoing, the SEC said.

"Today's action makes clear that incentive compensation and stock sale profits for CEOs and CFOs is subject to a clawback if received while a company was deceiving its shareholders," SEC Enforcement Director Robert Khuzami said in a statement. "This provides an important incentive for senior executives to be vigilant in preventing misconduct and ensuring that companies comply with financial reporting requirements."

Beazer was forced to restate financial results for the fiscal year that ended Sept. 30, 2006, after the SEC accused the Atlanta-based firm of manipulating land development and house cost-to-complete accounts and improperly recording model-home financing transactions as sales for the purpose of increasing income, according to the complaint.

The company resolved the SEC's accounting fraud claims in September 2008 without paying any financial penalties.

A call to Samuel Winder, McCarthy's attorney at Foley & Lardner LLP, wasn't immediately returned.

Larry Meyer – ex-Fed Chairman

One of the Fed's more arrogant former apparatchiks (of the "100% confidence" interval) Larry Meyer, currently at expert network Macroeconomic Advisors which is used by the likes of Pimco to get inside information on what the Fed will do at its upcoming meetings, appeared on CNBC earlier and attempted to school David Einhorn on "Economics 101." What ensued was yet another confirmation that these **Ph.D's** (a term we always use in the most pejorative, NC-17 context possible) who destroyed the world, have absolutely no idea what the hell they talk about, and make up bullshit scenarios on the fly. Luckily, it has gotten to a point where every incremental statement catches them in one lie or another. It has become grotesquely comic to watch their faces (as in Bernanke of 60 Minutes infamy) squirm as they realize that the end of the system they created and subsequently destroyed, is near.

A selection of Einhorn's questions:

- "Part of the issue with the deflation is companies improve the quality of their products, so last month the PPI went down because we had a new car year, and they sold you a better car for the same price. Now why is it the Federal feel like you need to have a policy response to auto companies making better cars and selling them to you at the same price? Why do we need to drive up the cost of energy, and food, and cotton, to offset that?"
- "I think if you drive up food and energy prices, which you don't count in the core PPI or CPI, I think if you don't count those things in the inflation, you may miss the inflation, and if people have to spend more money on food and energy, they have less money to buy other things, and that could prove to be a net reduction in economic activity..."

As for Larry, we are confident he will survive long after his entire life is proven to have been a hollow defense of a failed ideology: **after all he is one of those "fly on the wall" Fed consultants who gets paid by the PIMCOs of the world to leak inside monetary information to the highest bidder. We would love to know: now that the Gerson Lehrman model is over, when will the true leak of critical inside information: companies such as Macroeconomic Advisors finally see either a subpoena by the AG or an FBI raid... After all what they do is identical to what all those other expert networks do day in and out. Only this time the stakes are that much higher** (and the pool of beneficiaries that much, ahem Bill Gross, smaller).

Earnings Are a Load of Nonsense

Earnings season has always been a crapshoot largely because of the nature of our financial system. To whit, we have accountants whose jobs consist entirely of finding ways to minimize taxes and eek out profits from even the flimsiest of circumstances (financial firms have become masters of this).

Indeed, it’s common practice for companies to prepare TWO tax statements, one that is released to the public and another that goes to the IRS. The IRS version usually features numerous tax dodges such as shifting revenues to tax havens/ off shore subsidiaries, as well as phony accounting charges and the like.

Consider the two following news stories:

Goldman Sachs's Tax Rate Drops to 1%, or $14 Million

*Goldman Sachs Group Inc., which got $10 billion and debt guarantees from the U.S. government in October, expects to pay $14 million in taxes worldwide for 2008 compared with $6 billion in 2007… **The company's effective income tax rate dropped to 1 percent from 34.1 percen**t… The firm reported a $2.3 billion profit for the year after paying $10.9 billion in employee compensation and benefits.*

(http://www.bloomberg.com/apps/news?pid=20601110&sid=a6bQVsZS2_18)

GE: 7,000 Tax Returns, $0 U.S. Tax Bill

General Electric filed more than 7,000 income tax returns in hundreds of global jurisdictions last year, but when push came to shove, the company owed the U.S. government a whopping bill of $0…
(http://money.cnn.com/2010/04/16/news/companies/ge_7000_tax_returns/index.htm)

After the accountants get through with "cooking the books," corporate earnings are then supposed to be accurately forecast by Wall Street analysts, most if not all of whom, work for firms that make millions performing mergers/ acquisitions/ IPOs and other investment banking deals with the very companies the analysts are supposed to be objectively covering.

We then have institutional investors who invest based on the analysts' views which are based on the accountants' voodoo (the institutions themselves usually have relationships with the analysts' firms as well). And then we have the public, whose funds are either invested with the institutions OR are whipsawed and destroyed by the institutions moves.

All of these moves have become exacerbated by the US's decision to abandon anything remotely resembling accurate accounting standards. Nowhere is this more evident that in the financials sector.

JPMorgan ignored suspicions about Madoff: lawsuit

- 

StapletonBy Jonathan Stempel

NEW YORK | Thu Feb 3, 2011 5:42pm EST

(Reuters) - JPMorgan Chase & Co executives stood by silently as their client Bernard Madoff ran his epic Ponzi scheme, hoping to protect the bank's investments and continue doing business with him, a newly released $6.4 billion lawsuit claims.

Irving Picard, a court-appointed trustee seeking to recover money for former Madoff clients, made the accusation in his complaint against the second-largest U.S. bank, an edited version of which was made public on Thursday.

"While numerous financial institutions enabled Madoff's fraud, JPMorgan Chase was at the very center of that fraud, and thoroughly complicit in it," the complaint filed with the U.S. bankruptcy court in Manhattan said.

The complaint shows for the first time how Picard believes JPMorgan put its own interests in preserving a decades-long relationship with Madoff ahead of trying to stop his long-suspected fraud, which was revealed on December 11, 2008.

"For whatever it's worth, I am sitting at lunch with (a bank employee) who just told me that there is a well-known cloud over the head of Madoff and that his returns are speculated to be part of a (P)onzi scheme," the complaint quotes from a June 15, 2007 email by an investment bank risk officer.

JPMORGAN CALLS TRUSTEE CLAIMS "UNFOUNDED"

The complaint also quoted a JPMorgan employee who had in February 2006 urged that JPMorgan "assess quality and detail" of reports from Madoff's firm, noting potential "significant" penalties if statements proved "fraudulent or inaccurate."

Jennifer Zuccarelli, a JPMorgan spokeswoman, in an emailed statement said the New York-based bank will defend against Picard's "unfounded" claims.

"JPMorgan did not know about or in any way become a party to the fraud orchestrated by Bernard Madoff," she said.

"Madoff's firm was not an important or significant customer in the context of JPMorgan's commercial banking business, and the revenues earned from Madoff's bank account were modest and entirely consistent with conventional market rates and fees.

"The trustee makes no attempt to substantiate or support his unfounded claim that JPMorgan earned extraordinary sums from the Madoff account, and that claim is demonstrably false," she added.

"PALPABLE CONCERN"

Picard originally filed his complaint under seal. The edited version leaves out the names of various employees believed to have been suspicious of Madoff's activities.

JPMorgan was the principal banker for Madoff's firm, Bernard L. Madoff Investment Securities LLC, for more than 20 years. Picard has been liquidating the firm since Madoff's estimated $65 billion Ponzi scheme was uncovered.

"The bank's top executives were warned in blunt terms about speculation that Madoff was running a Ponzi scheme, yet the bank appears to have been concerned only with protecting its own investments" in Madoff feeder funds, Deborah Renner, one of Picard's lawyers, said in a statement.

Renner said the bank had a "palpable concern that Madoff was a fraud for years," but waited until October 2008, just two months before Madoff's firm collapsed, before reporting its concern to British government officials.

Picard and Renner are partners at law firm Baker & Hostetler LLP.

Regulators including the U.S. Securities and Exchange Commission have also been faulted by investors and politicians for missing red flags about Madoff's misconduct, which surfaced in the midst of a global financial crisis.

JPMorgan Chief Executive Jamie Dimon last week complained at the World Economic Forum in Davos, Switzerland about persistent criticism of banks' activities, calling it "unproductive and unfair."

RECOVERIES

Picard has recovered roughly $10 billion from various parties to repay former Madoff clients.

He has filed more than $50 billion of lawsuits against various individuals and businesses, including HSBC Holdings Plc, UBS AG and Fred Wilpon, whose family owns the New York Mets baseball team. Wilpon said he may sell part of the Mets as a result of Picard's litigation.

Picard is seeking to recover from JPMorgan nearly $1 billion in fees and profits, plus $5.4 billion in damages.

Madoff admitted in his March 2009 guilty plea that the essence of his scheme was to deposit client money into a Chase account, rather than invest it and generate returns as clients had believed. The 72-year-old is now serving a 150-year sentence in a North Carolina federal prison.

JPMorgan shares closed up 1 cent at $45.46 in Thursday trading on the New York Stock Exchange.

The case is Picard v. JPMorgan Chase & Co et al, U.S. Bankruptcy Court, Southern District of New York, No. 10-ap-04932.

Former McKinsey partner ‘owed’ Rajaratnam

By Kara Scannell in New York

Published: March 11 2011 00:51 | Last updated: March 11 2011 00:51

Anil Kumar, a former McKinsey partner, testified that he shared client secrets with Raj Rajaratnam, the founder of Galleon Group, because he felt obligated to him after agreeing to accept $500,000 a year in consulting fees.

"Mr Rajaratnam kept asking me for that information and I felt that I owed him something given how much money he was paying me," Mr Kumar testified on Thursday.

EDITOR'S CHOICE

Transcript: Kumar-Rajaratnam call - Feb-08.Transcript: Goel-Rajaratnam call - Feb-08.Transcript: Rajaratnam May 2008 call - Feb-08.John Gapper: McKinsey model springs a leak - Mar-09.Third McKinsey consultant drawn into Galleon case - Mar-10.Prosecutors open case against Galleon co-founder - Mar-10..Mr Kumar's testimony, which is expected to continue for several days, came on the first day of Mr Rajaratnam's federal trial on insider trading charges. Earlier in the day, prosecutors placed photos of Mr Kumar and two other co-conspirators on a black Velcro board facing the jury.

Mr Kumar has pleaded guilty to securities fraud and is co-operating with the government in hopes of a lighter prison sentence. He has agreed to forfeit $2.7m in fees and profits he received from Galleon.

Mr Rajaratnam's lawyer is painting a different picture of Mr Kumar, saying he defrauded the government by not paying taxes and his own partners at McKinsey by not sharing his consulting fees with the firm.

Mr Kumar said he twice, unsuccessfully, tried to win Galleon as a McKinsey client. Then, in the fall of 2003, Mr Kumar ran into Mr Rajaratnam after leaving a charity dinner.

"He pulled me aside," recounted Mr Kumar, who at times pressed his hands together as he spoke. Mr Rajaratnam appealed to Mr Kumar's ego, saying he wasn't interested in McKinsey, according to Mr Kumar. "I want your input. I'm willing to pay you $500,000 a year just for you," Mr Kumar recalled him as saying.

Mr Kumar testified that Mr Rajaratnam told him that while Mr Kumar was in India, he had missed out on fortunes being made in the US. Mr Rajaratnam said he would pay Mr Kumar to take notes about what he knew and chat once a month about his ideas, Mr Kumar said.

He described how Mr Rajaratnam instructed him to set up a Swiss bank account and an offshore account investing in Galleon, using his housekeeper's name to avoid detection.

After he began receiving money, in $150,000 instalments, Mr Kumar said Mr Rajaratnam "got quite specific" in his questions about quarterly earnings and profits.

On two occasions, Mr Kumar testified, he told Mr Rajaratnam about strategies considered by his client, Advanced Micro Devices.

"I was proud" of AMD's strategy, Mr Kumar said. "Sadly, I violated everything in sharing it with Mr Rajaratnam."

Mr Kumar said he didn't know the specifics of Mr Rajaratnam's trading. "I knew it was valuable. He would thank me," Mr Kumar testified.

Fired Goldman Banker Seeking Deals Aided Massachusetts Campaign

By Michael McDonald - Mar 11, 2011 12:01 AM ET

Former Massachusetts Treasurer Tim Cahill. Photographer: Neal Hamberg/Bloomberg

Neil Morrison, a Goldman Sachs Group Inc. (GS) banker fired in December, began advising former Massachusetts Treasurer Tim Cahill's gubernatorial campaign in 2009 even as he was seeking to underwrite state bonds, according to e-mails obtained through a public records request.

Morrison, 36, a top aide to Cahill before he left for Wall Street in 2007, helped the treasurer review consultants for his independent run for governor last year, analyzed polls and discussed strategy at the same time he lobbied for bond business, correspondence from his Goldman Sachs e-mail address shows. The New York-based bank underwrote at least $5.6 billion of Massachusetts bonds at the same time Morrison was helping Cahill's campaign, according to state data.

The U.S. Securities and Exchange Commission asked for documents from Cahill and his aides on Jan. 21. Bloomberg News reported Dec. 16 that the bank stopped underwriting state-level bonds in October when the Cahill campaign revealed that Morrison was acting as an adviser. So-called pay-to-play rules restrict bankers from contributing to politicians who control bond sales, including limiting volunteer work. Breaking the rules can trigger a two-year underwriting ban.

If the SEC determines Morrison's volunteer work represented in-kind contributions to the campaign, Goldman is "going to have a problem," said Christopher "Kit" Taylor, a former head of the Municipal Securities Rulemaking Board. The Alexandria, Virginia-based group writes industry regulations. Goldman Sachs would have to return underwriting fees, and possibly face a fine, if it managed sales when it shouldn't have, he said.

Offering Advice

Morrison began offering political advice as early as February 2009 when Cahill was still plotting a campaign for governor. In one e-mail that month, Morrison offered to deny a rumor that Cahill would leave the Democratic Party to run as a Republican. He ran as an independent against incumbent Deval Patrick, a Democrat, and Republican Charlie Baker. Patrick won.

"I like that they think he's running but the Republican part is not helpful to him," Morrison wrote in a message to Scott Campbell, his successor as Cahill's chief of staff, on Feb. 24, 2009. "He has raised too much as a D to be an R. Now independent -- that would be different."

The SEC has been bolstering its oversight of the $2.93 trillion municipal-bond market. The agency appointed Elaine Greenberg to head a municipal-securities and public-pensions unit last year, one of five task forces created after the global credit crisis. Greenberg has focused on bid-rigging for municipal-investment contracts by banks, public officials who hire advisers based on political contributions and local governments that don't disclose their true financial condition.

'Personal' Relationship

"My personal and political relationship with Tim Cahill was just that -- personal and political," Morrison said yesterday in an e-mailed response to a request for comment.

"From my perspective, it will stay that way," Morrison said. "It had absolutely nothing to do with Goldman Sachs."

John Nester, an SEC spokesman in Washington, declined to comment. Michael DuVally, a spokesman for Goldman Sachs in New York, also declined to comment.

On Jan. 21, the SEC subpoenaed e-mails from the Massachusetts Treasurer's office that were sent or received since June 1, 2008, that relate to Cahill, Morrison, Goldman Sachs and the selection of underwriters, according to a copy of the document. It also requested the daily calendars showing the schedules for the treasurer and some of his aides

Morgan Stanley Unit Probed by U.S. on Military Foreclosures

By Tom Schoenberg and Joel Rosenblatt - Mar 12, 2011 6:13 PM ET

A unit of Morgan Stanley, the sixth-largest U.S. bank by assets, and other lenders are being investigated by the Justice Department for overcharging members of the military and foreclosing on their homes without court orders.

"The Civil Rights Division has an ongoing investigation into Saxon mortgage and other lenders as well as authorized lawsuits against lenders for violations of the Servicemembers Civil Relief Act, specifically for overcharging and foreclosing against the homes of Servicemembers without court orders," Xochitl Hinojosa, a department spokeswoman, said today in an e- mailed statement.

The investigation was revealed in a court document filed this week in a lawsuit brought in federal court in Grand Rapids, Michigan, by U.S. Army Sergeant James Hurley. He served in Operation Iraqi Freedom starting in 2004, and lost his home through an eviction proceeding in 2005 while he was still in Iraq.

The Morgan Stanley unit, Saxon Mortgage Services Inc., and a unit of Deutsche Bank AG were responding in court papers to an effort by Hurley's lawyers to subpoena Saxon's general counsel to learn more about a Justice Department probe.

Introducing evidence of the investigation would result in a "monumental waste of time," the companies said in a March 8 filing. "The Department of Justice investigation is merely a preliminary investigation based on unproven allegations, for which no liability or wrongdoing has been found."

Mark Lake, a spokesman for New York-based Morgan Stanley, declined to comment on the federal probe.

The New York Times reported on Hurley's lawsuit and the DOJ investigation yesterday.

The case is James B. Hurley v. Deutsche Bank Trust Company Americas, 08-cv-00361, U.S. District Court, Western District of Michigan (Grand Rapids).

To contact the reporter on this story: Tom Schoenberg in Washington at tschoenberg@bloomberg.net; Joel Rosenblatt in San Francisco at jrosenblatt@bloomberg.net.

Monday Morning – March 12, 2011

As disgusting as this market has been for the last 8 months, today the criminal syndicate known as Wall Street hits a new low, pumping stories about how great natural disasters are, as well as nuclear meltdowns, on the coming of new infrastructure projects...you know, once the bodies are cleared.

I don't think this bounce will work...as I think everyone can now clearly see how the syndicate's immorality has overtaken all reason, all laws, all calculable economics...at the center of the decayed heart of America. It is simply embarrassing to be involved in any way with this criminal syndicate.

Banks Probed in Libor Manipulation Case

By CARRICK MOLLENKAMP And DAVID ENRICH

The London interbank offered rate, set daily in London, is one of the world's most important benchmarks. Now, U.S. investigators are probing whether U.S. and European banks manipulated it.

Multiple U.S. and European banks, which provide borrowing costs to calculate Libor every day, have been contacted by investigators, including the Department of Justice, Securities and Exchange Commission, and the Commodity Futures Trading Commission, according to people familiar with the situation.

Libor, which is used to set interest rates on everything from corporate debt to car loans, is supposed to reflect the rates that banks charge one another for loans. The banks report the rates they are charged, but during the financial crisis, evidence emerged that banks were understating those rates, possibly because they didn't want to reveal that they were being viewed as highly risky and being charged high rates. While it is not clear how the investigations will play out, one result could be a change in the way Libor is calculated.

View Full Image

Agence France-Presse/Getty Images

A UBS branch in Zurich. The bank has been probed over Libor rates.

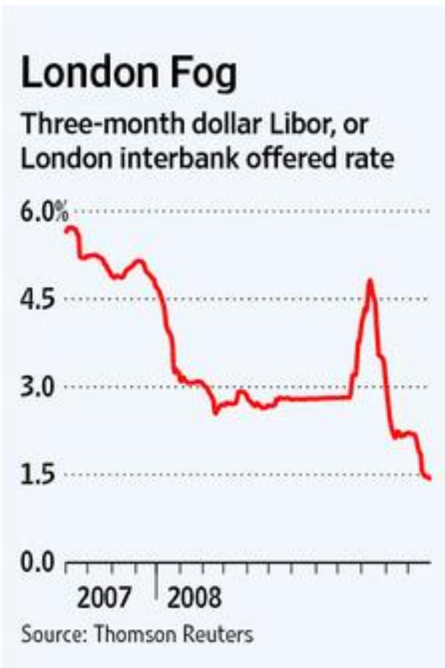
The probes come after questions increased in recent years about whether banks properly reported the rates they paid for the short-term loans, which serve as a key piece of the globe's financial system. Libor is set in 10 different currencies, in maturities ranging from overnight to 12 months.

The probe began about a year ago with informal inquiries and has subsequently narrowed in focus though it is not clear what the parameters are in the current stage, these people said.

Swiss bank UBS AG disclosed the probe Tuesday in its annual report. The bank said it has received subpoenas from the three regulators and that it believed "the investigations focus on whether there were improper attempts by UBS, either acting on its own or together with others, to manipulate Libor rates at certain times."

Some 16 banks were contacted, but the U.S. probe appears to be focusing on a smaller group of banks, according to the people familiar with the situation. That smaller group has been asked to provide testimony to the SEC, these people said. UBS also said it had been contacted by Japan's securities regulator.

A UBS spokeswoman declined to comment.



Representatives for the Justice Department, SEC and CFTC declined to comment.

Every day in London, at about 11 a.m., traders from a panel of 20 banks report what it would cost them to borrow for differing maturities. During the 2008 financial crisis, overnight Libor spiked, a sign banks were having trouble borrowing money. Markets drew confidence later on, when Libor rates began to drop.

The British Bankers' Association in London oversees Libor. In a statement Tuesday, the group said it observes "rigorous standards in our scrutiny and governance of the Libor mechanism, and work with the industry to ensure their continued full confidence in one of its most accurate and reliable benchmarks."

In a series of articles in 2008, The Wall Street Journal found a number of banks submitted significantly lower borrowing costs for Libor than what other market measures, such as credit-default insurance, suggested the Libor postings should have been. At the time, banks and other market participants had expressed concerns to the BBA about whether banks were reporting rates that reflected true borrowing costs.

The Journal studied the borrowing quotes of 16 banks. The dollar-Libor panel recently was increased to 20 banks.

"It's vulnerable" to banks misreporting, said Thomas Youle, a doctoral student in economics at the University of Minnesota. "It's poorly designed." Mr. Youle and Connan Snider, assistant professor of economics at UCLA, in 2010 issued a paper that analyzed whether Libor properly reflected banks' borrowing costs.

In the paper, the two said another possible reason for banks' submitting inaccurate borrowing costs was to bolster derivative positions, such as interest-rate swaps.

They found "suggestive evidence that the misreporting incentives are partially driven by member bank portfolio positions."

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http://online.wsj.com/article/SB10001424052748704662604576202400722598060.html?mod=WSJ_hp_LEFTWhatsNewsCollection

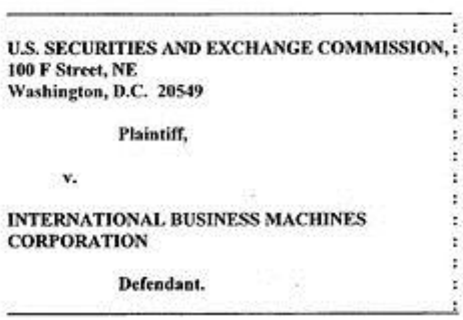
SEC Sues IBM Alleging China, Korea Bribes

By JESSICA HOLZER

The Securities and Exchange Commission has charged International Business Machines Corp. with allegedly bribing South Korean and Chinese government officials for more than decade with cash payments, gifts and travel.

Read the Complaint

View Document



U.S. SECURITIES AND EXCHANGE COMMISSION,
100 F Street, NE
Washington, D.C. 20549

Plaintiff,

v.

INTERNATIONAL BUSINESS MACHINES CORPORATION

Defendant.

IBM has agreed to pay $10 million to settle the civil charges without admitting or denying guilt, but the terms of the settlement are still pending court approval.

Managers employed by IBM's South Korean subsidiary and a South Korean joint venture in which IBM is the majority owner allegedly paid government officials in that country $207,000 in cash bribes from 1998 to 2003 in order to secure sale of the units' products to the government, according to documents filed in federal district court in Washington, DC.

In China, more than 100 employees of two wholly-owned IBM units allegedly provided overseas trips, entertainment and improper gifts to Chinese government officials from 2004 to 2009, according to the SEC's complaint.

Write to Jessica Holzer at jessica.holzer@dowjones.com

Read more: http://online.wsj.com/article/SB10001424052748704608504576208634150691292.html#ixzz1GyLRup4D

On Friday March 25, 2011, 9:04 pm EDT

NEW YORK (Reuters) - A Manhattan federal judge on Friday named three pension funds as co-lead plaintiffs in an investor lawsuit against Goldman Sachs Group Inc (GS - News) to recover losses tied to the Wall Street's bank's alleged misleading statements about Abacus, a product linked to subprime mortgages.

U.S. District Judge Paul Crotty designated the Arkansas Teachers Retirement System, the West Virginia Investment Management Board, and the Plumbers and Pipefitters National Pension Group in Alexandria, Virginia to lead six consolidated lawsuits against Goldman and various of its officers and directors.

Crotty said the funds had the largest financial losses connected with the case of any of the proposed plaintiffs. The funds are represented by the law firms Robbins Geller Rudman & Dowd LLP and Labaton Sucharow LLP.

The litigation arose after the U.S. Securities and Exchange Commission last April 16 sued Goldman and Fabrice Tourre, one of its vice presidents, over Abacus, a 2007 collateralized debt obligation transaction.

In its civil complaint, the SEC accused Goldman and Tourre of failing to tell investors that the hedge fund Paulson & Co helped choose bet against securities underlying Abacus.

The investors contended that the charges, Goldman's failure to disclose it had earlier received a "Wells notice" indicating that charges might be brought, and news of a possible U.S. Department of Justice probe caused the bank's shares to fall 21 percent in just over two weeks.

Goldman agreed last July to settle the SEC case for $550 million, without admitting wrongdoing. Tourre, the only individual sued in the case, has also denied wrongdoing, and is still defending against the SEC lawsuit.

Other investor lawsuits over Abacus have been brought against Goldman or company officials in other jurisdictions.

The case is In re: Goldman Sachs Group Inc Securities Litigation, U.S. District Court, Southern District of New York, No. 10-03461.

BUT NOBODY PAYS THAT

G.E.’s Strategies Let It Avoid Taxes Altogether

By DAVID KOCIENIEWSKI

Published: March 24, 2011

General Electric, the nation's largest corporation, had a very good year in 2010.

Enlarge This Image

Drew Angerer/The New York Times

A PRESIDENT'S BUSINESS LIAISON

In January, President Obama named Jeffrey R. Immelt, General Electric's chief executive, to head the President's Council on Jobs and Competitiveness. "He understands what it takes for America to compete in the global economy," Mr. Obama said.

But Nobody Pays That

A Lobbying Powerhouse

The company reported worldwide profits of $14.2 billion, and said $5.1 billion of the total came from its operations in the United States.

Its American tax bill? None. In fact, G.E. claimed a tax benefit of $3.2 billion.

That may be hard to fathom for the millions of American business owners and households now preparing their own returns, but low taxes are nothing new for G.E. The company has been cutting the percentage of its American profits paid to the Internal Revenue Service for years, resulting in a far lower rate than at most multinational companies.

Its extraordinary success is based on an aggressive strategy that mixes fierce lobbying for tax breaks and innovative accounting that enables it to concentrate its profits offshore. G.E.'s giant tax department, led by a bow-tied former Treasury official named John Samuels, is often referred to as the world's best tax law firm. Indeed, the company's slogan "Imagination at Work" fits this department well. The team includes former officials not just from the Treasury, but also from the I.R.S. and virtually all the tax-writing committees in Congress.

Yet many companies say the current level is so high it hobbles them in competing with foreign rivals. Even as the government faces a mounting budget deficit, the talk in

Washington is about lower rates. President Obama has said he is considering an overhaul of the corporate tax system, with an eye to lowering the top rate, ending some tax subsidies and loopholes and generating the same amount of revenue. He has designated G.E.'s chief executive, Jeffrey R. Immelt, as his liaison to the business community and as the chairman of the President's Council on Jobs and Competitiveness, and it is expected to discuss corporate taxes.

"He understands what it takes for America to compete in the global economy," Mr. Obama said of Mr. Immelt, on his appointment in January, after touring a G.E. factory in upstate New York that makes turbines and generators for sale around the world.

A review of company filings and Congressional records shows that one of the most striking advantages of General Electric is its ability to lobby for, win and take advantage of tax breaks.

Over the last decade, G.E. has spent tens of millions of dollars to push for changes in tax law, from more generous depreciation schedules on jet engines to "green energy" credits for its wind turbines. But the most lucrative of these measures allows G.E. to operate a vast leasing and lending business abroad with profits that face little foreign taxes and no American taxes as long as the money remains overseas

The shelters are so crucial to G.E.'s bottom line that when Congress threatened to let the most lucrative one expire in 2008, the company came out in full force. G.E. officials worked with dozens of financial companies to send letters to Congress and hired a bevy of outside lobbyists.

The head of its tax team, Mr. Samuels, met with Representative Charles B. Rangel, then chairman of the Ways and Means Committee, which would decide the fate of the tax break. As he sat with the committee's staff members outside Mr. Rangel's office, Mr. Samuels dropped to his knee and pretended to beg for the provision to be extended — a flourish made in jest, he said through a spokeswoman.

That day, Mr. Rangel reversed his opposition to the tax break, according to other Democrats on the committee.

The following month, Mr. Rangel and Mr. Immelt stood together at St. Nicholas Park in Harlem as G.E. announced that its foundation had awarded $30 million to New York City schools, including $11 million to benefit various schools in Mr. Rangel's district. Joel I.

Klein, then the schools chancellor, and Mayor Michael R. Bloomberg, who presided, said it was the largest gift ever to the city's schools.

G.E. officials say the donation was granted solely on the merit of the project. "The foundation goes to great lengths to ensure grant decisions are not influenced by company government relations or lobbying priorities," Ms. Eisele said.

Mr. Rangel, who was censured by Congress last year for soliciting donations from corporations and executives with business before his committee, said this month that the donation was unrelated to his official actions.

Because its lending division, GE Capital, has provided more than half of the company's profit in some recent years, many Wall Street analysts view G.E. not as a manufacturer but as an unregulated lender that also makes dishwashers and M.R.I. machines

By 2008, however, concern over the growing cost of overseas tax loopholes put G.E. and other corporations on the defensive. With Democrats in control of both houses of Congress, momentum was building to let the active financing exception expire. Mr. Rangel of the Ways and Means Committee indicated that he favored letting it end and directing the new revenue — an estimated $4 billion a year — to other priorities.

G.E. pushed back. In addition to the $18 million allocated to its in-house lobbying department, the company spent more than $3 million in 2008 on lobbying firms assigned to the task.

Mr. Rangel dropped his opposition to the tax break. Representative Joseph Crowley, Democrat of New York, said he had helped sway Mr. Rangel by arguing that the tax break would help Citigroup, a major employer in Mr. Crowley's district.

G.E. officials say that neither Mr. Samuels nor any lobbyists working on behalf of the company discussed the possibility of a charitable donation with Mr. Rangel. The only contact was made in late 2007, a company spokesman said, when Mr. Immelt called to inform Mr. Rangel that the foundation was giving money to schools in his district.

But in 2008, when Mr. Rangel was criticized for using Congressional stationery to solicit donations for a City College of New York school being built in his honor, Mr. Rangel said he had appealed to G.E. executives to make the $30 million donation to New York City schools.

As Morgan Stanley Unwinds Its Massive MBIA CDS Losing Position, Is A Billion+ Hit To Earnings Coming?

Morgan Stanley recently unwound credit hedges on monoline insurer MBIA at a potentially significant loss. This could hit first quarter results for Morgan Stanley's troubled fixed income division and compound its reputation as disaster-prone, at least when it comes to credit trading.

Morgan Stanley's current woes stem from its decision to purchase enormous amounts of credit default swap protection on MBIA. When the highly leveraged specialist insurance firm appeared likely to fail in 2008, 2009 and much of 2010 these trades by Morgan Stanley probably looked like a sensible bet. Old structured finance deals by the bank that were insured by MBIA would be covered and there was a potential trading profit from the default swaps in the event of a bankruptcy filing.

Unfortunately much of the protection owned by Morgan Stanley was bought at levels that implied a near guarantee that MBIA would indeed default on its obligations.

When the monoline cheated death and staggered through 2010, its credit spreads began to fall from levels that reflected a market assumption about its likely demise. ***Morgan Stanley racked up losses on monoline credit counterparty exposure last year of $865 million and recent market trades indicate that it may have crystallized a further loss by unwinding hedges as MBIA spreads came under renewed downward pressure.*** *Spreads for three and five year default swaps fell from levels around the equivalent of 3,000bp in mid January to roughly 1,800bp by late February, pointing to a significant hit for Morgan Stanley, which was the protection holder on much of the outstanding derivatives exposure in the market*

As can be seen on the CDS chart below, if MS had a carried loss of nearly $1 billion on its books on monoline exposure (most of its MBIA), when MBIA was trading roughly 3,000 bps, the hit to the bottom line upon taking the loss when it traded at 2,000 must have been vicious, and likely ended up costing the firm over $1 billion

Nah...Morgan Stanley just reduces its cash reserves, calls them earnings...presto...hole filled.

All America needs right now, more than it needs more criminal syndicate Wall Street bankers, is more creative accountants.

All is fine. After all, how much is $1 billion anyway? Nothing....loose change scraped out of some Fed budget somewhere. Joe Taxpayer is always there to rob...no need to hit the bonus pool or anything.

The trillions of Dollars handed out to the bandits in the banking system till date will all eventually vaporize. The shadow banking system is caught up in this massive gordion knot from which *it won't be able to extricate itself. Just imagine if instead of bailing out these parasites, we had poured all that money into our infrastructure, R&D, etc?*

How the "sage" from Omaha operates within US SEC/NASD Rules

For all those still confused about the David Sokol thought process on Lubrizol, Keith McCullough from HedgeEye summarizes it best:

1. Buy it in my PA
2. Pitch Buffett
3. Meet w/ the CEO
4. Pitch Buffett again
5. Buffett buys it
6. Profit

Any residual questions remaining: please refer to Buffett's later on the matter, as Berkshire will not answer anything else, or to anyone.

PS: great comment from a reader:

What people are missing is in plain sight: Sokol bought the stock with a "free option" not available to the public. If WB bit and bid for LZ, Sokol wins big (whether the likelihood was 5% or 50% does not matter), but if WB did not bite and passed, then Sokol would have non-public information that BRK would NOT be interested in LZ. In the latter hypothetical, any sale of LZ shares would then be an insider trade. A win/win situation for Sokol - last I checked, those are not available to the public.

Blood Sucking Squid caught "lying" – AGAIN!

Christine Harper, Michael Moore and Bob Ivry have been quite busy today. After poring through the lifetime legacy project of their late colleague Mark Pittman, the trio may have just made a discovery that in a non-banana republic could be enough to at least force a special hearing into whether Goldman COO Gary Cohn committed perjury while testifying to the FCIC on June 30. The culprit: Goldman's (ab)use of the discount window not once, not twice, but five times. Well everyone else was doing it, especially Goldman's insolvent peers like JPM, Merrill Lynch, Bear Stearns, Lehman Brothers, Bank of America, Wachovia, UBS, Credit Suisse and, well, everyone else. So what's wrong with that? Here's what: "Goldman Sachs President and Chief Operating Officer Gary D. Cohn told the Financial Crisis Inquiry Commission June 30 that "**we used it one night at the request of the Fed to make sure our systems were linked with their systems**, and **it was for a de minimis**

amount of money." Peter J. Wallison, a member of the Financial Crisis Inquiry Commission, then asked, "**you never had to use it after that?**" "**No, and as I said, we used it on the Fed's request,**" Cohn replied. Alas, that is a lie. And last time we checked, lying to Congress under oath is not quite the right the way to conduct God's work (and yes, a perfectly innocuous "I don't recall" ala David Sokol from his CNBC interview would have sufficed). Alas no: Goldman just had to demonstrate how very immune from the legal process it is, by "risking" its credibility and reputation with the assumption that it is either never wrong, or, like Warren Buffett, that it can never be caught doing wrong. Well, it just was.

The Fed Bailed Out A Libya-Owned Bank

Submitted by Tyler Durden on 03/31/2011 17:57 -0400

- Ben Bernanke
- Discount Window
- Federal Reserve
- Treasury Department

Here's one for the WTF files. While it is neither a secret that back in 2009 America had a thriving relationship with the world's suddenly most hated man Moammar Gaddafi (see "Obama is the first U.S. president to shake Gaddafi's hand") only to turn around and bomb him, nor is it surprising since after all when it comes to oil our administration will do anything and everything to procure it, no matter how many Nobel peace prizes are trampled in the process, it may come as a surprise to some that a bank majority owned by the Libya Central Bank, was the direct recipient of US taxpayer largesse in the form of discount window borrowing. Bloomberg writes that Arab Banking Corp., a lender part- owned by the Central Bank of Libya, used a branch in New York to borrow at least $5 billion from the U.S. Federal Reserve as credit markets seized up in 2008 and 2009. Indeed a quick word search through the compiled daily releases will confirm that the Fed dispersed funds to the Libya-owned venture on well over 30 occasions. And while we have querried in the past how it is possible that various Libyan financial interests managed to get past domestic Anti Money Laundering provisions, when it comes to direct funding from taxpayers would it be too much to ask of Ben Bernanke not to transact with institutions operating on behalf of various so-called tyrants, mutants and, broadly, Antichrists

Fed’s Biggest Foreign-Bank Bailout Saved U.S. Muni Bonds

By Bob Ivry - Apr 6, 2011 12:01 AM ET

The Dexia SA logo sits on display at the company headquarters in Brussels. Photographer: Jock Fistick/Bloomberg

The Dexia SA headquarters are seen in Brussels. Photographer: Jock Fistick/Bloomberg

A European bank that received the most Federal Reserve discount window help during the financial crisis also took $381 billion in aid from its home countries and owned subsidiaries implicated in bid-rigging that prosecutors say defrauded U.S. taxpayers.

Details of Fed lending released last week show that Dexia SA (DEXB), based in Brussels and Paris, borrowed as much as $37 billion, with an average daily loan amount of $12.3 billion in the 18 months after Lehman Brothers Holdings Inc. collapsed in September 2008. The House subcommittee that oversees the Fed plans hearings on the central bank’s discount window lending to offshore financial institutions next month.

By lending to Dexia, the Fed kept money flowing into local government projects throughout the U.S. as well as the money market funds that invested in them. Dexia guaranteed bonds issued by entities as varied as the Texas State Veterans Land Board in Austin and the Los Angeles County Metropolitan Transportation Authority.

“If Dexia went bankrupt, it could have been a catastrophe for municipal finance and money funds,” said Matt Fabian, a Concord, Massachusetts-based senior analyst and managing director at Municipal Markets Advisors, an independent research company. “The market has extensive exposure to foreign banks.”

97-Year Secret

Overseas banks accounted for about 70 percent of discount window loans when borrowing reached its peak of $113.7 billion in October 2008, according to the Fed's data. The discount window, established in 1914, is known as the lender of last resort.

By law, most U.S. branches of foreign banks have access to the discount window, said David Skidmore, a spokesman for the American central bank. "They are important providers of credit to U.S. businesses and households, and discount window lending during the financial crisis helped support their continued lending in the United States," he said.

Banks Get Edge in Talks on Foreclosure Penalties as Feds Settle

By Dakin Campbell - Apr 6, 2011 12:00 AM ET

Bank of America Corp. (BAC), Wells Fargo & Co. (WFC) and fellow mortgage servicers are more likely to dodge a threatened $20 billion in penalties for faulty foreclosures after U.S. agencies cut ahead of the states by signing deals without fines.

A task force of 50 state attorneys general already was arguing internally over proposed sanctions when people familiar with the talks said the Federal Reserve, Office of the Comptroller of the Currency, Office of Thrift Supervision and Federal Deposit Insurance Corp. began making the deals. While the U.S. watchdogs may yet seek fines, the pacts ease pressure on the banks and erode states' leverage, said Gilbert Schwartz, a former Fed attorney.

"This puts the attorneys general in an uncomfortable position," because it reduces the list of outstanding demands and helps firms show progress in fixing lapses, said Schwartz, a partner at law firm Schwartz & Ballen LLP in Washington who is not involved in negotiations. “By settling with the banking agencies, it sets the upper limit on what the banks would be willing to do. This seems to have drawn a line in the sand.”

Meet Matthew Kluger: The Prep School Kid The FBI Just Arrested For Insider Trading

Courtney Comstock | Apr. 6, 2011, 9:47 AM | 255 | 1

Image: WSGR

A senior associate at the law firm Wilson Sonsini Goodrich & Rosati, Matt Kluger, was just arrested for insider trading.

Kluger worked on huge M&A deals at the firm, and investigators suspect that he gave out tips that reaped one trader, Garrett Bauer, $32 million in profits.

The suspicion is that Kluger told *someone* (an unknown person at this point) who told Bauer about the mergers his law firm, Wilson Sonsini, was working on. He may have also stolen information from the law firms Cravath Swaine & Moore and Skadden, Arps, Slate, Meagher & Flom, according to the Wall Street Journal.

One deal that investigators believe that Kluger gave inside information about was Sun's purchase of Oracle, according to CNBC. He is said to have started giving out insider tips about coming deals while he was a law student at NYU, according to CNBC.

Kluger didn't become a M&A lawyer until later in his career. The first school Kluger went to was the Kent, Connecticut-based Kent School, a private boarding school. He then went to Cornell, where he studied at the school of Hotel Administration. He graduated in 1984, which makes him around 47-years old.

Later, Kluger worked as the General Manager of a Toyota dealership in California. He graduated NYU law school in 2005.

From his info on the Wilson Sonsini Goodrich & Rosati website (it has since been taken down):

Matt Kluger is a senior associate in the firm's Washington, D.C., office.

Matt represented many clients in complex cross-border transactions, including the first-ever hostile tender offer in Chile and a simultaneous hostile exchange offer in the U.S.

Matt's clients have been acquirers, targets, financial advisors, and special committees, and he has worked on both negotiated and hostile transactions.

Prior to attending law school, Matt had a seven-year career in the automobile retail industry, culminating as general manager of a large-volume Toyota dealership in California. Prior to joining Wilson Sonsini Goodrich & Rosati, Matt was an associate at Cravath, Swaine & Moore and Skadden, Arps, Slate, Meagher & Flom and associate general counsel at Asbury Automotive Group, Inc., a Fortune 500 automotive retailer.

His clients were:

- CBS
- Check Point Software Technologies
- Computer Horizons
- Ducati
- North America Inc.
- Fiat S.p.A.
- Huntsman Chemical Corporation
- IBM
- Johnson & Johnson
- Kansas City Power & Light
- Landry's Restaurants
- Life RE
- MovieFone
- Nuance Communications
- Phone.com
- RiteAid
- Sun International Hotels
- TechBooks
- Texas Pacific Group
- The AES Corporation
- The Goodson Newspaper Group
- Thomas Weisel Partners
- Unilever

Read more: http://www.businessinsider.com/matthew-kluger-2011-4#ixzz1IkhBMYyJ

SEC Says Ex-D.B. Zwirn Fund's Finance Chief 'Misused' $870 Million

By Patricia Hurtado - Apr 8, 2011 7:16 PM ET

Perry Gruss, the former D.B. Zwirn & Co. chief financial officer, was sued by the U.S. Securities and Exchange Commission over allegations he “knowingly misused” $870 million in clients’ funds.

The commission said that from March 2004 to July 2006, Gruss misused the signatory and approval authority he had over funds held in client accounts of D.B. Zwirn & Co. The defunct, New York-based hedge-fund firm once managed $5 billion.

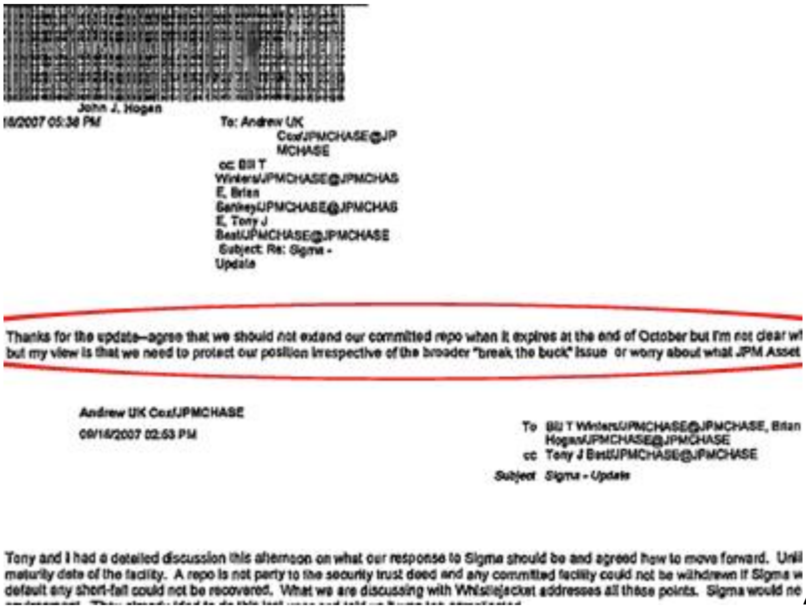
Gruss “authorized more than $870 million in improper transfers of client cash, both between client funds and from client funds to the investment adviser and third parties,” the SEC said in the complaint filed today in federal court in New York.

Regulators said Gruss directed or approved transfers from the fund that included: transferring $576 million from March 2004 to July 2006 from the Offshore Fund to an entity known as the Onshore fund; transferring $273 million from June 2005 to May 2006 from the Offshore fund to pay a revolving credit facility of the fund.

The SEC also alleged Gruss improperly withdrew $22 million in management fees from May 2004 to March 2006 from accounts of client hedge funds to cover operating shortfalls. In September 2005, he withdrew $3.8 million to pay a portion of the purchase of a $17.95 million Gulfstream IV aircraft bought by an unnamed D.B. Zwirn managing partner, according to the complaint.

New Lawsuit Alleges JPMorgan Executive Told Employees "His View" Was That The Firm Should Trade Against Clients

Courtney Comstock | **Apr. 11, 2011, 11:38 AM** | 26 |



[redacted]

John J. Hogan
18/2007 05:38 PM

To: Andrew UK Cox/JPMCHASE@JPMCHASE
cc: Bill T Winters/JPMCHASE@JPMCHASE, Brian Sankey/JPMCHASE@JPMCHASE, Tony J Best/JPMCHASE@JPMCHASE
Subject: Re: Sigma - Update

Thanks for the update--agree that we should not extend our committed repo when it expires at the end of October but I'm not clear wh
but my view is that we need to protect our position irrespective of the broader "break the buck" issue or worry about what JPM Asset

Andrew UK Cox/JPMCHASE
09/18/2007 02:53 PM

To: Bill T Winters/JPMCHASE@JPMCHASE, Brian Hogan/JPMCHASE@JPMCHASE
cc: Tony J Best/JPMCHASE@JPMCHASE
Subject: Sigma - Update

Tony and I had a detailed discussion this afternoon on what our response to Sigma should be and agreed how to move forward. Unti
maturity date of the facility. A repo is not party to the security trust deed and any committed facility could not be withdrawn if Sigma w
default any short-fall could not be recovered. What we are discussing with Whistlejacket addresses all these points. Sigma would ne

A new lawsuit filed against JPMorgan says that the bank bet against its clients through repo financing to a SIV, a structured investment vehicle, that its clients were invested in.

A SIV is backed by an assortment of assets. To make money for its investors, it issues commercial paper in order to generate proceeds which are invested in other assets with higher yields.

A group of JPMorgan's clients, the AFTRA retirement fund, invested $500 million in one of these SIVs, Sigma, according to the New York Times.

The group's lawsuit against JPMorgan alleges that even though Sigma was so deeply in debt that it could not afford to issue any more commercial paper, JPMorgan fed it money so that it would stay afloat and keep generating fees for JPMorgan through repo transactions. The repo transactions would earn JPMorgan $2 on every $1 it invested if Sigma defaulted.

The lawsuit includes question-raising emails from JPMorgan execs.

In one, Mark Crawley tells Bill Winters, "There may be an opportunity to use the current volatility to do more repo trades with them which are in effect asset financing at very attractive levels on high quality assets with excellent structural protection (ie **lever the structure in place but treat it as a trade rather than 'support' for sigma**."

In another, Brian Sankey, who was in the firm's risk department, writes, "**We should only do the repo** as a stand alone and **if we can satisfy ourselves around the legal/rep risk**."

In another, Andrew Cox, in the firm's risk management division, asked his boss if they should consider the "firm-wide position," on September 18th 2007,

"I do not believe there is a systemic bank problem with all SIVs going through an orderly liquidation, however is there a system asset management problem (the 'break the buck' argument)?

"I have heard JPM Asset Mgmt are large buyers of SIV and Sigma CP. **Do we need to consider the firmwide position?** This is most acute with the largest independent SIV manager."

John Hogan

Worst of all, the head of risk management, John Hogan, wrote in response,

"... **my view is that we need to protect our position irrespective of the broader** 'break the buck' issue or worry about what JPM Asset Mgmt has invested in."

In an update on Sigma financing opportunities, JPMorgan execs acknowledge the risks associated with repo-financing the SIV. The risks they identified are as follows:

Reputation (by association with "sponsorship of Sigma")

Legal (collateral enforcement, litigation)

Gap risk (Asset liquidation risk)

Emails about the risk were circulated as high up as Jamie Dimon.

All of the details and documents are available on the website of the lawyers representing the AFTRA retirement fund suing JPMorgan.

The prosecution is suing JPMorgan for breaching their fiduciary duty.

Read more: http://www.businessinsider.com/jpmorgan-aftra-retirement-lawsuit-john-hogan-traded-against-clients-sigma-siv-2011#ixzz1JEKQjoRn

There are now 6.4 million fewer jobs in America than there were when the recession began

In the 8 days leading up to the "historic" $38.5 billion budget deal, the U.S. national debt increased by $54.1 billion dollars

The median pay for CEOs increased by 27 percent during 2010

According to the Economic Policy Institute, almost 25 percent of U.S. households now have zero net worth or negative net worth

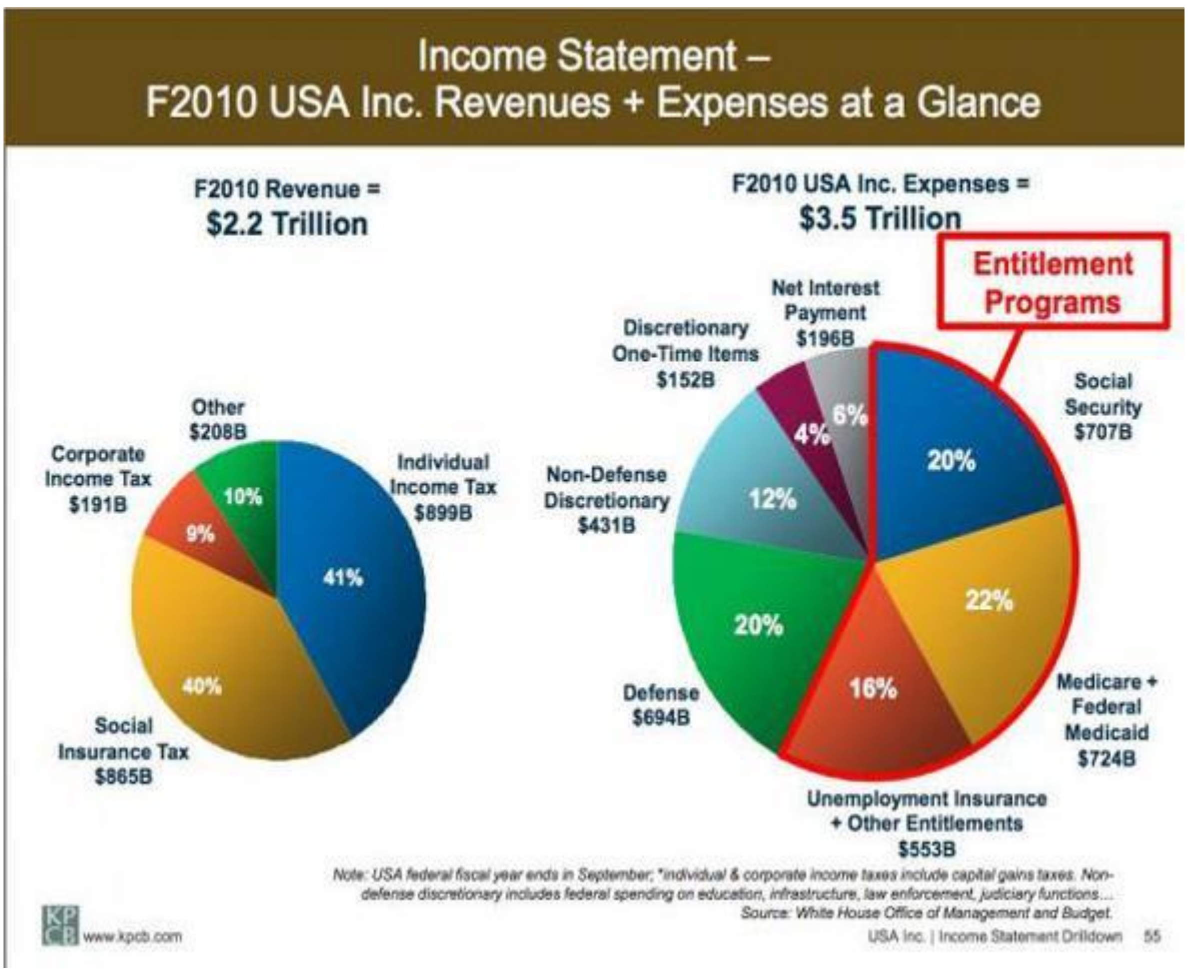
Americans now owe more than $903 billion on student loans

According to the New York Times, as of 2009 the wealthiest 5 percent of all Americans had 63.5 percent of all the wealth in America

The first week of air strikes in Libya cost the U.S. government about 600 million dollars

Back in the 1950s, corporate taxes accounted for about 30 percent of all federal revenue –

Today they account for less than 7 percent of all federal revenue



It is being projected that U.S. government debt will rise to about 400 percent of GDP by the year 2050

Americans spend approximately 27.7 billion dollars a year preparing their tax returns

But what do Americans get in return for their taxes?

What they get is a government that is completely and totally incompetent. Our "leaders" are running the greatest economy in the history of the world into the ground, but unfortunately most Americans have no idea what is happening.

Why are Americans so clueless?

Well, the truth is that over time we have been turned into a nation of idiots and morons.

Thanks to the slothfulness of society, the deficiencies in our education system and the toxins in our food, air and water it has become hard for most of us to think clearly.

Most of us are fat, dumb and totally clueless. The entire economic system is being shredded and most of us just drool and turn up the television a little louder.

If we have money problems, most of us just run out and apply for another credit card. If our state and local governments run into financial problems they just borrow even more money.

Of course the biggest offender of all is the federal government. What our politicians are doing to future generations is not just criminal. It is beyond criminal. It is absolutely unconscionable.

So please excuse me if I am absolutely disgusted with the U.S. economy.

We took the greatest economy in the history of the world and we wrecked it.

The market operators ie banksters earn their revenues nowadays by driving the USD index down and pumping up everything else. This process will continue till there are no long positions left in the USD index and no short positions in any of the commodities, stock or currencies other than the USD.

The operators are then likely to take the long position on the dollar and short position on everything else. They would then use their money power to move the markets in the direction which would get them the maximum profit while screwing all other traders / hedge funds / investors.

The stock, commodity and currency exchanges have been reduced to gambling dens whereby the more powerful traders with deep pockets move the markets to maximize their own profits at the expense of the remaining not so powerful players. The big boys have enormous money power to move the markets in the direction which results in maximum profits for themselves. They effectively use the media to lure the other players in the market to a position where they would incur maximum loss.

The markets will fall only when the banksters have eliminated all the short positions and only they themselves have positioned themselves to profit when the market falls

OR

When an unexpected world event catches the banksters with their pants down and the softwares they use to rig the markets go berserk beyond their control.

http://www.marketoracle.co.uk/Article24581.html

Chip Skowron Surrenders To The FBI

Courtney Comstock | Apr. 13, 2011, 10:12 AM | 78 |

Chip Skowron just surrendered to the FBI, according to CNBC.

Skowron was being investigated for insider trading at FrontPoint.

He was one of the first implicated in the insider trading bust in November.

Skowron was implicated when the SEC charged a French doctor with insider trading that may have allowed FrontPoint's healthcare-focused group to avoid up to $30 million in losses.

Dr. Yves Benhamou was accused of tipping off the FrontPoint portfolio manager (Skowron) when clinical drug trials for Albuferon, a potential hepatitis treatment, were foundering.

Benhamou apparently oversaw the steering committee for Human Genome Sciences (HGSI), which makes the drug.

The SEC complaint against Benhamou alleges that six healthcare focused hedge funds dumped 6 million shares of HGSI common stock on several key dates between November 2007 and January 23, 2008, just before before negative trial results were made public.

Skowron is being charged with securities fraud and obstruction of justice.

More coming.

Read more: http://www.businessinsider.com/chip-skowron-surrenders-to-the-fbi-2011-4#ixzz1JPfBi2Ae

Blind Item: Name The "Prominent Hedge Fund" With Close Ties To The Mubarak Family

Yesterday it was reported that Hosni Mubarak had a heart attack before he was scheduled to be questioned by prosecutors investigating the many allegations against him.

An article in Zim Daily has a new piece of information about the line of questioning.

It says that, "The Mubarak family's extensive business links and ties to a prominent hedge fund are believed to be at the centre of official enquiries."

The hedge fund isn't named.

Mubarak's ties to a hedge fund might be important because investigators are questioning the manner in which Mubarak amassed his immense wealth. The Zim Daily article also mentions that "opposition activists allege that members of the Mubarak family exploited their powerful position to amass a multi-billion dollar fortune."

Read more: http://www.businessinsider.com/hedge-fund-mubarak-2011-4#ixzz1JPg6oUHL

Goldman Sachs Misled Congress After Duping Clients: Levin

By Robert Schmidt, Clea Benson and Phil Mattingly - Apr 14, 2011 12:00 AM ET

U.S. Senator Carl Levin. Photographer: Andrew Harrer/Bloomberg

April 14 (Bloomberg) -- Bloomberg's Mark Barton and Lizzie O'Leary report on the findings of a two-year U.S. Senate inquiry into the causes of the financial crisis which was released yesterday. Senator Carl Levin, the chairman of the panel that conducted the investigation,

said Goldman Sachs Group Inc. misled clients and Congress about the bank's bets on securities tied to the housing market. (Source: Bloomberg)

Goldman Sachs Group Inc. (GS) misled clients and Congress about the firm's bets on securities tied to the housing market, the chairman of the U.S. Senate panel that investigated the causes of the financial crisis said.

Senator Carl Levin, releasing the findings of a two-year inquiry yesterday, said he wants the Justice Department and the Securities and Exchange Commission to examine whether Goldman Sachs violated the law by misleading clients who bought the complex securities known as collateralized debt obligations without knowing the firm would benefit if they fell in value.

The Michigan Democrat also said federal prosecutors should review whether to bring perjury charges against Goldman Sachs Chief Executive Officer Lloyd Blankfein and other current and former employees who testified in Congress last year. Levin said they denied under oath that Goldman Sachs took a financial position against the mortgage market solely for its own profit, statements the senator said were untrue.

"In my judgment, Goldman clearly misled their clients and they misled the Congress," Levin said at a press briefing yesterday where he and Senator Tom Coburn, an Oklahoma Republican, discussed the 640-page report from the Permanent Subcommittee on Investigations.

Goldman and Deutsche

Much of the blame for the 2008 market collapse belongs to banks that earned billions of dollars in profits creating and selling financial products that imploded along with the housing market, according to the report. The Levin-Coburn panel levied its harshest criticism at investment banks, in particular accusing Goldman Sachs and Deutsche Bank AG (DB) of peddling collateralized debt obligations backed by risky loans that the banks' own traders believed were likely to lose value.

In a statement, New York-based Goldman Sachs denied that it had misled anyone about its activities. “The testimony we gave was truthful and accurate and this is confirmed by the subcommittee’s own report,” Goldman Sachs spokesman Lucas van Praag said

Emails Show How Greg Lippmann Built Deutsche Bank's $5 Billion Subprime Short: "Duping CDO Fools

The committee is trying to establish that banks knew the market was souring as early as 2005, yet inflated the bubble anyway. Senator Levin, who led the committee, believes that banks knew what was going on, and misled clients so they they could ultimately reap the profits (which they did).

Here are the examples the report uses from Lippmann's emails to show that bankers knowingly shorted the market while hawking the products to any dim-wits who would buy them. From the emails, a pattern emerges.

First he found "crap" that "blows":

- **"This bond blows"** (regarding a subprime RMBS security issued by Long Beach) - 2/24/2006
- **"Yikes didn't see that. Half of these are crap and rest are ok... Crap-heat pchlt sail tmts."** (The acronyms refer to "Home Equity Asset Trust" "People's Choice Home Loan Securities Trust," "Structured Asset Investment Loan," and "Terwin Mortgage Trust.") - 4/5/2006
- **"This is a good pool for you because it has a fair number of weak names but not so many that investors should balk (I wouldn't add more of these) and also has only a few names that are very good."** (Advising Derek Kaufman at JPMorgan) - 6/23/2006
- **"You can certainly build a portfolio by picking only bad names and you have largely done that as Rascahl is considered bad as is Fremont (bsabs fr, fhlt, jpmac fre, sabr fr, nheli fm deals) ace, arsi and lbmlt."** (The acronyms refer to the names of lenders. Lippmann called "ACE," "bad" even though it was a Deutsche Bank-created asset.) - 8/4/2006
- **"I was going to reject this [long purchase of a synthetic CDO] because it seems to be a pig CDO position dump 60^ but then I noticed winchester [DB affiliated hedge fund] is the portfolio selector..... any idea???"** (Email to Michael Lamont and Richard D'Albert, DB's CDO Co-head and Global head of securitized products) - 8/4/2006
- **"u have picked some crap right away so u have it figured out."** (To Mark Lee at Contrarian Capital) - 12/4/2006

Then he shorted it, "covered the short" by "duping" "CDO fools" and told clients to do the same:

- **"That said I can probably short this name to some CDO fool."** (To Bradley Wickens at Spinnaker Capital) - 8/30/2006
- **"This kind of stuff rarely trades in the synthetic market and will be tough for us to cover ie short to a CDO fool. that said if u gave us an order at 260 we would take it and try to dupe someone."** (To Bradley Wickens at Spinnaker Capital) - 9/1/2006

And there's more.

- At times during 2006 and 2007, **he referred to CDO underwriting by investment banks as the workings of a "CDO machine" or "ponzi scheme."**

- **"I don't care what some trained seal bull market research person says this stuff has a real chance of massively blowing up."**

Eventually, the committee's report says, Deutsche Bank built a $5 billion short against the subprime market (Lippmann says he had to fight to get them to do it).

Lippmanns defense for "duping" and writing the above is this: He was "grasping at things" to prove he was right in his short position.

Because his trade was so successful, Lippmann doesn't work at Deutsche Bank anymore. He left to start a hedge fund, Libre Max, which launched in the fall.

Read more: http://www.businessinsider.com/deutsche-banks-5-billion-short-and-greg-lippmanns-emails-2011-4#ixzz1JVWXmQwY

Major banks sanctioned over mortgage practices

Action doesn't levy fines, even with evidence of wrongdoing

By Ronald D. Orol, MarketWatch

WASHINGTON (MarketWatch) — Without assessing fines, federal banking regulators on Wednesday sanctioned the country's largest banks over "a pattern of misconduct and negligence" in residential mortgage-loan servicing and foreclosure processing.

"These deficiencies represent significant and pervasive compliance failures and unsafe and unsound practices at these institutions," the Federal Reserve said in a statement.

April 13, 2011

Ameriprise To Pay $150 Mil In Securities America Settlement

Ameriprise Financial reportedly has agreed $150 million to settle investor lawsuits stemming from two private placements its Securities America subsidiary sold. Investors lost a total of $400 million on two private placements from Medical Capital and Provident Royalties.

According to published reports, more than 90% of investors who had filed arbitration claims were offered 45 to 48 cents on the dollar

http://www.fa-mag.com/fa-news/7202-ameriprise-to-pay-150-mil-in-securities-america-settlement.html

Why is this guy not in jail?? Why is he featured on CNBC – a lot??? Democratic Party Hack…

The private equity firm Rattner co-founded is the focus of pay-to-play accusations made by the New York State Attorney General, and the Securities and Exchange Commission.[7] Rattner, as a Quadrangle executive, arranged a 1.1 million dollar fee to be paid to the now indicted Henry "Hank" Morris. Quadrangle subsequently received investments from the NY Pension fund.[8][9] According to the Wall Street Journal, Rattner was the "senior executive" of the SEC complaint in the probe of the alleged kickback scheme at New York state's pension fund.[10] Rattner will settle with the Securities and Exchange Commission, accepting a multiple-year ban from the securities industry. He will also pay a fine of over $5 million.[11]

On April 15, 2010, Quadrangle stated, "We wholly disavow the conduct engaged in by Steve Rattner, who hired the New York State Comptroller's political consultant, Hank Morris, to arrange an investment from the New York State Common Retirement Fund. That conduct was inappropriate, wrong, and unethical." as it agreed to a $7 million fine.[12]

"On January 14, 2005, the Good Times CEO sent an email to Rattner reporting that Good Times was moving forward with the Chooch distribution deal and "wanted to bring it to [his] attention as a potential relationship issue." Rattner forwarded the email to Morris, telling him, "This is Steve Loglisci's project. Wanted you to be aware."" Morris told Rattner to contribute to Hevesi indirectly. "Thereafter, Rattner asked a Democratic donor he knew to contribute to Hevesi. That person and his wife each subsequently gave approximately $25,000 to Hevesi for New York. Shortly thereafter, the CRF increased its investment in QCPII from $100 million to $150 million." [13]

Rattner agreed to pay $6.2 million dollars to settle civil charges over the influence-peddling issues and would be barred from working in the securities industry "for at least two years". .[2] New York Attorney General Andrew Cuomo has filed two new suits against Rattner accusing him of paying illegal kickbacks to help Quadrangle land a "lucrative investment from the pension fund". The suit seeks "at least $26 million from Rattner and a lifetime ban from the securities industry."[2] The settlement of the suit was announced on 12/30/10, reported as requiring him to pay $10 million in restitution to the state of New York and a 5-year ban on appearing before any public pension fund within New York state.<New York Times, p. A1, 12/30/2010>

Rattner is married to Maureen White, the former national finance chair for the Democratic Party and advisor to Richard Holbrooke prior to his death in December 2010.

Bloomberg relationship

In January, 2008, it was reported that New York Mayor Michael Bloomberg's extensive business interests were placed in "a sort of blind trust" with Quadrangle because of Bloomberg's possible run for the presidency. Bloomberg was reported to be a friend of Rattner. Bloomberg would "continue to have control of and access to certain investment decisions."[5] In February, 2009, when Rattner left, a report said Quadrangle would continue with its responsibilities for Bloomberg.[4]

In February, 2010, Mayor Bloomberg "shift[ed] about $5 billion from Quadrangle into a new investment firm devoted solely to [Bloomberg's] interest and that of his charitable foundation [with] about a dozen employees of Quadrangle," it was reported. Moving to the new unit would be Alice Ruth, who had been recruited to Quadrangle for the Bloomberg job and "who [before that] had managed the personal fortune of Gordon Moore, Intel's co-founder."[2]

[edit] NY State pension fund investigation

Mr. Rattner and Quadrangle were linked to a New York pension fund investigation "within months of his [Feb. '09] departure from Quadrangle, and [Rattner then] stepped down from his government role" summer 2009.[2] In September, 2009, a number of other firms involved in the pension fund investigation, including Carlyle Group and Riverstone Holdings, either paid fines or had "already agreed to pay settlements and to stop using placement agents," while Rattner and Quadrangle were "among others in talks with Mr. Cuomo's office."[6] In April, 2010, the firm agreed to pay fines of $7 million to Mr. Cuomo's office and $5 million to the S.E.C. to settle its part. Rattner was not included in the agreement. According to a report, "The allegations against Quadrangle involved a movie deal that a company owned by one of the firm's funds agreed to distribute. That film called "Chooch" was a project involving a brother of David J. Loglisci, the chief investment officer of the state pension fund. Mr. Loglisci pleaded guilty [in March 2010] to securities fraud and admitted that he helped steer pension money to political contributors of the former state Comptroller, Alan G. Hevesi, and to companies that paid kickbacks to Mr. Hevesi's top political consultant, Hank Morris."[7]

Steven Rattner, President Obama's original Car Czar, has written a new book called *Overhaul* that says Obama was "out to get" General Motors (GM) and Chrysler. Obama's decisions, Rattner says, were political, not economic.

President Obama is not smiling about Steven Rattner's new book.

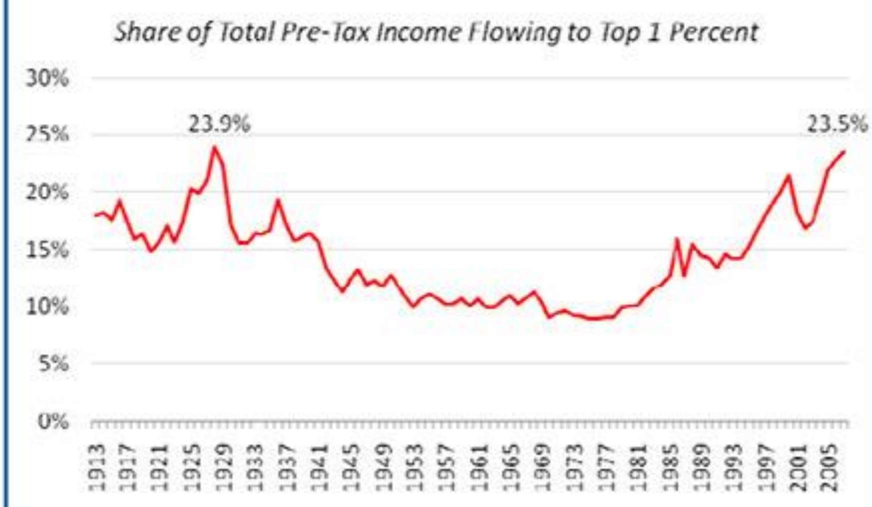
Here are the highlights (or lowlights, if you prefer) from the Huffington Post:

- When Obama was told of the plan to pay GM CEO Rick Wagoner a $7.1 million severance package after Obama ordered that he be sacked, Rattner writes: “Suddenly I felt that I was indeed in the presence of a community organizer…”
- Rattner describes presidential political adviser David Axelrod coming to car meetings armed with poll data to support the takeover and Chief of Staff Rahm Emanuel identify Congressmen in whose districts large Chrysler facilities were located.

Great Depression/World War II – The economic dimension that drove the onset of this Crisis was the unbridled greed and speculation of Wall Street banks. The easy money policies of the Federal Reserve, formed in secret and voted into existence on Christmas Eve with many members of Congress not present created the Roaring 20’s. While farmers struggled to survive on the drought stricken plains and the average person lived a hard scrabble existence, the banking elite reaped obscene profits, with the top 1% sucking 23.9% of all the national income – the highest level in U.S. history.

FIGURE 2

Income Share of Top 1 Percent of Households at Highest Level Since 1928



Source: Piketty and Saez, based on IRS data

The 1920's were a time of cultural decay, decadence and disillusionment. This mood was reflected in F. Scott Fitzgerald's ***The Great Gatsby***. As we know too well, every boom eventually goes bust. The bust came in October 1929, with a stock market crash. Stockholders lost $40 billion. The market dropped 89% over a two year period. By 1933, 11,000 of the 25,000 banks in the US had failed. These were mostly small regional banks. The major NY banks such as JP Morgan and Mellon became more powerful. The artificial interference in the economy by the Federal government and Federal Reserve was a disaster prior to the Depression, and government efforts to prop up the economy after the crash of 1929 only made things worse. Passage of the Smoot-Hawley tariffs spread the depression around the world. The economic hardship in Germany led to the election of Adolf Hitler and set the stage for a future war that would kill 65 million people. FDR's New Deal programs crowded out private industry and resulted in unemployment staying at levels exceeding 15% for an entire decade. Keynesian government spending prolonged the depression and put into place social programs that set in motion the debt bomb that threatens the country today.

For those needing yet another reminder of how in America the incestuous conflicts of interest between the various branches of government and Wall Street run to the very top, here is Time with an article highlighting yet another example of impropriety. Today's case focuses on Iowa's Democratic Attorney General Tom Miller, who at least superficially took the noble lead on the investigation by all 50 state attorneys general into the "robo-signing" foreclosure scandal. Alas, one look below the surface reveals that we may be days away from a very ignoble and very BAC-friendly settlement, courtesy of a few backroom "arrangements" brought to you by none other than Bank of America's petty cash account.

From Time:

*Last fall, **just after** he made the announcement that he would look into the foreclosure mess, **contributions to Miller's campaign coffers for November's election soared**, thanks in large part to out-of-state lawyers who make a living representing big banks, a new report from the National Institute for Money in State Politics finds. "Nearly half of the money Miller raised in 2010," NIMSP reports, "was donated after the October 13 announcement that he would be coordinating the 50-state attorneys general investigation."*

*Two Miller contributors have become directly involved in defending the banks in the probe. One, Meyer Koplow of Wachtell Lipton in New York, gave Miller $5,000 and is representing Bank of America in direct negotiations with Miller, the attorney general tells TIME. Another, Elizabeth McCaul of Promontory Financial Group, gave Miller $10,000 and is consulting Bank of America in the negotiations, Miller says. Ba**nk of America was one of the first and most prominent institutions accused in the foreclosure investigation. It gave more than $80,000 to the Democratic Attorney Generals Association, which spent more than $200,000 on Miller's campaign, Miller says.***

That this "revalation" comes at such a time is unpleasant for a process that is now sure to be mired in shades of political corruption and backroom dealing, especially if the settlement outcome is one that will be seen as favorable toward Bank of America.

*The NIMSP report and revelations of campaign contributions by those working for Bank of America come at a sensitive moment, as Miller is in the thick of far-reaching negotiations with the banks. Though the case started as an investigation into robo-signing, it has broadened. **The talks are aimed at a settlement that could set the terms by which banks service current and future home loans, and determine how they foreclose on properties. That could complement, or supercede, a settlement between banks and federal regulators reached earlier this year.***

Talks over monetary aspects of a potential settlement between the AGs and the banks are just getting under way. New rules for banks writing down mortgage principal and the establishment of a bank-paid fund to help with loan modification are on the table. Some reports have potential bank payments reaching $20 billion but sources on both sides suggest that number is high. The breadth of the negotiations has caused seven Republican attorneys general to split with the 43 other AGs.

Congressional Staffers Gain From Trading in Stocks

By **BRODY MULLINS**, **TOM MCGINTY** and **JASON ZWEIG**

WASHINGTON—Chris Miller nearly doubled his $3,500 stock investment in a renewable-energy firm in 2008. It was a perfectly legal bet, but he's no ordinary investor.

Mr. Miller is the top energy-policy adviser to Nevada Democrat and Senate Majority Leader Harry Reid, who helped pass legislation that wound up benefiting the firm.

Washington Trades

Five congressional aides who bought or sold shares in companies overseen by the staffers' bosses.

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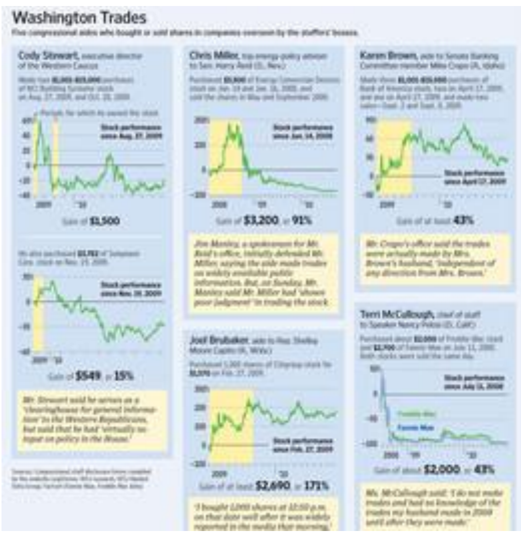

Jim Manley, a spokesman for Mr. Reid's office, initially defended Mr. Miller's purchase of shares in the company, Energy Conversion Devices Inc. He said the aide had no influence over tax incentives for renewable-energy firms, and that other factors boosted the stock.

But on Sunday, Mr. Manley added: "Mr. Miller showed poor judgment and Senator Reid has made it very clear to Chris and all his staff that their actions must not only follow the law, but must meet the higher standards the public has a right to expect from elected officials and their staffs."

Mr. Miller isn't the only Congressional staffer making such stock bets. At least 72 aides on both sides of the aisle traded shares of companies that their bosses help oversee, according to a Wall Street Journal analysis of more than 3,000 disclosure forms covering trading activity by Capitol Hill staffers for 2008 and 2009.

The New Age of Insider Information on Wall Street:

- The Mole: Wired on Wall Street: Trader Betrays a Friend, Jan. 16, 2010
- Swap Talk: Trader's 'Nice Little Kiss' Tests Reach of Regulators, Mar. 31, 2010
- The Pits: Wild Trading in Metals Puts Fund Manager in Cross Hairs, Aug. 20, 2010

- Debt Clash: Bankruptcy Court Is Latest Battleground for Traders, Sept. 7, 2010

The Journal analysis showed that an aide to a Republican member of the Senate Banking Committee bought Bank of America Corp. stock before results of last year's government stress tests eased investor concerns about the health of the banking industry. A top aide to the House Speaker profited by trading shares of Freddie Mac and Fannie Mae in a brokerage account with her husband two days before the government authorized emergency funding for the companies. Another aide to Republican lawmakers interested in energy issues, among other things, profited by trading in several renewable-energy firms.

Congressional Trading:

- The Intelligent Investor: A Perk of Power: Trading in Companies You Oversee, Apr. 10, 2010
- Lawmakers Bet on Stock Falls: Private Trades Occurred as Congress Criticized Wall Street for Risky Moves, May 4, 2010
- Lawmaker Aims to Outlaw Insider Trading on the Hill .Oct. 12, 2010

The aides identified by the Journal say they didn't profit by making trades based on any information gathered in the halls of Congress. Even if they had done so, it would be legal, because insider-trading laws don't apply to Congress.

A few lawmakers proposed a bill that would prevent members and employees of Congress from trading securities based on nonpublic information they obtain. The legislation has languished since 2006.

"Congressional staff are often privy to inside information, and an unscrupulous person could profit off that knowledge," says Vincent Morris, a spokesman for Rep. Louise Slaughter (D., N.Y.), a leading backer of the "Stop Trading on Congressional Knowledge Act," or STOCK Act. "The public should be outraged there is no law specifically banning this."

When the bill was introduced nearly five years ago, just 14 other lawmakers endorsed it. The current version of the bill has fared worse: Only nine lawmakers support it. There is no companion legislation in the Senate.

Congressional aides have ringside seats on the making of laws that affect American business. Receiving salaries up to roughly $170,000 a year, they can glean information about policies and government action before the public. They have access to information about hearings or legislation that can move stocks and markets.

The current Congressional disclosure rules on stock trading stem from a scandal involving Robert Baker, a senior Senate aide, in the early 1960s. Mr. Baker was accused of using his Senate office for personal gain, partly involving the operation of a network of vending machines. He was eventually convicted of income-tax evasion and spent 16 months in prison.

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The aides identified by the Journal say they didn' profit by making trades based on any information gathered in the halls of Congress.

The scandal led to a Senate rule in 1968 that required lawmakers and aides to disclose information about their finances. The House of Representatives imposed similar requirements about the same time.

The rules require all members of Congress and about 2,900 of the highest-paid congressional aides to disclose information once a year on their finances, such as their assets, debts, spouse's employment and other sources of income they earn, including capital gains from trading securities. Some 15,000 lower-paid Congressional staffers aren't covered by the disclosure rule.

Unlike many Executive Branch employees, lawmakers and aides don't have restrictions on their stock holdings and ownership interests in companies they oversee. Congressional rules say that requiring employees to do so could "insulate a legislator from the personal and economic interests that his or her constituency, or society in general, has in governmental decisions and policy."

An analysis of financial-disclosure forms for 2008 and 2009 compiled by the website LegiStorm shows that several hundred congressional aides bought or sold stocks. At least 72 traded the stocks of companies their bosses write laws for.

The disclosure only requires dollar ranges for stock holdings and capital gains, so it is impossible to calculate from them precisely how much aides make trading stock in dollar terms. (Some aides opted to give precise numbers to the Journal.) Still, because the disclosure forms specify the days when shares were bought and sold, the Journal was able to calculate the minimum profits that aides made in percentage terms.

The calculation involved taking the high price on the day the stock was purchased and the low price on the day it was sold. If an aide bought the stock below that daily high or sold it above

Related News:

- **Law**

Lancer Group's Founder Lauer Duped Investors, U.S. Prosecutor Tells Jurors

By Jef Feeley and Mort Lucoff - Apr 20, 2011 5:56 PM ET

Lancer Group founder Michael Lauer duped investors with a stock-pricing scheme that artificially inflated the value of the company’s hedge funds and caused more than $200 million in losses, a prosecutor told jurors.

Lauer and Martin Garvey, another ex-Lancer Group executive, set out to manipulate holding companies’ stock prices so they could pump up their funds’ investment returns, Harold Schimkat, a federal prosecutor in Miami, said today in closing arguments in Lauer’s and Garvey’s trial. Each faces a maximum of 25 years in prison and $500,000 in fines if convicted on conspiracy and wire-fraud charges.

“They were trying to pull the wool” over investors’ eyes with “worthless” valuations of companies’ stock prices, Schimkat said.

The government accused the pair of buying large quantities of restricted stock of shell companies starting in 1999. Lauer and Garvey allegedly instructed brokers to buy a smaller number of shares of the same companies at higher, open-market prices to drive the stock to a targeted price, prosecutors said in court filings.

- PRIL 29, 2011 WSJ

AIG Sues Two Money Managers Over Losses From CDOs

By **BRETT PHILBIN**

NEW YORK—American International Group Inc. sued money managers ICP Asset Management and Moore Capital Management, alleging it suffered losses from insuring complex mortgage securities created and managed by ICP.

The lawsuit is likely to be the first in a potential series of litigation actions AIG will take against Wall Street firms.

In the suit filed in New York's state Supreme Court, AIG alleged ICP benefited from "misconduct through obtaining windfall profits and artificially inflated management fees, and through conferring benefits upon favored clients, who, in turn, allowed the ICP defendants to generate fees through management of their assets." Moore is alleged to have been an ICP preferred client.

ICP didn't respond to a request to comment. A Moore spokesman said, "We haven't seen the complaint and, therefore, we can't comment on it."

The suit alleges "numerous breaches of contractual and fiduciary duties" to AIG by ICP, including the execution of about $1.5 billion in "unauthorized and/or above-market purchases" of collateralized debt obligations, known as Triaxx Prime CDO 2006-1, Ltd. and Triaxx Prime CDO 2006-2, Ltd., that were "designed to benefit the ICP defendants at AIG's expense."

AIG said the ICP misconduct resulted in "well over $350 million in damages."

The New York Times reported news of the lawsuit on Thursday.

U.S. Prosecutors Probe High-Frequency, Algorithmic Trades

By Joshua Gallu - Apr 29, 2011 4:39 PM ET

Robert Khuzami, director of the Securities and Exchange Commission's Division of Enforcement, testifies before the House Oversight and Government Reform Committee on December 11, 2009. Photographer: Chip Somodevilla/Getty Images

U.S. prosecutors have joined regulators' investigation into whether some high-speed traders are manipulating markets by posting and immediately canceling waves of rapid-fire orders, two officials said.

Justice Department investigators are "working closely" with the Securities and Exchange Commission to review practices "that are potentially manipulative, like quote-stuffing," Marc Berger, chief of the Securities and Commodities Task Force at the U.S. Attorney's Office for the Southern District of New York, said today at an event in New York.

While regulators previously said they were probing possibly abusive algorithmic trading practices, the attention of criminal authorities ramps up the stakes.

The SEC and Commodity Futures Trading Commission sharpened their focus on technology-driven trading after the so-called flash crash on May 6, which temporarily erased about $862 billion from the value of U.S. equities in less than 20 minutes. Regulators have placed limits on price moves and proposed rules limiting other practices, and lawmakers banned "spoofing," in which market participants try to trick other computers into making decisions that can be exploited for profit.

A joint SEC-CFTC report released in October found no evidence that the May 6 sell-off was triggered by manipulation.

The SEC last year established a market-abuse unit to investigate cases of manipulation. At the securities law conference in New York today, SEC Enforcement Director Robert Khuzami said investigators need better technology to adequately police markets and detect possible misconduct coming from high- speed and algorithmic trading.

“The question is, do we have enough transparency to detect wrongdoing if it was going on,” Khuzami said, adding that SEC investigators are probing other matters arising from the May 6 market crash.

Berger said market manipulation was among six of his task force’s priority areas, which include insider trading, Ponzi schemes, accounting fraud, asset forfeiture and structured financial products.

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Wall Street's worst kept secret is now out. From Reuters: "The United States sued Deutsche Bank AG, accusing the German bank and its MortgageIT Inc unit of repeatedly lying to be included in a federal program to select mortgages to be insured by the government." And so, 2011 continues being a carbon copy of 2010, with only Deutsche Bank taking the place of Goldman this time around. Oh yes, Greg Lipmmann we hardly knew ye (and we didn't even short your house).

Due To "Triple Damages" Under False Claims Act, Deutsche Bank Damages May Total More Than $1 Billion - Full Lawsuit Attached

Step aside Goldman Sachs, welcome Deutsche Bank: "This is a civil mortgage fraud lawsuit brought by the United States against Deutsche Bank and MortgageIT. As set forth below, Deutsche Bank and MortgageIT **repeatedly lied** to be included in a Government program to select mortgages for insurance by the Government. Once in that program, they recklessly selected mortgages that violated program rules in blatant disregard of whether borrowers could make mortgage payments. While Deutsche Bank and MortgageIT profited from the resale of these Government-insured mortgages, thousands of America homeowners have faced default and eviction, and the Government has paid hundreds of millions of dollars in insurance claims, with hundreds of millions of dollars more expected to be paid in the future... Deutsche Bank and MortgageIT had powerful financial incentives to invest resources into generating as many FHA-insured mortgages as quickly as possible for resale to investors... DB and MortgageIT repeatedly lied to HUD to obtain and maintain MortgageIT's Direct Endorsement Lender status.... **Their violations of HUD rules were egregious**." And what investors are focused on: "In this suit, the United States seeks treble damages and penalties under the False Claims act and compensatory and punitive damages under the common law theories of breach of fiduciary duty, gross negligence, negligence, and indemnification for the insurance claims already paid by HUD for mortgages wrongfully endorsed by MortgageIT. In addition, the United States seeks compensatory and punitive damages." And what is also notable is that this fraud persisted well past the housing crunch, continuing well into 2009 according to the lawsuit.

Bottom line: hit could be bigger than $1 billion.

- MAY 10, 2011 WSJ

Morgan Stanley Settles U.S. Bank Suit; Other Legal Issues Remain

By **BRETT PHILBIN**

NEW YORK—Morgan Stanley settled a lawsuit with U.S. Bank, a unit of US Bancorp, related to a complex structured product but said it could face a loss of $240 million over a Taiwanese bank's complaint about subprime mortgage investments, according to a regulatory filing late Monday.

In its quarterly report filed with the Securities and Exchange Commission, Morgan Stanley said it reached a settlement with U.S. Bank over its role in a collateralized debt obligation known as Tourmaline CDO I.

While terms of the settlement agreement are confidential, Morgan Stanley said it would incur a loss "substantially less" than the $274 million it had projected in November. U.S. Bank had sued Morgan Stanley over a credit default swap agreement between the investment bank and the CDO. Barclays PLC was the holder of the senior class of notes in that transaction and was also a defendant in U.S. Bank's suit.

In the SEC filing, Morgan Stanley also said it could incur a loss of $240 million related to a July lawsuit filed by China Development Industrial Bank, which claims the firm "misrepresented the risks" of another CDO called Stack 2006-1 Ltd and "knew that the assets backing the CDO were of poor quality" when it entered into a CDS agreement with CDIB. In previous filings, Morgan Stanley had given no potential loss projection from that case.

On March 21, Morgan Stanley appealed an order from the Supreme Court of the state of New York denying the company's motion to dismiss the complaint, the filing said.

In another legal development Monday, Morgan Stanley said it and other defendants could face unspecified losses related to their alleged purchase of $983 million in securities issued by a structured investment vehicle called Cheyne Finance. Previously, Morgan Stanley didn't say it could post losses from that suit.

In addition, Morgan Stanley disclosed that Cambridge Place Investment Management, a hedge-fund group, has a filed a new complaint against the company related to the sale of mortgage products to its clients.

Morgan Stanley said the complaint—filed in February—alleges that it and other defendants "made untrue statements and material omissions" in the sale of "certain mortgage pass through certificates backed by securitization trusts containing residential mortgage loans."

Cambridge Place alleged that Morgan Stanley issued, underwrote, or sold $102 million in certificates to the firm's clients, the filing said.

SEC Investigates State Street Over Foreign-Exchange Pricing After Lawsuits

By Christopher Condon - May 12, 2011 8:38 AM ET

State Street Corp., the third-largest custody bank, is being investigated by the U.S. Securities and Exchange Commission over its pricing of some foreign-exchange services, an issue that has drawn legal action from whistleblowers and state officials. Photographer: Michael Fein/Bloomberg

State Street Corp. (STT), the third-largest custody bank, is being investigated by the U.S. Securities and Exchange Commission over its pricing of some foreign-exchange services, an issue that has drawn legal action from whistle- blowers and state officials.

The SEC, attorneys general and U.S. Attorney's offices "have made inquiries or issued subpoenas concerning our foreign-exchange pricing," the Boston-based company said in a regulatory filing made public May 9.

The firm has been sued by California and the Arkansas Teacher Retirement System for alleged fraud. The suits claim State Street secretly marked up the price of some foreign- exchange transactions. Those and similar suits against Bank of New York Mellon Corp. (BK) have brought scrutiny to currency transactions that could lead to lower revenue across the industry.

"State Street is responding to inquiries from various regulatory bodies regarding its foreign-exchange practices," Hannah Grove, a spokeswoman, said in a telephone interview. "We will cooperate fully with the SEC in its inquiry" and "continue to defend ourselves against any allegations of wrongdoing."

California said in October 2009 that State Street defrauded the state's two biggest public pension funds of $56 million since 2001 by charging more than agreed on the transactions and concealing the overcharges by entering false exchange rates into its own databases and in documents. The state is seeking more than $200 million in damages and penalties. The California suit was initiated by Associates Against FX Insider Trading, a Delaware general partnership of unnamed whistle-blowers.

UBS settles with U.S. in muni bond case

05/04/2011

WASHINGTON | Wed May 4, 2011 4:45pm EDT

(Reuters) - UBS AG acknowledged that its former employees in its municipal bond reinvestment desk broke the law, and agreed to pay $160 million to federal and state agencies, the Justice Department said on Wednesday.

UBS settled with the Justice Department, Securities and Exchange Commission, Internal Revenue Service and 25 state attorneys general.

"As part of its agreement with the department, UBS admits, acknowledges and accepts responsibility for illegal, anticompetitive conduct by its former employees," the Justice Department said in a statement.

Some of the world's largest banks have been ensnared in a probe into allegations that their employees decided in advance which investment house would win the auctions of guaranteed investment contracts, which are essentially investments that cities and counties buy with proceeds from municipal bond sales.

Often, there is a delay between when bonds are floated and when the money is actually paid out, allowing some time to invest it.

"UBS is pleased to have resolved this matter with its regulators. The underlying transactions were entered into in a business that no longer exists at UBS and involved employees who are no longer with the firm," the bank said in a statement.

The bank said it had set aside the money and that it would have no effect on financial results.

UBS said the probe into its operations focused on the actions of the municipal reinvestment and derivatives group from 2001 to 2006.

Under the terms of the settlements, UBS will pay $22.3 million to the IRS, $47.2 million to the SEC and $90.8 million to the states.

"This illegal conduct corrupted the competitive process that municipalities were entitled to," said Christine Varney, head of the Justice Department's antitrust division. "Our investigation into this industry is active and ongoing."

Bank of America agreed to settle in December 2010 for $137 million.

Bank of America, the largest U.S. bank by assets, was first to report the bid-rigging problems within its Banc of America Securities unit to the Justice Department before federal law enforcement began an industry-wide investigation.

Eighteen former employees of financial services firms face criminal charges in the probe; four worked for UBS. Nine of the 18 have pleaded guilty, including one from UBS, the Justice Department said.

Three of the people who pleaded guilty worked for CDR Financial Products, also known as Rubin/Chambers, Dunhill Insurance Services Inc. Two CDR employees and one former employee were indicted in October 2009 and charged with participating in bid rigging and fraud.

Elaine Greenberg, head of the SEC's municipal securities and public pensions unit, said the case was a classic instance of bid-rigging.

"Our complaint against UBS reads like a how-to primer for bid-rigging and securities fraud. They used secret arrangements and multiple roles to win business and defraud municipalities through the repeated use of illegal courtesy bids, last-looks for favored providers and money to bidding agents disguised as swaps payments."

Stock Clearer Penson Tumbles On Disclosure Of Busted Racetrack Loan, Director Resignation

The stock of clearing and settlements firms Penson tumbled and was halted today after it was disclosed that the firm had $42.6 million in receivables collateralized by bonds issued by Retama Development Authority - a Texas racetrack. The problem is that the receivable had moved to a non-accrual category, in other words the collateral is most likely now worthless. What is odd is that the first mention of this appeared three days ago in the risk factors of the company's 10-Q: "With respect to the Nonaccrual Receivables, at March 31, 2011, approximately $42.6 million were collateralized by bonds issued by the Retama Development Corporation ("RDC") and certain other interests in the horse racing track and real estate project "(Project") financed by the RDC's bonds. In each case these are owned by customers and pledged to the Company and/or its affiliates. **Certain related parties to the Company own approximately $14.7 million of RDC bonds that are pledged to the Company and/or its affiliates**." Since this goes directly to the company's liquidity, it is no surprise that investors decided to shoot first, and not even ask questions.

New York Attorney General Eric Schneiderman. Photographer: Michael Nagle/Getty Images

JPMorgan Chase & Co. (JPM), UBS AG (UBSN) and Deutsche Bank AG (DBK) are being **investigated** as part of New York Attorney General Eric Schneiderman's expanded probe of mortgage securitization, according to a person familiar with the matter.

Four bond insurers also were **subpoenaed**: Ambac Financial Group Inc. (ABKFQ), MBIA Inc. (MBI), Syncora Holdings Ltd. (SYCRF) and Assured Guaranty Ltd. (AGO), according to the person, who couldn't be identified because the probe isn't public.

Schneiderman is **seeking information** on claims paid out during and after the economic crisis and any information or documents related to litigation or settlements with the banks, according to the person. The expanded investigation was reported earlier by the Wall Street Journal.

Goldman Sachs Group Inc. (GS), Bank of America Corp. (BAC) and Morgan Stanley (MS) were already **part of the probe**, the person said earlier this month. Schneiderman, who took office in January, is examining mortgage practices and the packaging and sale of loans to investors, according to the person.

Lauren Passalacqua, a spokeswoman for the New York attorney general, declined to comment yesterday. Michael Fitzgerald, a spokesman for New York-based Ambac, Torie von Alt, a spokeswoman for Zurich-based UBS, Tom Kelly, a spokesman for New York-based UBS and Renee Calabro, a spokeswoman for Frankfurt-based Deutsche Bank, declined to comment yesterday.

One-Time Payment

MBIA, the company that backed some of Wall Street's most toxic debt securities, **settled** $19 billion in guarantees with five financial institutions since September, resolving the obligations with a one-time payment.

Its MBIA Insurance Corp. unit paid the firms to tear up contracts insuring against losses on corporate, residential and commercial-mortgage bonds and derivatives, the company said in a statement that didn't disclose the settlement amounts. The deals terminated guarantees on $15.7 billion of debt in the fourth quarter and $3.3 billion during the first two months of 2011, the company said.

[SEC Charges UBS With "Rigging At Least 100 Municipal Bond Reinvestment Transactions In 36 States"]

By [Bess Levin]

UBS For any banks looking to do the same, officials describe their complaint against the Swiss bank as a "how to guide for bid-rigging and securities fraud."

The SEC alleges that during the 2000 to 2004 time period, UBS's fraudulent practices and misrepresentations undermined the competitive bidding process and affected the prices that municipalities paid for the reinvestment products being bid on by the provider of the products. Its fraudulent conduct at the time also jeopardized the tax-exempt status of billions of dollars in municipal securities because the supposed competitive bidding process that establishes the fair market value of the investment was corrupted. The business unit involved in the misconduct closed in 2008 and its employees are no longer with the company.

According to the SEC's complaint filed in U.S. District Court for the District of New Jersey, UBS played various roles in these tainted transactions. UBS illicitly won bids as a provider of reinvestment products, and also rigged bids for the benefit of other providers while acting as a bidding agent on behalf of municipalities. UBS at times additionally facilitated the payment of improper undisclosed amounts to other bidding agents. In each instance, UBS made fraudulent misrepresentations or omissions, thereby deceiving municipalities and their agents.

"Our complaint against UBS reads like a 'how-to' primer for bid-rigging and securities fraud," said Elaine C. Greenberg, Chief of the SEC's Municipal Securities and Public Pensions Unit. "They used secret arrangements and multiple roles to win business and defraud municipalities through the repeated use of illegal courtesy bids, last looks for favored bidders, and money to bidding agents disguised as swap payments."

According to the SEC's complaint, UBS as a bidding agent steered business through a variety of mechanisms to favored bidders acting as providers of reinvestment products. In some cases, UBS gave a favored provider information on competing bids in a practice known as "last looks." In other instances, UBS deliberately obtained off-market "courtesy" bids or arranged "set-ups" by obtaining purposefully non-competitive bids from others so that the favored provider would win the business. UBS also transmitted improper, undisclosed payments to favored bidding agents through interest rate swaps. In addition, UBS was favored to win bids with last looks and set-ups as a provider of reinvestment products.

[SEC Charges UBS with Fraudulent Bidding Practices Involving Investment of Municipal Bond Proceeds] [SEC]
[SEC v UBS Complaint] [SEC]

Bank of America $410 Million Overdraft Fee Accord Approved

By Laurence Viele Davidson - May 23, 2011 2:38 PM ET

Bank of America Corp. (BAC), the largest U.S. lender by assets, won preliminary court approval for a $410 million settlement with consumers who claimed the bank illegally charged excessive overdraft fees.

U.S. District Judge James Lawrence King in Miami today tentatively approved the accord between about 1 million account holders and the bank, according to minutes from a hearing posted on the court's website. A final approval hearing is set for November. The judge will award plaintiff attorneys' fees from the $410 million fund, said one of the lead lawyers for the consumers, Jeremy Alters.

Anne Pace, a spokeswoman for Charlotte, North Carolina- based Bank of America, said the bank already has made changes to its overdraft policies, including the elimination of overdraft fees for debit card transactions and reduced fees for customers who overdraw their accounts

Bachus Comforts Wall Street While Slamming Dodd-Frank

Bloomberg

By William Selway and Martin Z. Braun - May 25, 2011 12:01 AM ET

The Wall Street bull sits between Broadway and Exchange Place in the Financial District of New York. Photographer: Chris Goodney/Bloomberg

U.S. Representative Spencer Bachus. Photographer: Andrew Harrer/Bloomberg

In Homewood, Alabama, retiree Lynn Arnold says the U.S. government should crack down on Wall Street after bond and derivative deals arranged by JPMorgan Chase & Co. (JPM) left Jefferson County in fiscal purgatory.

"There needs to be something to help so this doesn't happen again to another county or another city," said the former audiologist, whose sewer bill may increase 25 percent to pay for the debacle. "A lot of people are suffering."

Her congressman is seeking to delay rules meant to do just that. During the past two decades, Spencer Bachus has been the U.S. House of Representatives' third-biggest recipient of donations from financial companies led by JPMorgan. The House Financial Services Committee, which the Republican leads, yesterday voted along party lines to stall until September 2012 regulations for derivatives, including those aimed at keeping the rest of the nation from repeating Jefferson County's mistakes.

Jefferson County officials have been considering bankruptcy since the deals unraveled more than three years ago. Similar financing burned localities throughout the country, from Pennsylvania school districts to a California bridge operator, costing taxpayers more than $4 billion in bank fees to back out of the trades, according to data compiled by Bloomberg.

Robbing the Poor

Less than a year after President Barack Obama enacted regulatory overhauls in the wake of the worst financial crisis since the 1930s, Bachus is leading the pushback. Opponents, including Democratic Representative Barney Frank, say the Republican approach would continue the excesses that caused Wall Street's collapse -- and dealt Bachus's district a lasting blow.

"Wall Street has enabled the greatest robbery of poor people that's ever taken place in the history of this state," said William Muhammad, a recruiter at the University of Alabama at Birmingham's African-American Studies department. "We won't recover from this for decades."

Bachus's regulatory delay faces long odds of becoming law while Democrats control the Senate and White House. Still, Republican criticism of the Dodd-Frank law that Obama signed may signal the party's attitude toward Wall Street oversight should it gain power in next year's national elections.

"If anyone should understand why the investment banks need to be reined in, a member of Congress who represents Jefferson County should," said Barbara Roper, a Pueblo, Colorado-based lobbyist on financial issues for the Consumer Federation of America. "Unfortunately, we're still seeing the same deference in Congress to Wall Street that we did before they blew up the world economy."

Nuveen Fined $3 Million Over Marketing of Preferred Shares

By Christopher Condon - May 23, 2011 3:43 PM ET

Nuveen Investments Inc., the largest manager of closed-end funds, was fined $3 million by the Financial Industry Regulatory Authority for misleading customers on the safety of auction-rate securities before the market for those investments collapsed in February 2008.

The Chicago-based company "failed to adequately disclose liquidity risks" for auction-rate preferred shares issued by its closed-end funds in marketing material used by brokers to sell the securities, the self-regulatory body known as Finra said in a statement today.

“Nuveen was aware of the facts that raised significant red flags about the ability of investors to obtain liquidity for their Nuveen auction-rate securities yet failed to revise their marketing brochures,” Brad Bennett, Finra’s chief of enforcement, said in the statement.

Closed-end funds used to sell preferred shares on the auction-rate market to increase the amount of money they could invest by as much as 50 percent, boosting returns for common shareholders. Preferred-share investors treated the securities as a highly liquid alternative to money-market funds until the market collapsed during the early stages of the credit crisis. The events left preferred shareholders unable to sell.

Redeemed $14.2 Billion

Regulators forced eight broker-dealers, including Citigroup Inc. (C) and UBS AG (UBS), to buy back about $45 billion of auction-rate securities. Some auction-rate bonds and preferred shares remain frozen.

Fed Gave Banks Crisis Gains on Secretive Loans

By Bob Ivry - May 26, 2011 10:47 AM ET

The headquarters of the Goldman Sachs Group Inc., center, stands in this aerial photograph taken over New York. Photographer: Andrew Harrer/Bloomberg

May 26 (Bloomberg) -- Michael Greenberger, a professor at University of Maryland School of Law and a former director at the Commodity Futures Trading Commission, discusses a Federal Reserve emergency lending program that made 28-day loans to banks from March through December 2008 with rates as low as 0.01 percent. The program's details weren’t revealed to shareholders, members of Congress or the public. Records of the lending were released in March under court orders. Greenberger speaks with Deirdre Bolton on Bloomberg Television's "InsideTrack." (Source: Bloomberg)

May 26 (Bloomberg) -- Credit Suisse Group AG, Goldman Sachs Group Inc. and Royal Bank of Scotland Group Plc each borrowed at least $30 billion in 2008 from a Federal Reserve emergency lending program whose details weren't revealed to shareholders, members of Congress or the public. The $80 billion initiative, called single-tranche open-market operations, or ST OMO, made 28-day loans from March through December 2008. Banks paid interest rates as low as 0.01 percent that December, when the Fed's main lending facility charged 0.5 percent. Bloomberg's Bob Ivry discusses the loan program with Deirdre Bolton on Bloomberg Television's "InsideTrack." (Source: Bloomberg)

The U.S. Federal Reserve building in Washington, D.C. Photographer: Joshua Roberts/Bloomberg

Credit Suisse Group AG (CS), Goldman Sachs Group Inc. (GS) and Royal Bank of Scotland Group Plc (RBS) each borrowed at least $30 billion in 2008 from a Federal Reserve emergency lending program whose details weren't revealed to shareholders, members of Congress or the public.

The $80 billion initiative, called single-tranche open- market operations, or ST OMO, made 28-day loans from March through December 2008, a period in which confidence in global credit markets collapsed after the Sept. 15 bankruptcy of Lehman Brothers Holdings Inc.

Units of 20 banks were required to bid at auctions for the cash. They paid interest rates as low as 0.01 percent that December, when the Fed's main lending facility charged 0.5 percent.

“This was a pure subsidy,” said Robert A. Eisenbeis, former head of research at the Federal Reserve Bank of Atlanta and now chief monetary economist at Sarasota, Florida-based Cumberland Advisors Inc. “The Fed hasn’t been forthcoming with disclosures overall. Why should this be any different?”

'Fox in Henhouse' At Nasdaq Guilty

Wall Street Journal May 26, 2011

http://online.wsj.com/article/SB10001424052702304520804576347742451042936.html?KEYWORDS=nasdaq

By MICHAEL ROTHFELD And JENNY STRASBURG

A former Nasdaq Stock Market official who was entrusted by top corporate executives with sensitive details about their companies secretly traded on the information from his work computer to net more than $750,000 in illegal profits, federal government officials said.

Donald Johnson, 56 years old, pleaded guilty to one count of criminal securities fraud on Thursday in federal court in Virginia related to a series of stock trades in companies that, among things, make solar panels, market drugs and sell pet food.

"This case is the insider-trading version of the fox guarding the henhouse," said Robert Khuzami, enforcement director of the Securities and Exchange Commission, which filed a related civil complaint.

It is among the most brazen in a recent string of high-profile insider-trading cases because Mr. Johnson, in his role at Nasdaq, was given inside information about corporate announcements such as earnings shortfalls or departures of top executives. Once the news came out, he closed out his stock positions and took profits, according to court documents. He traded through an account in his wife's name, but used his computer at his Manhattan office, prosecutors said.

Why? Because insider trading laws don't apply to members of Congress...

And if you really want to beat inflation as an investor, all you need to do is get elected to Congress...

In a new academic study, four university professors examined investment results on more than 16,000 stock transactions made by 300 House delegates from 1985 to 2001. The result was clear: They beat the market by an average of 0.55% per month, around 6.6% a year. The professors note a previous study showed members of the U.S. Senate did so well they outperformed hedge funds.

In fact, if members of Congress didn't beat the market, they'd be bigger morons than you already think they are. Why? Because insider trading laws don't apply to members of Congress...

You heard that correctly. The Securities and Exchange Act does not apply to members of the U.S. Senate or House of Representatives. Congressional ethics rules say Congressional members aren't allowed to use privileged information for personal gain. But it's just a rule, not a law. It's not legally enforceable. And it's obvious they're taking excess profits out of the stock market...

This must be one of the most underreported financial stories of the century. Take one example: The Senate Armed Services Committee forbids staff and presidential appointees requiring Senate confirmation from owning securities in more than 48,000 companies that contract with the Defense Department.

But 19 of the 28 senators on that same committee held assets worth between $3.8 million to $10.2 million in companies on the prohibited list between 2004 and 2009.

JPMorgan Scores Victory for Repeat Offenders: Jonathan Weil

Read just about any article in the financial press about a Securities and Exchange Commission settlement with some accused fraudster, and you probably will see two lines bound to get a lot of eyes rolling.

One is that the defendant neither admitted nor denied the SEC's claims. The other is that the penalties include a court injunction or SEC order barring the alleged crook from breaking the securities laws in the future, as if it had been perfectly legal to violate them beforehand. No one, it seems, ever gets nailed for anything.

As if that weren't maddening enough, here's an open secret: The SEC hardly ever enforces these obey-the-law orders. This brings us to last week's headline-grabbing settlement between the SEC and JPMorgan Chase & Co. (JPM)'s securities arm over a toxic bond deal four years ago called Squared CDO 2007-1.

First, the prologue: In 2006, the SEC fined the same JPMorgan unit $1.5 million after determining it had defrauded customers who bought something called auction-rate securities from the company. Specifically, the SEC accused it of violating section 17(a)(2) of the Securities Act of 1933, under which the SEC need only show negligence to establish a fraud claim. The SEC also ordered the company not to violate that section of the law in the future.

So what would be the penalty for disobeying that order? Nothing, it turns out.

One More Time

As part of last week's settlement, the SEC accused the same JPMorgan subsidiary of again violating the same section of the law. However, the commission's complaint didn't include any allegation that the company had breached its 2006 cease-and-desist order. An SEC spokesman, John Nester, didn't offer an answer when asked why not. A JPMorgan spokesman, Joseph Evangelisti, declined to comment.

"This is inexcusable on the part of the SEC not to push this, and it shows how pathetically eager it is to hang up part of the scalp, close an investigation, point to a remedy, and then move on," says James Cox, a securities-law professor at Duke University School of Law. "They're just indicating that these orders don't have any future impact. That's too bad for the public interest

Bank Of America Will Pay $20 Million For Illegal Foreclosures On Active-Duty Soldiers

Credit.com | **Jun. 4, 2011, 7:34 AM** | **144** |

Two big banks will pay $22 million in monetary relief for illegally foreclosing on active-duty soldiers. Bank of America and Morgan Stanley foreclosed on 178 members of the military, in violation of the Servicemembers Civil Relief Act, according to the Department of Justice.

The biggest part of the settlement comes against BAC Home Loans, formerly known as Countrywide, which was purchased by Bank of America after the housing bubble burst in 2008. Countrywide foreclosed on about 160 soldiers between January 2006 and May 2009 without obtaining court orders, as required by law, because the company didn't consistently check the military status of borrowers, according to the Justice Department.

"Military families lost their homes when Countrywide violated the law, causing undue stress to wartime personnel who have been protected from such actions since the Civil War," André Birotte Jr., U.S. Attorney for California's second district, said in the DOJ press release.

Bank of America will set aside $20 million to compensate the 160 servicemembers it wrongfully foreclosed upon. More money could go to additional soldiers who received the same treatment.

Morgan Stanley's subsidiary, Saxon Mortgage Services Inc., will pay $2.35 million for illegally foreclosing on another 18 soldiers.

"With the numerous sacrifices our servicemembers make while they are serving our country, the last thing they need to worry about is whether or not their families will be forced from their homes," says James T. Jacks, U.S. Attorney for the Northern District of Texas, where Saxon is based.

Both companies will be required to improve their training on foreclosure procedures concerning soldiers, and repair victims' credit scores by removing any negative information wrongfully reported to the three national credit bureaus.

Read more: http://www.businessinsider.com/soldiers-get-22-million-for-illegal-foreclosures-2011-6#ixzz1OJO60TMb

WE SHOULD ALL FEEL BAD FOR JAMIE DIMON- NOT!

8 June 2011 by Cullen Roche 14 Comments

Jamie Dimon is upset. And rightfully so. After all, his bank was saved from the brink of disaster in 2008. The US government took extraordinary measures to ensure that he did not go down as one of the greatest bank failures of all-time. In fact, the US government did him a huge favor by making his bank the linchpin in the US economy. Of course, this was done by making Mr. Dimon's already too big to fail bank too bigger to fail. But none of this is enough. Saving someone's career and ensuring that their bank is now an instrumental portion of the US economy is not enough. And in a fit of rage Mr. Dimon went and rewarded himself with a monstrous $16MM pay package last year. After all, he deserved it.

But this is not enough. It's not enough to pay yourself outrageous sums of money when your company should be in a hole in the ground. It's not enough to have the government by the throat and know that the taxpayers can never let your company fail. It's not enough to have been a key player in helping the US banking system become the gigantic leach on the world's largest economy. It's not enough that you help pull our best and brightest minds out of productive fields and into finance where they will do nothing but think of new ways to help separate the middle class from their savings. It's not enough that you helped build a banking system that nearly crashed a $15 trillion economy.

No none of this is enough. And when we pass an incredibly weak regulatory bill that does nothing to actually fix what caused the crisis you go and complain that the government is doing too much. Well, you're right. The government did do too much. The government should have let you and your friends fail. They should have let you become the poster child of the greatest banking collapse in the history of the world. But you know what? They didn't do that. They saved you. They saved your career. They saved your reputation. And they saved your precious multi-million dollar income. So, rather than complain that the government has done too much why don't you just say thank you for what they did do, take a seat in the back of the room, thank your lucky stars and shut up.

Scores Three More Insider-Trading Convictions

By **CHAD BRAY**

NEW YORK—Three hedge-fund traders were convicted Monday on all charges of fraud and conspiracy, in the latest victory for prosecutors cracking down on insider trading in corporate America.

Bloomberg News

Zvi Goffer, a former trader with Galleon Group, pictured on May 9

The verdict by the 12-member jury, in its fifth day of deliberations, comes about a month after Galleon Group founder Raj Rajaratnam was found guilty of insider trading in a separate but related case.

Zvi Goffer, a former employee at Galleon whom prosecutors called the "ringleader" of a scheme involving traders and lawyers, was found guilty of 14 counts of conspiracy and securities fraud. His brother Emanuel Goffer and Michael Kimelman, who are both traders, were each convicted of conspiracy and two counts of securities fraud.

They face up to 20 years in prison on each securities-fraud count and a possible five- year sentence on each count of conspiracy. They remain free on bail pending sentencing. Zvi Goffer is set to be sentenced Sept. 21; Emanuel Goffer and Mr. Kimelman are set to be sentenced Oct. 7.

Monday's verdict is likely to bolster the strategy of investigators of using wiretaps, traditionally employed in pursuing mobsters, against traders and others in efforts to prosecute white-collar crimes. Like Mr. Rajaratnam's trial, the five-week trial of the traders that started just days after the hedge-fund titan was convicted, largely focused on dozens of secretly recorded wiretaps and recordings by a cooperating witness presented by the government.

Manhattan U.S. Attorney Preet Bharara said that with Monday's verdict, "each and every one" originally arrested in the Galleon insider-trading investigation since the probe first surfaced in November 2009 had been convicted.

The office has multiple insider-trading investigations going on. In the past 18 months, 49 hedge-fund managers and others have been charged with insider trading; 43 have been convicted or pleaded guilty.

Another insider-trading case involving wiretaps is playing out in the same courthouse in lower Manhattan. Winifred Jiau, a former consultant, is on trial in a case involving expert-network firms, which matches company insiders freelancing as consultants with hedge funds and other clients for a fee. She has pleaded not guilty.

Massachusetts Says Bank Overcharged Pension Fund

By **CARRICK MOLLENKAMP**

Massachusetts officials joined a growing number of inquiries into how banks process currency trades, harshly criticizing Bank of New York Mellon Corp. for allegedly overcharging the state's pensioners for foreign exchange.

In a report, Massachusetts' treasurer and pension executive director said BNY Mellon overcharged the $50 billion Massachusetts Pension Reserves Investment Management board by more than $20 million for foreign exchange between Jan. 1, 2007 and May 11, 2011.

In a statement, BNY Mellon said it "is confident that it provides clients and their investment managers with competitive and attractive FX pricing. Describing our pricing as 'overcharging' is wrong and ignores the substantial, cost-effective benefits our service provides to our custody clients and their professional investment managers." The bank added that it hopes to work with the Massachusetts fund "to address their concerns."

Massachusetts' allegations represent the latest attack on currency-trading practices by BNY Mellon and rival custody bank State Street Corp. by states including California, Virginia and Florida, as well as Los Angeles County. Attorneys general in those states, as well as the pension manager in Los Angeles, allege that custody banks have improperly charged state and local pension funds for currency trades.

Goldman Caught Manipulating Brent/WTI Spread: Penalty: $40,340

For all those who believed that it was only JP Morgan who is manipulating the Brent-WTI spread, we regretfully have to inform you that the squid is once again front and center, having now been caught red-handed by none other than the ICE exchange, aka the home of Brent trading. From a just disclosed complaint: "**On 28 January 2011 the Exchange's monitoring detected six notable "price spikes" in the April11 Brent/WTI spread, between 14:26 hours and 14:31 hours UK time. These were investigated and found to be the result of a limit order and several large market orders placed in quick succession by a GSF trader**...In relation to the events described above, the Exchange alleged that GSF had breached the following Rule: "It shall be an offence for a trader or Member to engage in disorderly trading whether by high or low ticking, aggressive bidding or offering, or otherwise." The Exchange recommended to the Committee that summary disciplinary proceedings be commenced in regard to the above mentioned allegations. The Committee subsequently considered the matter in accordance with Summary Enforcement Rule E.7...**The Committee considered the behaviour of GSF and its client to be a clear case of disorderly trading, in that the distorting price impact of the placement of such large orders in close proximity was not considered.**" But don't worry: the ICE naturally had to sugar coat its findings: "Having examined the instant messenger logs of the communication between the GSF trader and their client, the Committee **found no evidence of intentional manipulation of the market**; nevertheless it considered the breach to be of a serious nature." Well, thank god that all market manipulation occurs via perpetually recorded instant messaging. It would be inconceivable that Goldman and its "client" may have found a different way to hatch plans to defraud investors than one which involves on the record messages.. Simply inconceivable... And preposterous.

Bottom line: the fine for Goldman Sachs: **£25,000**

And now we return to your regularlyl scheduled market manipulatin farce courtesy of Goldman and the central banks.

NCUA Sues J.P. Morgan, RBS Over Mortgage Bonds

WALL STREET JOURNAL 29 JUNE 2011

By RUTH SIMON And LIZ RAPPAPORT

Federal regulators sued J.P. Morgan Chase & Co. and Royal Bank of Scotland PLC Monday seeking to recover more than $800 million tied to the sales of bonds backed by risky mortgages to failed credit unions.

The National Credit Union Administration's, or NCUA's, two lawsuits, filed in U.S. District Court in Kansas, are the most aggressive action to date by federal authorities seeking to recover losses related to the mortgage meltdown. It has been investigating Wall Street firms' sales of mortgage bonds for over a year after a handful of corporate credit unions, failed during the credit crisis.

The NCUA regulates the nation's network of credit unions, and acts as receiver when credit unions fail. The regulator now possesses hundreds of mortgage bonds held by failed corporate credit unions.

Documents

- **Complaint:** NCUA v. RBS
- **Complaint:** NCUA v. J.P. Morgan

J.P. Morgan and RBS representatives were not immediately available to comment.

The NCUA expects to file lawsuits against five to 10 Wall Street firms in coming weeks in an effort to recover billions of dollars in losses, an NCUA spokesman said.

More

- **Deal Journal:** Reminder of Housing Market Horrors

The lawsuits filed Monday allege that the offering documents provided to credit unions in conjunction with the sale of mortgage-backed securities by RBS and J.P. Morgan contained "untrue statements of material fact," or "omitted to state material facts" in violation of state and federal securities laws, according to the complaints.

The offering documents led credit union officials to underestimate the riskiness of the bonds they purchased, according to the lawsuits. Both lawsuits also name originators of the underlying loans, many of which are now defunct.

Getty Images

The NCUA is expected to file more lawsuits against Wall Street firms in coming weeks.

The 177-page lawsuit filed against RBS involves roughly $565 million in claims for bonds sold to U.S. Central Corporate Credit Union, a failed credit union based in Kansas City. The 179-page J.P. Morgan lawsuit involves roughly $278 million in claims for bonds sold to U.S. Central, Members United Corporate Credit Union, Southwest Corporate Credit Union, Constitution Corporate Credit Union and Western Corporate Credit Union, also known as WesCorp. Regulators seized the five credit unions in 2009 and 2010.

"NCUA has a responsibility to do everything in our power to seek maximum recoveries from those involved in the issuing, underwriting and sale of the faulty securities that resulted in the failures of five of the largest wholesale credit unions," NCUA

Board Chairman Debbie Matz said in a statement. "Those who caused the problems in the corporate credit union system should pay for the losses."

Write to Ruth Simon at ruth.simon@wsj.com and Liz Rappaport at liz.rappaport@wsj.com

JPM Settles Magnetar Charges Related To Misleading CDO Information With SEC For $153.6 MillionWALL STREET JOURNAL

- **SEC TO HOLD CONFERENCE CALL TO DISCUSS ENFORCEMENT VS JP MORGAN**
- **JP MORGAN TO PAY $153.6M TO SETTLE SEC CHARGES**
- **JP MORGAN TO SETTLE SEC CHARGES ON MISLEADING IN CDO ON HOUSING**
- **SEC CITES MISLEADING INVESTORS IN CDO TIED TO HOUSING MARKET**
- **KHUZAMI: JPMORGAN FAILED TO DISCLOSE MAGNETAR'S ROLE, INTERESTS**
- **KHUZAMI: JPMORGAN HAS REIMBURSED INVESTORS IN TAHOMA CDO**
- KHUZAMI SAYS SEC MISLED INVESTORS IN SQUARED CDO

Done and done. And now JPM is off the hook for ever and ever. In other news JPM made $153.6 million in profits since you clicked on this post. Of course, that's irrelevant as Bear Stearns will be stuck with the bill.

In other news, www.bangbus.com shares are surging on a rumor of an imminent $153.6 million investment from an unknown source

- The recurring question from the ongoing press conference is why nobody at JPM is being charged, and Khuzami is completely unable to reply.
- Another question for the porn addicts is why it charged GSC's Steffelin in this case while it did not charge anyone from ACA in Abacus. Either the response is either very muffled, or Khuzami has a large appendage in his mouth.
- Another question is why did the SEC announce and settle at the same time, instead of allowing due court process.
- Question: who at JPM knew that Magnetar was selecting the CDO; SEC response: we will not comment beyond what is publicly filed.
- Why is there no 10(b) case against JPM? No, the decision is based on the "evidence, and the facts and the law" not to mention the bribes and the SEC exit job opportunities.

J.P. Morgan Knew Portfolio Had Losses, SEC Says

- JUNE 21, 2011, 4:11 P.M. ET

.P. Morgan Chase & Co. knew it already had losses from a $1.1 billion security it had created in the spring of 2007, and its solution to avoiding losses for itself, regulators said Tuesday, was to sell it as aggressively as possible to outside investors.

In March and April 2007, as the housing market teetered toward collapse, J.P. Morgan's senior management pressed the salespeople responsible for Squared CDO 2007-1, a complex "collateralized debt obligation" full of derivatives linked to the mortgage market, to avoid permanent losses, the Securities and Exchange Commission said.

The bank was already looking at a $40 million mark-to-market loss, but decided to press forward with a marketing pitch to institutional clients instead of shutting down the deal, the SEC said, in an effort to avoid greater losses.

The timeline of events is detailed in a complaint by the SEC, which on Tuesday settled with J.P. Morgan for $153.6 million for misleading investors.

In a statement, the bank emphasized it wasn't accused of intentional or reckless conduct and that it is pleased to put the matter behind it. The penalty won't have a material effect on earnings and J.P. Morgan said it believes this matter resolves all outstanding SEC inquiries into its CDO business. The SEC is broadly investigating Wall Street firms and the CDOs they created.

Like the SEC's case against Goldman Sachs Group Inc. last year, the J.P. Morgan case includes accusations that a hedge fund was deeply involved in the selection of the underlying collateral in the portfolio while at the same time betting against it by amassing a short position.

The two cases share another similarity: Both banks used independent consultants to manage the collateral selection, a fact they used in their marketing materials without disclosing the role of the hedge funds in selecting the collateral.

Goldman paid a much larger penalty, however, $550 million, last year.

The SEC's case details how aggressively J.P. Morgan salespeople tried to move the deal off its books as the portfolio began to deteriorate in value. J.P. Morgan noted in its statement that it lost $900 million in the transaction, nearly all of the investment it made in the senior-most tranche of the portfolio.

But the SEC case notes at the time, executives at the bank debated which way to go. The deal team knew the $40 million mark-to-market loss "could be reversed and other potentially significant losses avoided if they were able to sell the notes," the SEC complaint said.

After failing to sell the product to its usual U.S. and European clients, which rejected the deal, J.P. Morgan Securities cast a net far and wide in spring 2007, according to the SEC complaint.

The sales effort for the Squared deal focused on "alternative pockets of cash beyond the historic go-to guys," including "alternative" investors in Asia, Australia and the Middle East, the complaint says, citing internal J.P. Morgan communications.

"We really need your help on this one," a J. P. Morgan saleswoman in Europe pleaded. "This is a top priority from the top of the bank all the way down."

The unidentified J.P. Morgan salesman in charge of global distribution on the product said in an email on March 22, 2007, "We are soooo pregnant with this deal, we need a wheel-barrel to move around. … Let's schedule the cesarian [sic] please!"

Ultimately, J.P. Morgan sold $150 million of the riskiest parts of the portfolio to 15 institutions, including a Lutheran nonprofit group, pension funds, asset managers, an insurer, and a variety of East Asian financial institutions.

The SEC says that the bank didn't disclose in the sales materials the fact that hedge fund Magnetar Capital LLC played a "significant" role in the selection of the collateral for the portfolio and had economic interests that were the opposite of the investors, namely it had a short on the portfolio.

Magnetar's short position had a notional value of $600 million, over half of Squared's portfolio. It had also invested $8.9 million in the equity. The SEC complaint says Magnetar's motivation for entering the deal was to bet against it. A spokesman for Magnetar couldn't immediately be reached.

The deal closed on May 11, 2007, and by Jan. 18, 2008, it already had an event of default, the SEC said. By the end of that month, half the portfolio had been downgraded and another 34% of the portfolio was on negative watch.

J.P. Morgan was paid $18.6 million for structuring and marketing the deal.

http://online.wsj.com/article/SB10001424052702303936704576399971570631618.html?mod=WSJ_hp_LEFTTopStories

In addition, the SEC charged six firms with concealing the extent of risky mortgage-related assets in mutual and other similar funds. Those included Charles Schwab that settled for a $118 million fine, Evergreen that settled for $40 million to mostly repay investors, TD Ameritrade that settled for $10 million, and State Street that settled to repay investors $300 million.

Separately, Bank of America agreed to a $150 million settlement for misleading its investors about bonuses paid to Merrill Lynch and not disclosing Merrill Lynch's mounting losses. This didn't stop the Federal Reserve and Treasury Department from remaining steadfastly behind the Bank of America/Merrill Lynch make-a-too-big-to-fail-bank-bigger merger, upon which the settlement was based.

In total, the SEC, mildly policing the vast financial system that pushed a criminal musical chairs game of last-one-holding-a-toxic-asset-or-underwater-mortgage-loses, charged 66 entities and individuals with 'misconduct', imposed 19 officer or director bars, and levied $1.5 billion of penalties, disgorgement, and other monetary relief fines. Put that in perspective, say, with the $28 billion in bonuses that JPM scooped up for just 2010, or the $424 billion in total bonuses the top six banks bagged between the crisis book-end years of 2007-2009, or the $128 billion of bonuses Wall Street got last year. Now, consider that not only is the penalty amount a pittance, but the impact of these fines, is even smaller. And, that's the bigger problem with fines, particularly tiny ones. They offer this illusion of a fix that leaves us worse off from a stability perspective than we were before.

Morgan Keegan to pay $200M settlement

By J. Scott Trubey

The Atlanta Journal-Constitution

Regions Financial's investment arm, Morgan Keegan & Co., has agreed to pay $200 million to settle civil charges alleging the firm defrauded investors who bought pools of mortgage loans that later soured during the financial crisis, the Securities and Exchange Commission said Wednesday.

Regions immediately announced that, with the charges now settled, it will "explore potential strategic alternatives" for Memphis-based Morgan Keegan, which has a substantial metro Atlanta investment unit based in Buckhead.

Regions is the the Birmingham-based parent of Regions Bank. Wednesday's settlement is among the largest involving a financial institution since the financial crisis began.

Officials put total damages from the fraud at about $1.5 billion, including more than $50 million to Georgia investors. Nationwide, more than 39,000 investors were affected, with nearly every state was affected.

Regulators said Morgan Keegan and two of its executives overvalued subprime mortgage-backed securities in five funds sold to investors from January to July 2007. The funds were mainly marketed under the Helios brand.

"The falsification of fund values misrepresented critical information exactly when investors needed it most -- when the subprime mortgage meltdown was impacting the funds," said Robert Khuzami, director of the SEC's enforcement division.

SEC officials were scheduled to discuss the settlement at a news conference at the agency's Atlanta regional office.

In its release, the SEC said regulators from five states -- Alabama, Kentucky, Mississippi, Tennessee and South Carolina -- were involved in the case.

Under terms of the settlement, $175 million will go into funds for the benefit of investors harmed by the violations. The remaining $25 million will pay "disgorgement and interest."

The decision to put Morgan Keegan on the block comes the same day federal and state regulators announced a settlement totaling roughly $200 million with the brokerage that resolves civil fraud charges the Securities and Exchange Commission brought last year.

The SEC accused the company and two individuals of defrauding investors by inflating the value of risky subprime securities held in five bond funds. The two individuals agreed to pay a combined $550,000 in penalties, and one of the two agreed to be barred from the securities industry, the SEC said.

Regions previously set aside money in anticipation of a SEC settlement.

Regions hasn't reported a profit since 2007. It still hasn't received regulatory approval to pay back $3.5 billion in public support from the Treasury Department's Troubled Asset Relief Program.

Write to Dan Fitzpatrick at dan.fitzpatrick@wsj.com

UBS Aids Probe of Rate Collusion

By **CARRICK MOLLENKAMP**, **JEAN EAGLESHAM** and **JOSEPH PALAZZOLO**

One of the world's biggest banks is aiding a law-enforcement probe into how a global interest rate is set.

Swiss bank UBS AG, one of more than a dozen banks that help set the London interbank offered rate, is aiding investigators examining whether the rate is manipulated. One avenue investigators are probing is whether major banks colluded to manipulate the measure of bank borrowing costs before and during the financial crisis, according to people familiar with the situation.

View Full Image

Agence France-Presse/Getty Images

UBS is aiding investigators trying to determine whether major banks colluded to manipulate Libor, a measure of bank borrowing costs.

In March, UBS was the first bank to disclose that a probe into how Libor is calculated was underway and that UBS was one of the banks being investigated. At the time, the bank said it had received subpoenas from three regulators—the Securities and Exchange Commission, the Commodity Futures Trading Commission and the Justice Department—and that it was cooperating.

The extent of the aid now being provided by UBS isn't clear. Any new information investigators get from UBS could prove to be a breakthrough in a multimonth probe focused on how Libor was set between 2006 and 2008.

Libor is set every day in London, when a panel of banks reports borrowing costs. Investigators are looking into whether the banks accurately reported their own borrowing costs or understated them. Cooperation from one of the borrowing banks could provide an inside look at whether or not banks worked with one another to set the rate.

If a company decides to cooperate in an antitrust probe, it can seek leniency from the Justice Department in return for the company's cooperation.

Such a move was taken in 2007 when Bank of America Corp. said it was participating in a government probe into illegal activity surrounding the municipal-bond market. At the time, Bank of America said it had received an amnesty grant in return for voluntarily providing information to the Justice Department before the Justice Department had begun a probe.

In return for cooperating, the Justice Department agreed not to bring criminal antitrust prosecution against the Charlotte, N.C., bank.

The integrity of Libor is crucial to pricing a global market of home and auto loans, corporate debt and derivatives totaling more than $350 trillion. Floating-rate loans for corporations, for example, are based on Libor.

During the financial crisis, Libor became a focus of inquiry by analysts and The Wall Street Journal as evidence emerged that banks may have been understating borrowing costs, possibly to not tip off competitors and the markets that they were viewed as riskier borrowers than other banks.

In the spring of 2008, for example, UBS, which had faced billions of dollars in souring investments, was offering to pay an annual rate of about 2.85% to borrow dollars for three-months via an IOU-market called commercial paper. But, at the same time, UBS reported it could borrow from other banks for three months at a cheaper 2.73%.

A UBS spokeswoman on Tuesday cited the bank's disclosure in March that the bank was cooperating. She declined further comment. Other banks that submit borrowing costs to calculate Libor include Barclays PLC, Deutsche Bank AG, Citigroup Inc., J.P. Morgan Chase & Co., WestLB and Royal Bank of Scotland Group PLC. Spokesmen for those banks either declined comment or weren't available for comment.

Beyond the investigation, lawsuits against the Libor banks are increasing. Those are being filed by plaintiffs who allege they were harmed by alleged manipulation.

In April, after UBS disclosed the law-enforcement investigations, a Vienna hedge fund called FTC Capital GmbH sued a majority of banks that set dollar Libor in federal court in New York, claiming it had been harmed by alleged manipulation of Libor. The fund said the alleged manipulation affected Eurodollar futures, which allow traders to bet on the future direction of interest rates in the U.S.

Now, lawsuits are increasing. A Miami investment firm, Eurodollar traders in London and Chicago, and a Daria Beach, Fla., pension fund all allege that the manipulation of Libor by banks that set Libor hurt their trades or investments. Some of the lawsuits name the bulk of the banks that help set Libor while others name just a handful of banks. Spokesmen for the banks declined comment or weren't available for comment.

Those cases now are in the process of being consolidated in a so-called multidistrict litigation docket and a hearing to set where the consolidated cases will be heard is scheduled for later this summer, said David Kovel, a Kirby McInerney LLP lawyer in New York who represents the FTC fund in Vienna.

Write to Carrick Mollenkamp at carrick.mollenkamp@wsj.com

Challenges in Chasing Fraud

SEC Actions—and Non-Actions—Illustrate the Difficulties of Pinning Blame for Soured Deals

MORE IN LAW »

By **JEAN EAGLESHAM**

Michael R. Llodra and Edward S. Steffelin both worked on the disastrous J.P. Morgan Chase & Co. mortgage-bond deal called Squared.

And both men were warned by U.S. securities regulators in January that they could face civil-fraud charges related to the $1.1 billion deal, which plummeted in value soon after being sold in 2007.

View Full Image

But their fates couldn't be more different. The Securities and Exchange Commission filed a civil-fraud lawsuit Tuesday against Mr. Steffelin, a former executive at GSC Capital Corp., the firm that managed the assets in the Squared deal.

Mr. Llodra, the former head of asset-backed collateralized debt obligations at J.P. Morgan, wasn't accused of any wrongdoing as part of the bank's $153.6 million settlement with the SEC, and officials at the agency said no current or former J.P. Morgan employees are facing enforcement actions stemming from the Squared deal.

The outcome is another instance of the SEC deciding it doesn't have the evidence to bring cases against individuals at financial firms blamed for triggering or worsening the financial crisis.

Some legal experts said the SEC's struggles reflect the difficulty of going after specific individuals and companies when so many more made decisions that backfired into catastrophic losses during the financial crisis. Corporate executives argue that the crisis was caused by good-faith moves that went sour rather than by the desire to short-change investors.

Some lawyers say that the agency's enforcement lawyers haven't done enough to prove that high-ranking executives bore the ultimate responsibility for the most controversial mortgage-bond deals.

The latest example came Wednesday with the SEC's lifetime ban of James Kelsoe Jr., once a star bond-fund manager at Regions Financial Corp.'s Morgan Keegan & Co. unit. Mr. Kelsoe's lawyer was unavailable for comment Wednesday

Secret Magnetar management deal?

Posted by **Tracy Alloway** on Jun 23 14:40.

Somewhat lost amongst the JPMorgan/Magnetar news on Tuesday, was a name.

Edward Steffelin.

Steffelin, the SEC says, was in charge of the team at GSCP that helped select the investment portfolio for the Squared 2007-1 synthetic CDO — parts of which were infamously shorted by hedge fund Magnetar. He was also allegedly trying to get a job at the fund, at the same time that he was dealing with Squared.

Intriguing no? It kind of adds another layer to marketer JPMorgan's $154m settlement.

(JPMorgan settled without admitting liability. Magnetar is not the subject of any complaint.)

Here are the details, from the SEC's seperate civil suit against Steffelin:

During the collateral selection process for Squared, from early January through late February 2007, Steffelin sought employment with Magnetar and, specifically, inquired about the possibility of starting a collateral management business for Magnetar.

On January 5, 2007, the employee at Magnetar primarily responsible for the firm's participation in the Squared transaction ("Magnetar Employee"), sent his supervisor an electronic mail message stating, "Steffelin wants to leave GSC and start a manager for us . . ." His supervisor replied, "Perfect," to which the Magnetar Employee responded, "I knew u'd like that!!"

On or about January 18, 2007, Magnetar prepared a 9-page Power Point presentation entitled "Manager of Managers." According to this presentation, Magnetar was considering establishing a network of CDO managers. The presentation represented in relevant part, "Identified potential first manager; based on: interest, apparent skill; [claimed] infrastructure."

On January 30, 2007, Steffelin sent an electronic mail message to the Magnetar Employee that read, "Feel[s] like times are right to start a company." Later that day, the Magnetar Employee responded to Steffelin via email, "Yes! . . . Partners committed to do it for sure . . . putting finishing touches on bus[iness] plan."

In early February 2007, Magnetar incorporated portions of the January 18 presentation into a 27-page power point entitled "Structured Credit Business Update."

On February 22, 2007, the Magnetar Employee sent his supervisor an electronic mail message with the subject line "Gsc blowing up" and the text "Ed [Steffelin] eager to get something going. We could get whole team and all deals." The Magnetar Employee's supervisor sent a reply electronic mail message asking, "Why are they blowing up?" and the Magnetar Employee *explained "They've been having [a] big fight over comp[ensation]. Think 10 [the head of GSC's structured credit department] is going to split, rest of team not that happy at how they'll be treat[ed] if they stay. As u know, Ed [Steffelin] was already planning to leave."*

- JUNE 24, 2011, 3:48 P.M. ET

CFTC Scrutinizes Suspicious Oil Trade Ahead of IEA Move

By **JERRY A. DICOLO**

U.S. commodity regulators are examining whether word of a decision to coordinate a release of global oil stockpiles was leaked ahead of Thursday's announcement by the International Energy Agency, according to a person familiar with the matter.

Officials with the Commodity Futures Trading Commission as well as market participants have pointed to unusual trading in the oil-futures market before the IEA's announcement that it would release 60 million barrels of oil, the person said. The CFTC is reviewing market data to find clues as to whether some traders may have received an early tip on the IEA's plan, the person saidFormer Citi Executive Charged in $19 Million Theft

By **CHAD BRAY** And **MICHAEL ROTHFELD**

NEW YORK—A former Citigroup Inc. executive has been arrested and charged with allegedly embezzling more than $19 million from the bank, federal prosecutors said Monday.

According to a criminal complaint, Gary Foster, 35 years old, allegedly wired about $19.2 million in a series of transactions from Citigroup corporate accounts to his personal account at a unit of J.P. Morgan Chase & Co. between May 2009 and December 2010.

"The defendant allegedly used his knowledge of bank operations to commit the ultimate inside job," said Loretta Lynch, the U.S. attorney for the Eastern District of New York in Brooklyn. "We are committed to ensuring the integrity of the banking system and to prosecuting those who would undermine it for their personal gain."

THE BUSINESS OF RECEIVABLES

A Whistleblower Triumph — JPMorgan Chase Drops Pursuit Of Millions (Billions?) In Credit Card Debt

Jun. 24 2011 - 10:17 am | *2,361 views* | *0 recommendations* | *0 comments*
Posted by **STEPHANIE EIDELMAN**

In November 2010 one of our contributors to insideARM.com (ARM stands for accounts receivable management), Jerry Ashton, wrote a piece titled Follow Directions or be Fired! A Debt Professional's Dilemma, in which he described how a so-called whistle-blower had been fired by JPMorgan Chase for questioning the legitimacy of their decision to sell a flawed portfolio of credit card write-offs.

Photo by Kent WangThis story has continued to unfold over recent months, with a significant development announced today in the Wall Street Journal. Once again, Jerry has contributed his thoughts on this important saga for the receivables industry, and I've included them below.

The JPMorgan example is significant on many levels, one of which is that it highlights the creditor's role in the process of debt collection. There are countless examples of debt collection firms being painted as the bad guy for pursuing debts from consumers. While there are indeed legitimate "bad guy" cases, the vast reality is that these debts often begin when companies such as banks extend credit or make loans to folks they know are unlikely to be able to afford it, and ultimately decide to sell the bad debt — or engage a collection agency or law firm — to pursue it on a contingency basis, often without providing full and accurate documentation of the original debt.

- JUNE 29, 2011, 9:18 A.M. ET

Bank of America Agrees to $8.5 Billion Mortgage Settlement

WSJ By DAN FITZPATRICK

Bank of America Corp. reached an agreement to pay $8.5 billion to settle claims by investors who lost money on mortgage-backed securities purchased before the U.S. housing collapse, the bank confirmed Wednesday morning.

Bloomberg

Bank of America agreed Wednesday to pay $8.5 billion to settle claims with investors.

The payment is the largest such settlement by a financial-services firm to date, exceeding the total profits of the Charlotte, N.C., bank since the onset of the financial crisis in 2008. Bank of America's board approved the settlement on Tuesday, a person familiar with the matter said.

The settlement ends a nine-month fight with a group of 22 investors who hold mortgage-backed securities with an original value of $105 billion, including the giant money manager BlackRock Inc., the insurer MetLife Inc. and the Federal Reserve

Bank of New York. The settlement covers not just the 22 high-profile holders but all investors in 530 separate bond deals. The original face value of all bonds covered by the deal is $424 billion.

A deal could embolden mutual-fund managers, insurance companies and investment partnerships to seek similar settlements with other major U.S. banks by arguing that billions of dollars in loans they bought before the housing collapse didn't meet sellers' promises or were improperly managed. Bank of America, Wells Fargo & Co. and J.P. Morgan Chase & Co. collect loan payments on about half of all outstanding U.S. mortgages.

Indeed, Bank of America said Wednesday morning it would take $14 billion in charges in its second quarter for the settlement as well as its future exposure to mortgage repurchase claims from government-run mortgage giants Fannie Mae and Freddie Mac and other private investors.

Bank of America is close to an $8.5 billion settlement with high-profile investors over claims related to mortgage-back securities purchased before the U.S. housing collapse. Kelsey Hubbard talks with WSJ's Dan Fitzpatrick about what the deal would mean for Bank of America and the investors.

The dispute between Bank of America and the mortgage investors began last fall when they alleged in a letter to the bank that securities they scooped up before the financial crisis from Countrywide Financial Corp. were full of loans that didn't meet sellers' promises about the quality of the borrowers or the collateral. The investors also alleged Countrywide failed to maintain accurate files while managing the loans. Bank of America purchased Countrywide in 2008 for $4 billion.

In the agreement, Bank of America will hand $8.5 billion in cash to The Bank of New York Mellon Corp., which acted as the trustee for the bondholders and will distribute the funds to the investors. The trustee expects to submit a filing soon asking a New York state court to approve the transaction.

Bank of America will take a corresponding pre-tax charge against earnings for the second quarter. The after-tax cost to the bank would be roughly $5 billion, the bank said. Bank of America said Wednesday that, due to the mortgage settlement, the additional provision and other mortgage-related charges adding up to $6.4 billion, it expects to report a net loss of $8.6 billion to $9.1 billion in the second quarter, or 88 cents to 93 cents a share.

Related Reading

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- **Is Bank of America Flip Flopping on Mortgage Buybacks?**
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- **BofA Resists Rebuying Bad Loans**
  10/20/2010

The mortgage-related woes highlight the challenges faced by large banks as they struggle to put the financial crisis behind them and soothe investor concerns about their future profitability.

The $8.5 billion settlement has the potential to put Chief Executive Brian Moynihan on the hot seat. The bank hopes that the deal will convince shareholders that many of the problems inherited from Countrywide are behind it a year and a half into Mr. Moynihan's tenure as chief, according to people familiar with the situation.

Bank of America shares rallied as investors appeared to believe the charges put behind a major cloud hanging over the shares. Indeed, for the $8.5 billion settlement to big name investors, the bank is paying just 2 cents on the dollar of the original principal, and just under 4 cents on the dollar for the remaining unpaid balance. Estimates from analysts on the problem had at points suggested the bank may need to pay more than $50 billion ultimately.

In premarket trading Wednesday, shares of the bank were up 3.5%.

Still, some investors may be upset about such a large payment in the wake of Mr. Moynihan's pledge last year to engage in "day-to-day, hand-to-hand combat" against investors demanding that the bank repurchase bad loans--called "put-back" demands--and "not just do a settlement to move the matter behind us." In a conference call with investors in October, he said the bank would push back against investors whose attitude was: "I bought a Chevy Vega but I want it to be a Mercedes."

On June 1, he hinted at a new approach. "There's a point where fighting doesn't have any value," he said during an appearance in New York.

Earlier this year, the bank said its maximum possible loss from private mortgage put-back demands was $7 billion to $10 billion—above and beyond the $6.2 billion already reserved for probable mortgage-repurchase losses.

A multibillion-dollar charge would "wipe out most earnings in the first half of the year," banking analyst Mike Mayo said earlier this month, before news of the potential settlement. Bank of America earned $2 billion in the first quarter. Mr. Mayo had lowered his 2011 earnings-per-share estimate to 50 cents, from $1, based on an expectation that a settlement could amount to $7 billion.

Despite any hit to earnings, "the need to settle is compelling for momentum, morale and management focus," Mr. Mayo said. It would "help to eliminate a cloud of uncertainty over Bank of America."

Over the past year, the bank's shares have dropped 28% prior to Wednesday's news amid investor doubts about its ability to get its arms around an array of woes linked to the 2008 purchase of troubled mortgage lender Countrywide. The acquisition ballooned the size of Bank of America's mortgage portfolio to 14 million loans, from 4 million, just as the housing market was set to collapse. It saddled the bank with hundreds of thousands of delinquent borrowers and thrust it into the middle of the foreclosure-paperwork crisis last fall.

It also exposed the bank to numerous requests from angry investors demanding that the bank buy back poorly performing mortgages, which had been packaged together and sold to them as securities.

The mortgage woes are one reason the nation's largest bank by assets is lagging behind U.S. rivals J.P. Morgan Chase and Citigroup Inc., the latter which received more U.S. aid during the financial crisis. Shareholders are also worried about the impact of U.S. regulatory reform, lackluster revenues, higher capital requirements from regulators and weak loan demand.

Bank of America's request to raise its dividend in the second half of the year was rejected recently by the Federal Reserve--another embarrassment for the 51-year-old Mr. Moynihan.

The New York Fed, which got mortgage securities in the process of bailing out ailing firms, BlackRock and a collection of other well-known names on Wall Street picked the fight with Bank of America in a letter last October from Houston law firm Gibbs & Bruns LLP. Other investors that the letter claimed had been harmed were Freddie Mac, MetLife and Allianz SE's Pacific Investment management Co., or Pimco. Some invested on behalf of clients.

The letter objected to the handling of 115 bond deals issued by affiliates of Countrywide. The failure to properly handle the loans "has materially affected the rights" of the bondholders, the letter said.

The settlement covers 530 bond deals, Bank of America said Wednesday.

The day the letter was disclosed, the bank's stock tumbled 4.4%. The demand caught the bank by surprise and threatened to affect the relationship between BlackRock and Bank of America, which at the time owned a stake in the New York money manager. Moynihan and BlackRock Chief Executive Larry Fink talked by phone to diffuse any tension, said people familiar with the situation.

Mr. Moynihan told analysts in October he wasn't interested in a large lump-sum payment to make the mortgage-repurchase issue go away. But in December, he reversed course and decided to begin settlement talks.

Several events persuaded the bank that a settlement would be wiser than a fight, according a person involved in the discussions. There was an unfavorable ruling in a mortgage-related lawsuit against the bank, which made it easier for a bond insurer to pursue claims against the bank.

Earlier this year, the bank reached similar settlements for smaller amounts with Fannie Mae and Freddie Mac and bond insurer Assured Guaranty Ltd. Fannie Mae and Freddie Mac agreed to a $3 billion settlement in January, and investors continued to pepper the bank with questions about its future exposure to repurchase liabilities.

"It's been more of an evolution than a revolution," this person said.

—Susan Pulliam and Francesco Guerrera contributed to this article.

Ally to Record $100 Million Cost on Mortgage Losses

(Ally Financial Inc., previously known as GMAC Inc.,)

By Bradley Keoun - Jun 29, 2011 8:13 AM ET

Ally Financial Inc., the auto and home lender that got a $17.2 billion bailout, will record a second-quarter cost of about $100 million to cover losses suffered by trusts that bought its mortgages. The firm also got subpoenas from U.S. investigators relating to home loans.

The cost will help cover losses on insured mortgages where insurers later canceled the policies because "they believe certain loan underwriting requirements have not been met," Detroit-based Ally said today in a filing. The mortgages had been sold to trusts, which packaged them into securities to sell to bond investors.

"These payments resulted from a review of securitized mortgages as to which mortgage insurance was rescinded, although no claims have been made against us to date with respect to these mortgages," Ally said in the filing.

The disclosure was contained in an update to the prospectus, initially filed in March, for the company's planned public share offering. The share sale has been delayed until equity markets improve, a person familiar with the plans said earlier this month.

Ally, 74 percent owned by the U.S. Treasury Department, also said in the filing that it has received subpoenas from the U.S. Department of Justice and the Securities and Exchange Commission relating to how it handled mortgages.

The DOJ subpoena “includes a broad request for documentation and other information in connection with its investigation of potential fraud” tied to the origination or underwriting of home loans, the company said.

Check Out The Hedge Funds That Just Made A Fortune On One New Rule From The Fed

Katya Wachtel | **Jun. 29, 2011, 7:33**

On news that the Fed is proposing swipe fees higher than those originally expected, at $0.21 per swipe, credit card company stock has spiked.

The original cap was set at $0.12.

Visa shares surged and MasterCard took a big jump too.

In after hours trading, Visa is hovering above $87; Mastercard shares are lingering above $311.

That's going to make several hedge fund managers very happy -- that is, if they more or less maintained the holdings in Mastercard and Visa that they owned in Q1.

For fun, we thought we'd check out the possible gains made by some of the big names

Raymond James to Return $300 Million in Auction-Rate Settlement

By Joshua Gallu - Jun 29, 2011 3:36 PM ET

Raymond James Financial Inc. (RJF) will pay $300 million to clients who bought auction-rate securities, moving to resolve regulators' claims that the firm misled investors about risk before the market froze three years ago.

Raymond James agreed to repurchase securities from customers whose holdings have been unavailable since the $330 billion market collapsed in February 2008, the U.S. Securities and Exchange Commission and the North American Securities Administrators Association said today in separate releases. The firm will also reimburse interest costs for some clients who took loans from the firm, the regulators said.

"Raymond James improperly marketed and sold ARS to customers as safe and highly liquid alternatives to money market accounts and other short-term investments," Eric Bustillo, director of the SEC's regional office in Miami, said in a statement.

Federal and state regulators have sanctioned banks including Citigroup Inc. (C), UBS AG, Bank of America Corp. (BAC) and Deutsche Bank AG for selling them as safe, cash-like investments before credit markets froze. Auction-rate securities are typically municipal bonds, corporate bonds and preferred stocks whose rates of return are reset periodically through auctions.

More than $67 billion has been returned to investors as a result of those settlements, the SEC said.

Fannie Mae Silence Opened Way to $3B Fraud

By Tom Schoenberg - Jun 30, 2011 12:00 AM ET

Fannie Mae headquarters stands in Washington, D.C. Photographer: Andrew Harrer/Bloomberg

Lee Farkas, former chairman of Taylor, Bean & Whitaker Mortgage Corp., is scheduled to be sentenced today in federal court in Alexandria, Virginia, for orchestrating what prosecutors call one of the "largest bank fraud schemes in this country's history." Source: Marion County Sheriff's Office via Bloomberg

The first sign of what would ultimately become a $3 billion fraud surfaced Jan. 11, 2000, when Fannie Mae executive Samuel Smith discovered Taylor, Bean & Whitaker Mortgage Corp. sold him a loan owned by someone else.

Fannie Mae, the government-sponsored enterprise which issues almost half of all mortgage-backed securities, determined over the next two years that more than 200 loans acquired from Taylor Bean were bogus, non-performing or lacked critical components such as mortgage insurance.

That might have been the end of Taylor Bean and its chairman and principal owner, Lee Farkas. He is scheduled to be sentenced today in federal court in Alexandria, Virginia, for orchestrating what prosecutors call one of the “largest bank fraud schemes in this country’s history.”

Instead, it was just the beginning.

Fannie Mae officials never reported the fraud to law enforcement or anyone outside the company. Internal memos, court papers, and public testimony show it sought only to rid itself of liabilities and cut ties with a mortgage firm selling loans “that had no value,” as Smith, the former vice president of Fannie Mae’s single family operations, said in a 2008 deposition.

The trial of Farkas and his co-defendants resulted in the only major criminal conviction stemming from the financial crisis -- a crisis that followed the September 2008 collapse of Lehman Brothers Holdings Inc. and the U.S. government takeover of Fannie Mae and its rival Freddie Mac that same month.

‘Most Significant’

Neil Barofsky, former special inspector general for the Troubled Asset Relief Program, described the Farkas case in a Feb. 14 letter to President Barack Obama as “the most significant criminal prosecution to date” that arose from the financial crisis.

“If there had been a criminal referral, Farkas would have gone to jail in 2002,” William Black, who served as deputy director of the Federal Savings and Loan Insurance Corp. during the S&L crisis of the 1980s, said in an interview.

Seven more years passed before federal regulators shut down Ocala, Florida-based Taylor Bean and prosecutors charged Farkas with orchestrating the $3 billion scam. He had duped some of the country’s largest financial institutions, sought federal bank bailout funds and contributed to the failures of Montgomery, Alabama-based Colonial Bank and its parent, Colonial BancGroup, once among the nation’s 25 biggest depository banks.

‘Fraud Scheme’

Taylor Bean would have collapsed in 2002 "but for the fraud scheme," according to prosecutors. It also survived because Freddie Mac began picking up the company's business within a week of Fannie Mae's cutoff, Jason Moore, Taylor Bean's former chief operating officer, said in an interview.

Freddie Mac soon became Taylor Bean's biggest customer, and the mortgage company grew to be one of its biggest revenue producers, accounting for about 2 percent of single-family home mortgages by volume in 2009, according to a company filing.

Once the 12th-largest U.S. mortgage lender, Taylor Bean's business was originating, selling and servicing residential mortgage loans that came from a network of small mortgage brokers and banks.

It had about 2,400 employees and was servicing more than 500,000 mortgages, including $51 billion of Freddie Mac loans and $26 billion of Ginnie Mae loans, before it collapsed into bankruptcy in August 2009, according to court papers.

Loan Guarantees

Ginnie Mae, a government-owned insurer of mortgage-backed securities, primarily guarantees loans insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.

Fannie Mae and Freddie Mac, which own or guarantee more than half of all U.S. home loans, were created by the U.S. government to inject capital into the housing market. Fannie Mae was established in 1938, and Freddie Mac in 1970.

Beginning in 2006, the companies began making big investments in subprime loans, many of which eventually defaulted. In the face of their imminent collapse, the U.S. Treasury Department took the government-sponsored entities into conservatorship in September 2008, promising to make good on an implicit government guarantee of the companies' bonds.

The deal gave the Treasury almost 80 percent of the companies in exchange for a line of credit. Since then, the entities have required more than $160 billion in taxpayer aid.

Freddie Mac, based in McLean, Virginia, filed a claim on Taylor Bean in U.S. bankruptcy court for $1.8 billion. Washington-based Fannie Mae had about $1.7 billion in loans serviced by Taylor Bean when their relationship ended in 2002.

Officials' Decision

The decision to keep Farkas in business was made by top Fannie Mae officials such as Smith and Zach Oppenheimer, then senior vice president for single family mortgage business, according to Smith's deposition and a Fannie Mae memorandum.

A confidential agreement between Fannie Mae and Taylor Bean's Farkas unwinding their relationship was negotiated by lawyers from the general counsel's office, overseen at the time by Thomas Donilon, now Obama's national security adviser, according to the documents. Donilon's spokesman, Tommy Vietor, declined to comment.

Fannie Mae officials feared that seizing the loan portfolio would signal poor loan quality to the mortgage industry, according to deposition testimony and an internal Fannie Mae memo. As a result, the value of the servicing rights to those loans would drop.

Fannie Mae officials were also concerned that an immediate termination of the relationship would have "a devastating effect on TBW's ability to continue as a viable company," according to an undated Fannie Mae memo filed as part of a related lawsuit.

Confidential Agreement

The confidential agreement allowed Farkas to seek a buyer for the servicing rights of his Fannie Mae loans. The reasons for the termination by Fannie Mae were to remain a secret, according to court filings.

“We hold people accountable in the judicial system when they don’t report a crime,” said Ken Donohue, former inspector general of the U.S. Department of Housing and Urban Development, who investigated another mortgage fraud matter involving First Beneficial Co. In that case, he said, Fannie Mae “literally knew about a crime” and didn’t report

We hold people accountable in the judicial system when they don’t report a crime,” said Ken Donohue, former inspector general of the U.S. Department of Housing and Urban Development, who investigated another mortgage fraud matter involving First Beneficial Co. In that case, he said, Fannie Mae “literally knew about a crime” and didn’t report it.

“In my estimation, it happened again,” said Donohue, now a principal at the Reznick Group PC in Bethesda, Maryland.

Amy Bonitatibus, a spokeswoman for Fannie Mae, said in an e-mail that its current practice is to “take action and inform law enforcement” if it discovers “inappropriate activity.” Brad German, a spokesman for Freddie Mac, declined to comment.

Focus of Case

Franklin Raines, who was chairman and CEO at Fannie Mae from 1999 through 2004, said in an interview that he has “no memory” of the Taylor Bean matter.

Fannie Mae either picks up the documents or negotiates an agreement when a termination occurs, Raines said. Fannie Mae’s regional offices manage terminations to get the largest recovery, and such an event wouldn’t be publicly disclosed, he said.

Fannie Mae was owned at the time by its shareholders, and unless there’s a legal obligation to disclose, silence is typical in business arrangements, Raines said.

The termination alone should have been enough warning to Freddie Mac and others businesses to "move with caution," Raines said.

The government's case against Farkas and six convicted co- conspirators focused on conduct after Fannie Mae terminated their relationship. Those crimes began because Farkas needed cash to meet operating expenses, such as payroll and loan- servicing payments to Freddie Mac and Ginnie Mae, according to his indictment.

Fake Mortgages

From 2002 through August 2009, he directed the sale of more than $1.5 billion in fake mortgage assets to Colonial Bank and misappropriated more than $1.5 billion from Ocala Funding LLC, a financing vehicle used and controlled by Taylor Bean, prosecutors said in a sentencing document.

Farkas, 58, oversaw the "triple-selling" of $900 million worth of mortgage loans to Colonial, Ocala Funding and Freddie Mac, and led an effort to obtain $553 million from TARP, according to the filing.

At his trial in April, Farkas and three other witnesses were asked about the Fannie Mae termination. The relationship ended, each said, because Fannie Mae discovered that from six to eight delinquent loans it had bought from Taylor Bean were in Farkas's name. Fannie Mae officials weren't called to the stand by either the government or the defense.

GMAC Lawsuit

Documents filed in a 2006 countersuit against Taylor Bean by GMAC Mortgage Corp. showed the number of bogus or bad loans sold to Fannie Mae was much larger.

Fannie Mae, which had worked with Taylor Bean since 1995, first had concerns about possible fraud in January 2000 after the mortgage financier received a telephone call from Catherine Kissick, the manager of Taylor Bean's accounts at Colonial Bank, according to documents filed in the GMAC litigation. Kissick was sentenced to eight years in prison on June 17 after pleading guilty to conspiracy in the Farkas case.

Kissick called to say the loan in question, which Fannie Mae had paid for, had in fact been sold a few months earlier to Freddie Mac, according to Smith's deposition.

"The duplicate loan being sold to Fannie Mae could have been an indication of fraud, or it could have had an innocent explanation," Smith said in the lawsuit deposition. "But, nevertheless, it's an indication that if they are truly selling duplicate loans to us, they have either got really bad, weak controls, or they're doing fraud."

'Especially Cautious'

Smith summarized the incident in an internal e-mail, urging colleagues "to be especially cautious in their dealings with" Taylor Bean and "to let me and others know ASAP if you find evidence of such problems."

Smith, who left Fannie Mae at the end of 2006, declined to comment.

Fannie Mae continued buying loans from Taylor Bean and helped it build a website called Community Banks Online that allowed smaller banks to process mortgage loan applications faster through Taylor Bean. Taylor Bean would then sell those loans to Fannie Mae.

Moore, the former Taylor Bean chief operating officer, ran Community Banks Online. He said in an interview that Fannie Mae was involved in the project and there were plans to market it nationwide with Fannie's blessing and funding.

'Manipulate Data'

The program also afforded Taylor Bean "the ability to go in and manipulate data to a degree it had never been able to do before," Moore said.

Fannie Mae continued to have concerns about a "lack of attention to underwriting and quality control" at Taylor Bean, and on March 6, 2002, Fannie Mae officials had a face-to-face meeting with Taylor Bean managers, according to an undated Fannie

Mae chronology of the termination entitled “Summary of Events” that was filed as part of the lawsuit.

Fifteen days later, Fannie Mae’s loss mitigation team in Atlanta discovered several delinquent Fannie Mae-owned loans in the name of Farkas and other members of Taylor Bean’s senior management. A public records check revealed that the named borrowers didn’t hold title to the real estate and that the mortgages sold to Fannie Mae had never been recorded, according to the Fannie Mae document.

“Our conclusion was that fraud, if I can use that word, had been perpetrated on Fannie Mae, and we considered that to be a very, very serious matter,” Smith said in the 2008 deposition.

‘Fraudulent Loans’

On April 1, 2002, Fannie Mae management decided to terminate its contract with Taylor Bean because of “fraudulent loans” and “other serious concerns,” according to the summary document. In addition to the $1.7 billion servicing portfolio, Taylor Bean had an outstanding balance on Fannie Mae’s advance payment line of about $189 million, according to the document.

At that point, the chronology stated, Fannie Mae could have refused to buy any more loans from Taylor Bean, blocked the company’s access to its online loan processing programs, and seized the servicing rights, shifting those contracts to another company without compensating Taylor Bean.

It did none of those things. Fannie Mae wanted to preserve the value of the servicing portfolio, which would plummet if it reported that Taylor Bean was selling bogus loans, according to the summary document and Smith’s deposition.

Smith traveled to Ocala the next day to talk to Farkas about how to end the relationship, according to the deposition. Smith said that he was joined the following day by his boss, Oppenheimer, and Fannie Mae lawyers.

Third Party Move

The negotiation resulted in an agreement that Smith said outlined what Fannie Mae, Farkas and Taylor Bean would do "over the next month or two to get the servicing moved to a third party." A telephone and e-mail message left for Oppenheimer was returned by Fannie Mae spokeswoman Bonitatibus, who declined to comment.

"Companies that have servicing pulled by Fannie Mae with cause generally do not survive," said Barry Bier, former executive vice president and chief investment officer at GMAC Mortgage Corp., a unit of Detroit-based Ally Financial Inc., according to a transcript of deposition testimony. "In this case I think Taylor Bean was extremely -- was well benefited by motivated lenders who provided assurances to GMAC to allow them to go forward."

GMAC bought the Fannie Mae servicing rights from Taylor Bean for $27.6 million on May 31, 2002. While GMAC was vetting the value of the servicing deal, Smith and Oppenheimer declined to say why Fannie Mae cut ties with Taylor Bean, Bier said.

No Specifics

"I tried to get whatever information I could," he said in the deposition. "Each of those gentlemen would not provide any specifics with respect to the reason for the termination."

Bier didn't respond to an e-mail and telephone message seeking comment.

During the termination, Fannie Mae discovered that about 200 loans Taylor Bean sold as insured by the Federal Housing Administration didn't have valid FHA coverage, according to the "Summary of Events" document.

"Evidence suggests that TBW management knew at the time of sale of these loans to Fannie Mae that the loans were not insured," according to the document. The loans involved mortgages given to U.S. military veterans, Smith said in his deposition.

"These are high loan-to-value loans without any insurance sold to Fannie Mae as government insured when, in fact, they weren't," he said. Taylor Bean was forced to repurchase the loans. The document doesn't say how much money the loans involved.

Delinquent Loans

GMAC also found that 16 loans in the servicing group it bought from Taylor Bean were delinquent at the time they were sold to Fannie Mae, according to the document. Taylor Bean management knew the loans were bad when they sold them and management falsified a date on the delivery schedule, according to the Fannie Mae document.

Taylor Bean was forced to repurchase those loans as well, according to the filing. By November 2002, all of Fannie Mae's outstanding claims with Taylor Bean were settled.

The deal with Farkas resembled Fannie Mae's reaction to an earlier fraud by one of its authorized lenders, said Chris Swecker, who investigated mortgage fraud as head of the Federal Bureau of Investigation's office in Charlotte, North Carolina.

In 1998, an investigator from North Carolina's State Banking Commission warned a Fannie Mae employee that Charlotte- based First Beneficial Co. was selling bad loans, according to congressional testimony by Donohue, then HUD's inspector general. Fannie Mae found many of the First Beneficial loans to be "fictitious," Donohue said.

Buy Backs

Fannie Mae allowed First Beneficial to buy back the fake loans, according to court records. To raise the money, First Beneficial sold some of the loans to Ginnie Mae, which lost about $38 million as a result, according to court documents.

Fannie Mae never notified law enforcement or regulators about the fraud, Swecker said, adding he "pushed hard to indict" Fannie Mae as a corporation for failing to do so. The Justice Department, declining to bring a criminal case, settled a lawsuit in which Fannie Mae agreed to pay the government $7.5 million and admit no wrongdoing, according to court records.

“We felt like we were on the front end of a big problem and the last thing we expected to see was a quasi-government agency sweeping it under the rug,” Swecker said in an interview. In 2004, in a plea for more resources, he testified to Congress that the U.S. was on the brink of a mortgage fraud epidemic.

No Fraud Policy

In a January 2005 letter to lawmakers about the First Beneficial incident, Fannie Mae’s interim CEO Daniel Mudd said the company had no formal policy on reporting possible fraud. Fannie Mae doesn’t usually issue public notice when it suspends or terminates a lender or loan servicer, he said in the letter.

Last year, Mudd, in an interview with the Financial Crisis Inquiry Commission, cited the termination of Taylor Bean as an example of Fannie Mae’s willingness to cut ties with problematic mortgage companies.

A House of Representatives subcommittee held a hearing on First Beneficial in March 2005. As a result, rules were put in place by Fannie Mae’s regulator, the Office of Federal Housing Enterprise Oversight, requiring Fannie Mae, Freddie Mac and other government-sponsored enterprises to report fraud to law enforcement and regulators.

The rule took effect in August 2005, three years after Fannie Mae terminated Taylor Bean.

Fraud Department

Fannie Mae’s fraud department looked at $1 billion in suspect loans in 2009 and found $650 million to be fraudulent, according to William H. Brewster, director of Fannie Mae’s mortgage fraud program. Brewster told the Financial Crisis Inquiry Commission that the loans were bought from lenders such as Bank of America Corp. (BAC), Countrywide Financial Corp., Citigroup Inc. and JPMorgan Chase & Co.

Brewster said his office now reports fraudulent loans to the Federal Housing Finance Agency, or FHFA, which replaced the Office of Federal Housing Enterprise Oversight, or OFHEO, as regulator of Fannie Mae and Freddie Mac in 2008.

A June 21 FHFA inspector general's report found that FHFA and its predecessor agency ignored or mishandled complaints from consumers about fraud and botched foreclosures because it had no system for dealing with them.

The report said OFHEO failed to pursue a tip from a journalist in June 2008 alleging Taylor Bean was selling loans to Freddie Mac that the company hadn't yet purchased. The unidentified investigative reporter, in an e-mail, claimed to be in contact with a former Taylor Bean employee who made the allegations, according to the report.

The inspector general found "no standard procedures were in place to assure prompt follow-up" and the matter was never referred to law enforcement for investigation, the report said.

Broke Off

As Fannie Mae broke off its relationship with Taylor Bean in April 2002, Farkas asked Raymond Bowman, then Taylor Bean's vice president of secondary marketing, to call a friend at Freddie Mac, which at the time was buying from 5 percent to 10 percent of the loans generated by Taylor Bean, Moore said.

In less than a week, Freddie Mac had agreed to purchase any conventional loans originated by Taylor Bean, he said. Within weeks, Bowman was promoted to president.

At Freddie Mac, the decision to boost purchases from Taylor Bean was made by David H. Stevens, then a senior vice president of mortgage sourcing, Donald Bisenius, senior vice president for credit risk management, and Tracy Hagen Mooney, a regional vice president of sales, according to a former Freddie Mac official who spoke on condition of anonymity because he didn't have permission from his current employer to speak to the media.

Ocala Audit

Auditors and underwriters were sent to Taylor Bean's offices in Ocala to look over the loans about a month after the Fannie Mae termination, the ex-official said.

"Freddie Mac came down, we explained what happened, and they decided to keep us," Bowman said during the Farkas trial.

Bowman, who pleaded guilty to the fraud conspiracy and lying to investigators, was sentenced to 2 1/2 years in prison on June 10.

Farkas told Freddie Mac officials that eight bogus loans sold to Fannie Mae were the result of a clerical mistake and that the company's termination was due to a personality clash between Farkas and Fannie Mae's Oppenheimer, the former official said. Farkas, while testifying in his own defense at trial, said the sale of the loans was accidental.

Freddie Mac assumed that because Fannie Mae allowed Taylor Bean to sell the servicing rights, Farkas's explanation had merit, the former official said.

Doesn't Remember

Bisenius said in an interview he doesn't remember Freddie Mac's specific actions regarding Taylor Bean after the Fannie Mae termination, although he said he doesn't recall anyone alleging fraud within the company before its collapse.

"I don't think anyone thought that was going on," Bisenius said.

Bisenius resigned from his last Freddie Mac job, executive vice president for single-family credit guarantee, in April, two months after receiving a so-called Wells notice from the U.S. Securities and Exchange Commission noting he may be the subject of a civil enforcement case.

Hagen Mooney, now senior vice president of single-family servicing and real estate-owned at Freddie Mac, declined to comment.

Stevens, who left Freddie Mac in 2005 for Wells Fargo & Co. and Long & Foster Real Estate, said in an interview that antitrust concerns kept Freddie Mac from asking about the Fannie Mae termination. Their review of the loans showed Taylor Bean was selling "high quality stuff," he said.

He was named FHA commissioner in 2009 and is now the president and CEO of the Mortgage Bankers Association in Washington.

After Taylor Bean was raided by the FBI, Stevens, in an FHA press release, accused the company of "irresponsible lending practices," saying Taylor Bean "failed to provide FHA with financial records that help us to protect the integrity of our insurance fund and our ability to continue a 75-year track record of promoting, preserving and protecting the American Dream."

The case is U.S. v. Farkas, 10-cr-00200, U.S. District Court for the Eastern District of Virginia (Alexandria).

To contact the reporter on this story: Tom Schoenberg in Washington at tschoenberg@bloomberg.net.

Gupta SEC Case Postponed Indefinitely

Jun 30 2011 | 12:43pm ET

The Securities and Exchange Commission has postponed for at least six months the unusual administrative proceeding against Rajat Gupta, the former head of McKinsey & Co. accused of being on of Galleon Group founder Raj Rajaratnam's key sources of insider information.

The regulator's chief administrative law judge, Brenda Murray, granted the stay on June 20. The SEC said the proceedings have been "postponed indefinitely," but did not provide any further information.

The administrative charges against Gupta, accused of passing tips about Goldman Sachs, on whose board he served, caused something of a furor. Gupta is the only one of the 24 people the SEC has taken civil action against in the Galleon case to face an administrative action rather than a jury trial; the former are widely seen as more favorable to the SEC.

Gupta, who had denied any wrongdoing, has sued the SEC demanding a full jury trial.

Gupta was not called as a witness at Rajaratnam's trial, which ended in his conviction on all counts last month. But his voice was heard in several taped phone calls between the men; prosecutors say that, in one case, Gupta called Rajaratnam only seconds after leaving a Goldman board conference call to tell him that bank had received a big investment from Berkshire Hathaway.

http://www.finalternatives.com/node/17248?utm_source=feedburner&utm_medium=twitter&utm_campaign=Feed%3A+Finalternatives+%28FINalternatives%29

Washington Mutual to Settle $208.5 Million Class Action Lawsuit

By MyBankTracker.com Mon Jul 4, 2011

Almost three years after filing the largest bank failure to date and later being sold to J.P. Morgan Chase, Washington Mutual is still paying it dues. Washington Mutual finally announced a settlement on Friday to end a very long shareholder class action lawsuit for a reported $208.5 million.

The rigorous lawsuit was a combination of lawsuits that dated back before the thrift bank filed for bankruptcy. The lawsuits claimed that Washington Mutual Inc. concealed information, while making false and misleading statements to hide how much trouble the bank was in. This misled investors to investing in an inflated stock price and other offerings

Related News:

Goldman Took Biggest Loan in Fed Program

By Bob Ivry and Bradley Keoun - Jul 6, 2011 11:41 AM ET

Goldman Sachs & Co. borrowed $15 billion from the U.S. Federal Reserve on Dec. 9, 2008 -- the biggest single loan from a program whose details have been secret until today.

The central bank released data for its so-called single- tranche open-market operations, which lent as much as $20 billion at a time between March 7, 2008, and Dec. 30, 2008, as confidence in credit markets collapsed. The data were released in response to a Freedom of Information Act request by Bloomberg News.

The information is available on the central bank’s Web site:
http://www.federalreserve.gov/monetarypolicy/bst_tranche.htm

Obscure Provision In New Patents Bill Suggests That Wall Street Owns The U.S. Congress

Ricky Kreitner | Jul. 6, 2011, 3:28 PM | 1,146 | 3

Section 18 of a new patents law passed by the House of Representatives last month serves no other purpose than to allow the banking industry to not pay for use of certain patents, Andrew Ross Sorkin reports at the New York Times' DealBook. Such an exemption has long been the goal of the banks and their high-paid lobbyists.

This provision should dispel any doubts as to how much power Wall Street wields in the U.S. Congress, Sorkin argues.

Banks have long complained about having to pay for use of patented "business methods"—like the processing of digital checks—that they consider integral to basic business practice. Section 18 would allow them to avoid paying for use of such business methods, even though the patents have been approved by both the U.S. Patent and Trade Office and federal courts.

Some opponents of the measure feel it would have unintended consequences beneficial for the banks, but negative for patent holders.

“It would be a tragedy if the greed of the big banks and their willing accomplices in Congress use this important legislation to trample the rights of legitimate patent holders and in the process weaken the integrity of our patent system,” Tom Giovanetti, head of the Institute for Policy Innovation, told DealBook.

Read more: http://www.businessinsider.com/obscure-provision-in-new-patents-bill-shows-that-wall-street-really-does-own-the-us-congress-2011-7#ixzz1RMShHW28

WALL STREET OWNS CONGRESS

http://dealbook.nytimes.com/2011/07/04/in-a-bill-wall-street-shows-clout/?WT.mc_id=DB-D-I-NYT-MOD-MOD-M209-ROS-0711-HDR&WT.mc_ev=click

The provision even allows "retroactive reviews of approved business method patents, allowing the financial services industry to challenge patents that have already been found valid both at the U.S. Patent and Trade Office and in Federal Court," according to Representative Aaron Schock, an Illinois Republican who tried to strike the provision.

The legislation was initially introduced by Senator Charles E. Schumer, a New York Democrat, with an even narrower view: to protect the interests of his big bank constituents in a dispute with DataTreasury Corporation of Plano, Tex., a company that owns dozens of patents for processing digital copies of checks.

Wall Street fought for the bill because it says it has been held hostage by holders of "business method" patents that should never have been granted by the patent office in the first place. Banks like JPMorgan Chase have been fighting DataTreasury over its patents for years.

The language in the bill is expansive. It covers patents for "a financial product or service" as well as "corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service."

But since the bill and Section 18 were passed and word has spread about it, dozens of other companies are starting to worry that the breadth of the provision may affect them too. And they are fighting back, hoping that the Senate — which still has to reconcile the House's bill with its own — tosses the provision out.

"It would be a tragedy if the greed of the big banks and their willing accomplices in Congress use this important legislation to trample the rights of legitimate patent holders and in the process weaken the integrity of our patent system," Tom Giovanetti, the president of the Institute for Policy Innovation, a conservative research group, said in a statement.

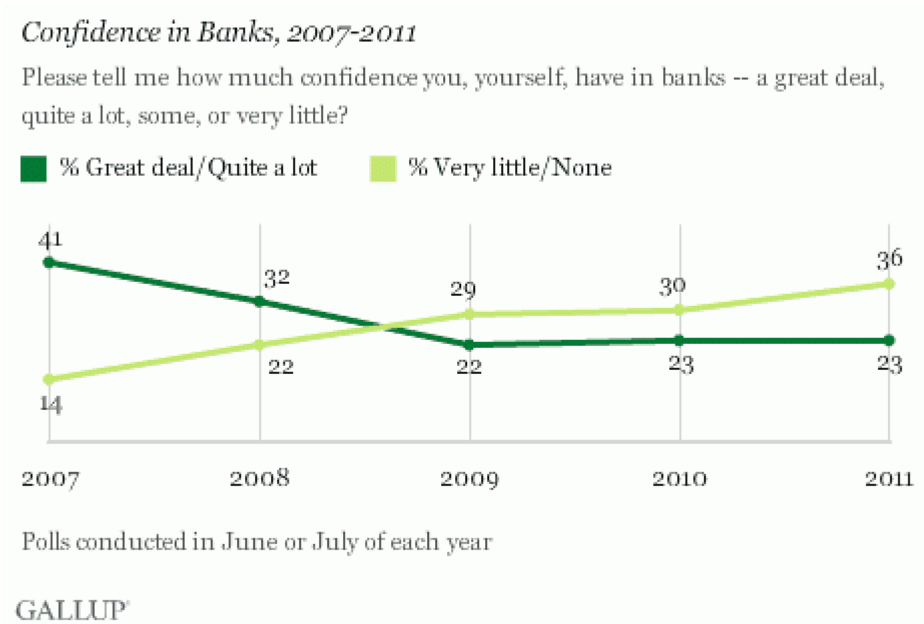
Steven F. Borsand, executive vice president for intellectual property at Trading Technologies International, which develops high-performance trading software for derivatives professionals, is worried that Section 18 will allow many of his banking clients to simply copy his company's software.

"This isn't just about DataTreasury," he said. "Section 18 will affect many companies, including ours." He expects that his company will be forced to "spend more time and money defending" its patents, he said in a statement, adding, "Only lawyers stand to benefit from this."

Other companies, including high-tech firms like VeriFone and Square, the mobile phone payment start-up, could be affected by the law, putting their patents in jeopardy. Cantor Fitzgerald, known for its computer-based bond brokerage, has a number of valuable patents that could similarly fall under the legislation.

Of course, in the grand scheme of things, a new patent law may seem to be unimportant or to affect only a few inventors.

According to Gallup, the percentage of Americans that lack confidence in U.S. banks is now at an all-time high of 36%.



Read more: http://endoftheamericandream.com/archives/16-reasons-to-feel-really-depressed-about-the-direction-that-the-economy-is-headed#ixzz1Ru7G0w5w

Jamie Dimon Is Running A "House Of Ill Repute"

Aaron Task, **Daily Ticker** | **Jul. 12, 2011, 3:25 PM** | **1,293** | **11**

JP Morgan agreed to pay $211 million last week to settle allegations that it cheated local governments in 31 states by rigging the bidding process for dozens of muni bond deals.

With all the coverage on the grim jobs numbers and the stirring launch of Atlantis, you might have missed the news about JP Morgan's settlement. Or maybe you thought it was groundhog day.

Friday's settlement was just the latest in a series for the banking giant.

- In June, JPMorgan paid the SEC $154 million to settle charges it failed to disclose that hedge fund Magnetar not only helped choose the assets in a CDO transaction called "Squared," but also bet against much of the deal.
- In April, JPMorgan Chase paid $75 million in fines and forfeited $647 million in fees to settle federal charges that it made unlawful payments to win municipal bond business in Jefferson County, Ala.
- In March 2010, JPM settled for $6 billion with the estate of Washington Mutual, which JPM bought from the FDIC in late 2008 for $1.9 billion. The estate claimed JPMorgan conspired to lower WaMu's sale price by leaking false information about WaMu's finances to federal regulators and potential rival bidders.

Meanwhile, Chris Whalen of Institutional Risk Analytics estimates JPMorgan may face up to $50 billion in additional claims stemming from lawsuits related to its crisis-era purchases of Bear Stearns and Washington Mutual. The firm is also exposed to separate settlements with state and federal regulators over illegal foreclosure and servicing practices.

"It has been our view, for some time, that banks are similar to tobacco and asbestos companies in that they are being sued by plaintiffs for a wide variety of problems," writes Rochdale Securities analyst Dick Bove. "This means that each year for the next five to seven, there will be agreements, some wins and some losses, that will cost these companies billions of dollars. JPMorgan Chase, the nation's second largest bank, is likely to pay a large amount of this money."

The BP of Banking

Clearly, JPMorgan is not alone in paying big fines. UBS and Bank of America both paid fines related to muni bond rigging while Goldman Sachs got tagged with a $550 million fine for the "Abacus" transaction that was very similar to JPMorgan's Magentar deal.

Every Wall Street firm has paid significant fines during the past decade but JPMorgan is starting to look the BP of banking. BP, you'll recall, was cited for safety violation with far greater frequency than its competitors in the years leading up to its 2010 disaster in the gulf.

I'm not saying JPMorgan is heading for the financial version of the Deepwater Horizon fiasco, but I'd like to take Jamie Dimon to task for creating a culture where bad behavior seems to be epidemic across the bank. Other than some low-level muni bond traders, no one at JPMorgan has been held accountable for these violations, which would suggest Dimon condones the bad behavior.

Any why not? The fines JPMorgan has paid to date are a drop in the bucket of the tens of billions of dollars of government bailouts and subsidies the firm has received—and continues to enjoy—going back to the take-under of Bear Stearns in March 2008. Plus, they're a tax write-off!

(**Editor's note:** *The Daily Ticker has extended an invitation to Mr. Dimon to come on the program and respond to this story.*)

The World's Best Grifter

Dimon has taken advantage of Uncle Sam's generosity—and competitors' missteps—to turn JPMorgan into the nation's most powerful bank; if the price of that growth is having to pay some fines that don't even come with a playful slap on the wrist, he'd be a fool not to pursue this business model.

Dimon is often described as the world's best banker but these days that's like being the world's best grifter—only the law is working for you rather than trying to stop you.

Which brings me to the watchdogs. I'd also like to take to task the SEC, Federal Reserve, Justice Department and other federal regulators to task for failing to seek criminal charges and for what *The NY Times* calls a "softer approach" in pursuing cases against white-collar criminals.

Read more: http://finance.yahoo.com/blogs/daily-ticker/taken-task-jamie-dimon-house-ill-repute-160317480.html#more-id#ixzz1RwqFhfVl

- BUSINESS
- JULY 15, 2011, 1:27 P.M. ET

Credit Suisse in U.S. Tax Probe

WALL STREET JOURNAL 2011-07-15

By **KATHARINA BART**

ZURICH—Credit Suisse Group said it is the target of a U.S. investigation into hidden Swiss offshore accounts for wealthy Americans, making the Zurich bank the latest to be ensnared into a crackdown on foreign banks suspected of aiding tax evasion and tax fraud.

In a brief statement, Credit Suisse said U.S. justice officials had informed the bank on Thursday that it is a target of their investigations. Until now, Credit Suisse had received and cooperated with subpoenas sent by the U.S. The bank said it will continue to work toward resolving the matter, without elaborating.

Credit Suisse's statement comes several months after four former Credit Suisse private bankers were charged with helping wealthy Americans evade taxes.

The move shows officials are using information culled from thousands of Americans who came clean on their hidden foreign accounts by submitting so-called voluntary disclosures. In 2008, U.S. officials began pursuing UBS AG for helping wealthy Americans dodge U.S. taxes, ultimately extracting an admission of wrong-doing, a $780 million fine, and the handover of more than 4,000 sets of confidential data on clients. UBS has since exited the offshore business with wealthy clients, as have scores of other Swiss private banks, fearing similar U.S. pursuits.

"Clearly the [U.S.] government is using the UBS investigation and settlement blueprint in the current Credit Suisse probe. Now, Credit Suisse is squarely within U.S. prosecutors' cross hairs, which may ultimately mean a settlement significantly larger than UBS, and potential criminal charges against employees and executives," said Michael Weinstein, chairman of law firm Cole Scotz's white-collar defense group. He spent six years as a Department of Justice prosecutor in Washington.

The problem remains for many banks because they hold undeclared funds from wealthy U.S. clients. Swiss officials recently said they are in talks with the U.S. over how best to settle allegations that other Swiss banks helped wealthy Americans cheat on their taxes through hidden offshore accounts in Switzerland. The talks evolved from the initial discussions the two countries were holding over new U.S. tax rules, the Foreign Account Tax Compliance Act, which come into effect in 2013.

The U.S. probe has been fueled by thousands of Americans coming clean to the Internal Revenue Service after U.S. officials began cracking down on UBS. The IRS has offered milder terms in amnesties to lure taxpayers into coming forward.

—Neil MacLucas contributed to this article.

Robo-Signing Is Back With A Vengeance

Gus Lubin | **Jul. 19, 2011, 5:57 AM** | **380** | **5**

Image: AP

Linda Green has signed over 1,300 mortgage documents in the past nine months.

She did so using 22 different signatures.

All while not working in the industry since spring of 2010.

She is the name behind one of the many bonafide robo-signing shops still operating around the country, according to an AP investigation.

Documents signed by her are among the reasons the Register of Deeds in Essex County, Mass. believes 75% of mortgage assignments are invalid and wants to suspend all foreclosures. Guilford County, NC and others have also put a stop on foreclosures due to sketchy paperwork.

Proof of robo-signing could also lead to criminal charges, according to the AP:

It is a federal crime to sign someone else's name to a legal document. It is also illegal to sign your name to an affidavit if you have not verified the information you're swearing to. Both are punishable by prison.

In Michigan, the attorney general took the rare step in June of filing criminal subpoenas to out-of-state mortgage processing companies after 23 county registers of deeds filed a criminal complaint with his office over robo-signed documents they say they have received. New York Attorney General Eric Schneiderman's office has said it is conducting a banking probe that *could lead to criminal charges against financial executives. The attorneys general of Delaware, California and Illinois are conducting their own probes.*

There have not been any criminal charges yet, however, nor were a significant quantity of mortgages thrown out in last year's crisis. Thus it's no surprise that banks have waded back into the murk.

Read more from the AP investigation >

Read more: http://www.businessinsider.com/robo-signing-is-back-with-a-vengeance-2011-7#ixzz1SYKGT7Tz

Submitted by Charles Hugh Smith from Of Two Minds

You Want to Fix the U.S. Economy? Here's a Start

A simple 8-point plan would restore both the banking and the real estate sectors, and end the political dominance of the parasitic "too big to fail" banks.

Craven politicos and clueless Federal Reserve economists are always bleating about how they want to fix the U.S. economy and restore "aggregate demand." OK, here's how to start:

1. Force all banks to mark all their assets to market at the end of each trading day, including all derivatives of all types, including over-the-counter instruments.

2. Allow citizens to discharge all mortgage and student loan debt in bankruptcy court, just like any other debt.

3. Banks must mark all their real estate to market weekly as defined by "last sales of nearby properties" adjusted for square footage and other quantifiable measures (i.e. like Zillow.com).

4. Require mortgage servicers and all owners of mortgage-backed securities to mark every asset within each pool to market weekly.

5. Any mortgage, loan or note which was fraudulently originated, packaged and sold, including the misrepresentation of risk, the manipulation of risk ratings, fraudulent documentation by any party, etc., will be discharged as uncollectable and the full value wiped off the books and title records without recourse by any of the parties.

If a bank fraudulently originated a mortgage and the buyer misrepresented material facts on the mortgage documents, then both parties lose all claim to the note and the underlying asset, the house, which reverts to the FDIC for liquidation, with the proceeds going towards creditors' claims against the bank.

6. Any bank which misrepresents marked-to-market asset values will be fined $10 million per incident.

7. Any bank which is insolvent at the end of a trading day will be closed and taken over by the FDIC the following day, and liquidated in an orderly manner via open-market auctions of all assets, including REO (real estate owned).

8. All derivative positions held by the insolvent bank will be unwound immediately, and counterparties who fail to make good on their claims will also be closed, given to the FDIC and liquidated.

You know what this is, of course: a return to trustworthy, transparent accounting. And you know what the consequences would be, too: all five "too big to fail" banks would instantly be declared insolvent, and most of the other top-25 big banks would also be closed and liquidated.

At least $3 trillion in impaired residential mortgage debt would be written off, maybe more, and $1 trillion in impaired commercial real estate would also be written down. Derivative losses are unknown, but let's estimate it's at least $1 trillion and maybe much more.

If $5.8 trillion of fantasy "value" is wiped off the nation's books, that's only a 10% reduction in net household and non-profit assets, which total $58 trillion. Even an $11 trillion hit would only knock off 20%. If that's reality, if that's what the assets are really worth in the real world, then let's get it over with. Once we've restored truthful accounting and stopped living a grand series of debilitating lies, then the path will finally be clear for renewed growth.

The net result would be the destruction of the political power of the "too big to fail" banks, the clearing of the nation's bloated, diseased real estate market, and the restoration of trust in institutions which have been completely discredited.

Bank credit would flow again, and we could insist on a healthy competitive system of 250 small banks instead of a corrupting system of 5 insolvent parasitic monsters and 20 other bloated but equally insolvent financial parasites.

Those who lied would finally get fried. At long last, those who misprepresented income, risk, etc. would actually pay some price for their malfeasance. Criminal proceedings would be a nice icing on the cake, but simply ending the pretence of solvency would go a long way to restoring banking and real estate and ending regulatory capture by TBTF banks.

What's the downside to such a simple action plan? Oh boo-hoo, the craven politicos would lose their key campaign contributors. On the plus side, the politicos could finally wipe that brown stuff off their noses.

Want to fix the economy.

1) Enforce the laws and prosecute the criminals.

2) No bail outs period.

3) End the fed

4) Fire congress and the sitting administration.

5) Return to sound money

UPDATE 3-Fed hits Wells Fargo with $85 mln mortgage penalty

* Fed penalizes Wells Fargo for subprime practices

* Wells Fargo also agrees to compensate borrowers

* Settlement not related to mortgage servicing deal-Fed

* Potential restitution could reach $200 mln (Adds further details from settlement, background)

By Dan Levine

SAN FRANCISCO, July 20 (Reuters) - Wells Fargo & Co (WFC.N) agreed to pay a $85 million civil penalty to the Federal Reserve Board for allegedly steering borrowers into costly subprime mortgages, the largest fine the Fed has ever imposed in a consumer-enforcement case.

San Francisco-based Wells Fargo will also compensate borrowers in connection with sales practices at a Wells subsidiary, according to a cease and desist order issued by the Fed on Wednesday. Those costs have a potential to reach $200 million.

Banks continue to suffer fallout from the subprime mortgage crisis. Last month, Bank of America (BAC.N) said it would pay $8.5 billion to settle lawsuits from mortgage bond investors and take more than $14 billion of other home loan-related charges.

A Fed spokeswoman on Wednesday said the Wells Fargo penalties were not part of a broader deal between federal regulators and mortgage servicing companies announced in April to settle mortgage fraud allegations.

She also declined to say whether the Fed was pursuing similar penalties against other mortgage lenders for underwriting abuses.

Politicians and consumer advocates have long criticized banks for enticing borrowers into subprime loans when they could have qualified for more affordable prime mortgages.

Wells Fargo did not admit any wrongdoing in agreeing to the cease and desist order.

"The alleged actions committed by a relatively small group of team members are not what we stand for at Wells Fargo," said Chief Executive John Stumpf in a statement.

Wells Fargo might have to pay between $1,000 and $20,000 in restitution to borrowers affected by the alleged faulty mortgage practices, the order said. The number of borrowers who may be compensated is estimated to be between 3,700 and possibly more than 10,000, meaning the potential exposure could reach $200 million.

The company has accounted for this matter in its reserves, according to a Wells statement.

The cease and desist order also addresses allegations that Wells Fargo sales personnel falsified information to make it appear that borrowers qualified for loans, when they would not have qualified based on their actual incomes.

The company terminated the individuals involved, and closed its Wells Fargo Financial division in July 2010, it said in a statement.

The order provides for Wells to submit a fraud prevention and detection plan within 90 days. Wells is also required to modify its compensation and performance management programs for sales personnel in mortgage lending, to make them consistent with the company's overall practices.

Those performance incentives should encourage sales staff to fully implement anti-fraud measures, the order says.

The Fed said it has issued orders against 16 former Wells Fargo Financial sales personnel prohibiting them from becoming employed in the banking industry. (Reporting by Dan Levine, David Lawder, David Henry and Margaret Chadbourn; editing by Carol Bishopric, Bernard Orr)

UPDATE 2-SEC may pursue fraud case against Goldman's Tourre

Wed, Jun 8 2011

* Judge rejects in part, grants in part motion to dismiss

* Cites U.S. Supreme Court on securities laws

* Goldman closes higher, but down 26 pct since lawsuit (Adds background and details from ruling)

By Grant McCool and Jonathan Stempel

NEW YORK, June 10 (Reuters) - The top U.S. securities regulator can pursue its high-profile civil fraud lawsuit against a Goldman Sachs Group Inc (GS.N) vice president over a product linked to subprime mortgages, a federal judge ruled.

U.S. District Judge Barbara Jones rejected the request by the executive, Fabrice Tourre, to dismiss U.S. Securities and Exchange Commission claims accusing him of violating a federal law designed to stop the fraudulent sale of securities.

She dismissed some SEC claims, citing a recent U.S. Supreme Court ruling limiting the reach of federal securities laws.

The SEC sued Goldman and Tourre in April 2010, accusing them of failing to tell investors the Paulson & Co hedge fund, run by billionaire John Paulson, helped choose and bet against the subprime residential mortgage-backed securities underlying Abacus 2007-AC1, a collateralized debt obligation.

"The SOMA Portfolio at $2.654 Trillion." In addition to the future of the Fed's SOMA, Sack shares some other much needed information such as the trading details of the QE program from the view of the Fed, his perspective on the QE2's strengths and weaknesses, and his overall assessment of the program's effectiveness. Not to mention his admission that the Fed now carries 200% more interest rate risk than it should...

First, for those who lived and died by the daily POMO for 8 months, here is how Sack breaks it down:

Over the life of the program, we conducted 140 outright purchase operations to meet the directive set out by the FOMC*. That meant that we were active on* ***nearly every day possible*** *over that period. In those operations,* ***the Desk bought $767 billion of Treasury securities, which included the $600 billion expansion of the portfolio and $167 billion of reinvestments****. Our operations ranged in size from just over $1* *billion to around $9 billion, with **an average size of about $5.5 billion.***

*Those operations brought the amount of domestic **assets held in the SOMA portfolio to $2.654 trillion**. The current directive from the FOMC instructs the Desk to continue to reinvest the principal payments on all domestic assets held in SOMA into Treasury securities. Thus, the amount of assets held in the SOMA will remain at that level until the FOMC decides to change the directive.*

*Of course, the portfolio at these levels is unusually large. **In the absence of the asset purchase programs, the size of the SOMA portfolio would be around $1 trillion, as required to meet currency demand and other factors**. Thus, the Federal Reserve has about $1.6 trillion of additional assets in the portfolio as a result of its asset purchase programs.*

The SOMA portfolio also has different characteristics than it would have had in the absence of the asset purchase programs. Most notably, the overall duration of the SOMA portfolio at the end of June was over 4½ years, compared to its historical range of between two and three years.

For those who are still wondering who the largest holder of marketable US debt is, here it is:

*With the completion of the program, **the SOMA portfolio holds about 18 percent of the outstanding stock of Treasury securities**. Our share of the market is **even higher at intermediate maturities**, where our purchases were concentrated.*

Next, Sack almost goes into a much-needed discussion of what the Fed's DV01 is at this point, but not quite as that disclosure would confirm just how tremendously precarious for the Fed's capitalization any sustained rise in interest rates would be:

*the larger amount and longer tenor of our securities holdings result in a considerable amount of duration risk in the SOMA portfolio, meaning that the market value of the portfolio is sensitive to movements in interest rates. One measure of this risk that is familiar to market participants is the concept of "10-year equivalents," or the amount of 10-year notes that would produce the same degree of overall interest rate risk**. At this time, we have about $1.5 trillion of ten-year equivalents in the SOMA portfolio, which is about $1 trillion above the amount that we would have under our traditional portfolio approach.** The majority of this additional risk came from the expansion of the balance sheet, but the extension of its average duration also contributed significantly.*

Translated: this means that even in the Fed's own view, there is about $1 trillion more in interest rate risk than normal, or about 200% more than normal. Keep in mind Zero Hedge discussed the issue of the Fed's duration risk as long ago as April 2010.

And while we will spare you the Fed's talking points on why QE has been "successful" (for Wall Street and America's corporations yes, for everybody else, resounding no), Sack does share some amusing mea culpas on where he thinks QE has been a failure:

One criticism that has been directed at the LSAP2 program is that it was unable to restore vigorous growth to the economy*. I think this is a reasonable observation but not a strong criticism. It is true that the support to growth provided by the asset purchases appears to have been countered by other factors that have continued to weigh on growth. However,* ***the LSAP2 program was never described as such a potent policy tool that it could ensure a return to robust growth and rapid progress toward full employment in all circumstances****. [or any]*

Despite its limits, the expansion of the balance sheet was seen by the FOMC as the best policy tool available at the time, given the constraint on traditional monetary policy easing from the zero bound on interest rates. The willingness of the FOMC to use this tool ***is indicative of a central bank that takes its dual mandate seriously*** *and does what it can to deliver on it.* ***The disappointing pace of recovery that has been realized since then suggests that the additional policy accommodation provided by the LSAP2 program was appropriate****.*

Since when? And on to another counterfactual: re-read the last bolded sentence and tell us if it makes any sense, because it sure does not to us.

Then Sack goes on to describe how in his view the transition from QE2 to a semi-free market has transitioned. We were surprised that we does in fact recognize that since June 30 there has been abnormal vol in the bond market (something we demonstarted earlier) although naturally he does not blame it on the Fed incursion and then withdrawal from the market, but on external factors:

The pace of the Desk's purchases fell back sharply at the end of June, as we moved from expanding the portfolio to simply reinvesting principal payments. In particular, our purchases slowed from an average pace of about $100 billion per month through June to an anticipated pace of about $15 billion per month going forward. We do not expect this adjustment to our purchases to produce significant upward pressure on interest rates or a tightening of broader financial conditions, given our view that the effects of the program arise primarily from the stock of our holdings rather than the flow of our purchases. ***While there has been considerable volatility in Treasury yields over the past several weeks, we attribute those movements primarily to incoming economic data and to broader risk events.***

What precisely would change Brian's perspective on this we wonder: MOVE hitting an all time high in the next week or month? Or will Greece be blamed for that too? Or maybe Bush.

Yet most importantly, and the core topic of this post, is what he says next about what QE3 will look like. To wit:

Given the considerable amount of uncertainty about the course of the economy, market participants have observed that the next policy action by the FOMC could be in either direction. ***If economic developments lead the FOMC to seek additional policy accommodation, it has several policy options open to it that would involve the SOMA portfolio****, as noted by Chairman Bernanke in his testimony last week.* ***One option is to expand the balance sheet further through additional asset purchases, with the just-completed purchase program presenting one possible approach. Another option involves shifting the composition of the SOMA portfolio rather than expanding its size****. As noted earlier, a sizable portion of the additional risk that the SOMA portfolio has assumed to date came from a lengthening of its maturity, suggesting that the composition of the portfolio can be used as an important variable for affecting the degree of policy stimulus.* ***Lastly, the Chairman mentioned that the FOMC could give guidance on the likely path of its asset holdings, as the effect on financial conditions presumably depends on the period of time for which the assets are expected to be held.***

Alternatively, economic developments could instead lead to a policy change in the direction of normalization. The FOMC minutes released last week provided valuable information on the sequence of steps that might be followed in that case. The minutes indicated that the removal of policy accommodation was expected to begin with a decision to stop reinvesting some or all of the principal payments on assets held in the SOMA. ***If all asset classes in the SOMA were allowed to run off, the portfolio would decline by about $250 billion per year on average over the first several years.***

Try as we might, we don't see the Fed doing much of any normalization considering the miserable failure to offload the Fed's pithy holdings of AIG's Maiden Lane II securities almost broke the RMBS market. But good luck to the Fed.

What is important is that Sack did in fact confirm that the Gross envisioned "Operation Twist" whereby a combination of new purchases and maturity adjustments is most certainly possible. Therefore the only open question is whether he will also be right that Bernanke will announce this expansion during this year's Jackson Hole meeting. Keep in mind the last time the economy was growing as poorly as it is now, and when unemployment had taken another major inflection point higher, it took about 20 days for the Fed to mobilize its LSAP powers.

Duration risk... Isn't that like when you are scheduled to receive money incrementally over 30 years, but the money is due tp be paid in a lump sum, in 10 years? And increases in interest rates will result in... Well, its either chaos or *pure mayhem*, IMO. Wealth effect evaporates, the market would sell off, all those interest rate derivatives would be triggered, banks and the Fed would actually have to start paying interest... The Fed's attempts to reduce the money supply would fail because the treasuries and other securities it holds at par could only fetch 65 cents on the dollar... Am I missing anything?

Check out the latest from the Capital Research Institute "Selling Gold You Don't Have":

http://www.capitalresearchinstitute.org

"...brings us to the title of this article: **Selling gold you don't have.** The reason for the title? The CRI is fairly confident that the recent (July 19) bear raid on gold and silver was initiated by massive short selling, by a handful of hedge funds and Wall St banks. Short selling means selling something you don't have (or have borrowed) and then buying it back at a lower price. Now, short selling is not illegal, or something to be feared. It is a tool, and like any powerful tool it can be destructive if used incorrectly. Short selling exposes one to unlimited potential losses, and it incurs borrowing costs. Lastly, you sold to initiate your position, so you have to buy in order to close the trade. So who ever has bet against gold and silver they have left themselves exposed to unlimited potential losses! Unlike an equity investment, they can lose more money than the initial amount invested! And when they close the trade it will push the price of gold and silver back up again!

Remember when CRI said there are people who will do anything to make you sell your gold and silver? Yep, yesterday was *another* one of those days! The key to preserving your wealth in this time of turmoil is to master your emotions, and yesterday was a perfect example of that. In the time it has taken to write this article the price of silver has risen from $38.55 to over $39.40, retracing most of yesterday's losses. "

SunTrust subsidiaries fined by regulator

By J. Scott Trubey

The Atlanta Journal-Constitution

Two subsidiaries of SunTrust Banks have been fined a total of $5 million for underplaying the risk of certain investments to clients.

The Financial Industry Regulatory Authority on Tuesday fined SunTrust Robinson-Humphrey $4.6 million the agency said for failing to adequately disclose the increased risk that certain auction rate securities could fail, and for using sales materials that didn't properly divulge risks in the investments.

Auction rate securities are essentially a type of long-term debt largely issued by governments and large corporations, with yields on that debt reset periodically.

The market for these securities froze during the financial crisis. Many brokers of auction rate securities have been buying them back under settlements with regulators.

SunTrust Robinson-Humphrey also was fined for having inadequate supervisory procedures and training related to selling the investments, and for disclosing nonpublic information to its Atlanta-based parent company.

SunTrust Investment Services was fined $400,000 for deficient training, sales materials and procedures related to the investments.

The SunTrust subsidiaries neither admitted nor denied the allegations in settling the case.

FINRA said the settlements wrap up previously announced agreements in principle with the two SunTrust companies. The earlier agreements in principle, announced in September 2008, were withdrawn in May 2009.

FINRA said following the start of its investigation, SunTrust Robinson-Humphrey and SunTrust Investment Services voluntarily repurchased about $381 million and $262 million of auction rate securities, respectively, from clients. The firms also agreed in the settlements announced Tuesday to take part in a FINRA-run arbitration program to resolve possible claims for damages by eligible investors.

GMAC Filed Phony Documents To Foreclose On Homeowners

Paul Kiel, ProPublica | Jul. 27, 2011, 3:20 PM | 411 | 3

GMAC, one of the nation's largest mortgage servicers, faced a quandary last summer. It wanted to foreclose on a New York City homeowner but lacked the crucial paperwork needed to seize the property.

GMAC has a standard solution to such problems, which arise frequently in the post-bubble economy. Its employees secure permission to create and sign documents in the name of companies that made the original loans. But this case was trickier because the lender, a notorious subprime company named Ameriquest, had gone out of business in 2007.

And so GMAC, which was bailed out by taxpayers in 2008, began looking for a way to craft a document that would pass legal muster, internal records obtained by ProPublica show.

"The problem is we do not have signing authority—are there any other options?" Jeffrey Stephan, the head of GMAC's "Document Execution" team, wrote to another employee and the law firm pursuing the foreclosure action. No solutions were offered.

Three months later, GMAC had an answer. Itfiled a document with New York City authorities that said the delinquent Ameriquest loan had been assigned to it "effective of" August 2005. The documentwas dated July 7, 2010, three years after Ameriquest had ceased to exist and was signed by Stephan, who was identified as a "Limited Signing Officer" for Ameriquest Mortgage Company. Soon after, GMAC filed for foreclosure.

An examination by ProPublica suggests this transaction was not unique. A review of court records in New York identified hundreds of similar assignment documents filed in the name of Ameriquest after 2008 by GMAC and other mortgage servicers.

The issue has attracted growing scrutiny in recent months asbloggers, consumer attorneys and media outlets have identified what appears to be part of a pattern of questionable assignments filed across the country.

GMAC was at the center of what became known as the robo-signing scandal, which broke last fall after revelations that mortgage servicing employees had produced flawed documents to speed foreclosures. GMAC and other banks have acknowledged filing false affidavits in which bank officials claimed "personal knowledge" of the facts underlying thousands of mortgages. But GMAC and the servicers say they've since tightened their procedures. They insist that their records were largely accurate and the affidavits amounted to errors of form, not substance.

Read more: http://www.propublica.org/article/gmac-mortgage-whistleblower-foreclosure#ixzz1TLDlGC1F

The surprises of SEC's infinite revolving door conflicts of interest never cease to amaze (or, for that matter end). Andrew Ross Sorkin has taken some time from his busy media whirlwind tour schedule and conducted some actual investigative reporting for a change, discovering that the SEC's co-chief counsel in charge of helping write derivative rules, Adam Glass, who previously testified about Goldman's Abacus, the culprit for the biggest SEC settlement in history against a Wall Street firm, had some very specific inside knowledge vis-a-vis Abacus. *He signed off on it*. Writes Sorkin: "Before working on the financial crisis cleanup, he helped create the opaque securities that contributed to the mess...For many years, Mr. Glass served as the outside counsel to Paulson & Company...And yes, Mr. Glass, in that role, signed off on Abacus, which was created specifically for the hedge fund to short subprime mortgages. Mr. Paulson handpicked some of the underlying investments in the derivative...The government, in its complaint, claimed that Goldman had "misstated and omitted key facts regarding" Abacus, including disclosing Mr. Paulson's role in its creation. The firm paid $550 million to settle the case, without admitting or denying guilt...his role once again raises questions about the revolving door between Washington and Wall Street at a time when public distrust about the agency and its lack of enforcement action against the culprits of the crisis is running high..."**If he was involved in Abacus, how is he supposed to police it?**" We are not sure if we are more confused by the fact that Sorkin has actually done some actual research or that yet another SEC crony is exposed to be in the pocket of Wall Street's rich and powerful. Actually, the former. Certainly the former.

"The revolving door is such a dominant fact about the S.E.C.'s culture," said

John C. Coffee Jr., a Columbia Law School professor. "You get people who go to Washington for one to three years and then go back to Wall Street."

The pattern has been well documented. According to the Project on Government Oversight, 219 former S.E.C. staff members filed 789 "postemployment statements indicating their intent to represent an outside client before the commission" from 2006 to 2010. In other words, the one-time government officials are representing Wall Street clients with matters before the agency.

While clearly there are questions about whether the public wants someone in government who just came from industry, the opposite argument can be made, too: It may be better to have the fox in the henhouse.

President Franklin D. Roosevelt "justified appointing Joe Kennedy as chairman of the S.E.C. with the line: 'You need to set a thief to catch a thief,' " said Professor Coffee. "That is the case for bringing in an industry expert."

After all, the best way for the government to stay ahead of financial innovations -- or at least not fall too far behind -- is to employ people who know them best.

...

Mr. Glass, who has long advocated more regulation of derivatives in certain instances, came to the S.E.C. with a strong finance pedigree. A graduate of Harvard and of Stanford Law School, Mr. Glass was a partner at Linklaters, where he founded the firm's structured finance and derivatives practice.

In addition to Paulson & Company, he counted Deutsche Bank and Lehman Brothers among his top clients. Mr. Glass was not involved in the controversial opinion that Linklaters issued to Lehman about a practice known as Repo 105 that has come under scrutiny. The tactic allowed Lehman to conceal billions of dollars on its balance sheet.

Mr. Glass took a big pay cut to become a civil servant. The average Linklaters partner made about $2.3 million in 2008, the year before he left, according to Legal Week, an industry publication. The most Mr. Glass could make at the S.E.C. is $233,000.

When I asked Mr. Glass about his deposition in the Tourre case and his role as the lawyer for Mr. Paulson in the Abacus transaction, he said, "Yes, that would be true." He then directed me to the S.E.C.'s spokesman, who quickly issued a "no comment."

Spokesmen for Mr. Tourre and Mr. Paulson also declined to comment.

And so forth. All those surprised raise your hands.

When you consider that banks have donated over $221 million to politicians since 1990, it becomes very difficult to find a member of Congress who hasn't been on the receiving end of this largesse. So Congress is just as, if not more inclined as the White House to insure the banks get taken care of.

All of the political drama is just that, drama. The banks will be helped out no matter what. The impact of the US losing its AAA credit rating is too enormous for the politicians to let it happen right now.

Make no mistake, something big is afoot behind the rhetoric and political talking points being thrown around by the White House and the GOP. That something will be some means of letting the banks get through this period without getting crushed.

Remember just who helped get Obama in office in 2008:

Top Obama Donors '08	**Contributions**
University of California	$1,591,395
Goldman Sachs	**$994,795**
Harvard	$854,747
Microsoft	$833,617
CitiGroup	**$701,290**
JP Morgan	**$695,132**

Obama ran on a platform of Change, but as his actions have shown since election (the day after his election he put two Citigroup executives on his economic transition team). These are the folks who got him in office (the Finance industry accounted for over $24 million of fundraising for Obama). And they're the folks whose economic interests he takes to heart the most.

The same goes for Congress, which received over $37 million in donations from Commercial Banks in the 2008 elections.

Total Donations	**Donations to Democrats**	**Donations to Republicans**	**% to Democrats**	**% to Republicans**
$37.5 million	$17.9 million	$19.5 million	48%	52%

SEC Dismisses Insider Trading Case Against Rajat Gupta

Courtney Comstock | Aug. 4, 2011, 5:52 PM | 417 | 3

The SEC has dismissed their insider trading lawsuit against Rajat Gupta, according to Bloomberg.

Instead, the SEC will sue him in a NY Federal Court. Gupta said that the SEC case had violated his rights, according to Bloomberg.

Now they've both mutually agreed to drop the lawsuits.

For the moment, it looks like Gupta won a major victory, which is a total shocker. It seemed as though the evidence against him was significant.

It seems Gupta got the case dropped by mounting a counter-lawsuit against the SEC. After the SEC sued him, Gupta sued back.

Gupta sued over the SEC's suing him in an administrative proceeding, thus denying him the right to a jury trial, according to Retuers.

Also at issue was the SEC's connecting him to the high profile Raj Rajaratnam case, and how the SEC gathered the evidence. Earlier this year, Bloomberg reported that wiretapped calls between Gupta and Raj, in which Gupta tells the Galleon founder confidential information about Goldman considering purchase of AIG and Wachovia back in 2008, were not enough to justify charges.

Looks like going on the offensive paid off.

Of course, who knows what the SEC's upcoming lawsuit in NY Federal Court will bring.

Guess how many seconds Rajat Gupta waited before calling Raj Rajaratnam after Blankfein told him 2008 Q2 earnings were bad >

Read more: http://www.businessinsider.com/sec-dismisses-insider-trading-case-against-rajat-gupta-2011-8#ixzz1U6RSSiil

Bank Of America Getting Smashed, As AIG Jumps Into The Lawsuit Fray In A Big Way

Julia La Roche | Aug. 8, 2011, 8:50 AM | 1,058 | 3

Just when you thought things couldn't get any worse for Bank of America.

Now, insurer American International Group is expected to sue Bank of America in what might be the largest mortgage-security-related action filed by a single investor, the New York Times reports.

The suit seeks to recover more than $10 billion in losses on $28 billion in investments in mortgage-backed securities, according to the Times.

According to the report, there's a growing trend of investors pursuing private lawsuits claiming banks misled them into purchasing risky securities. The trend also stems from the lack of prosecutions on behalf of the Justice Department against the largest financial firms and their executives.

Bank of America might not be the only one facing a suit from AIG.

Apparently AIG is planning to file similar suits against Goldman Sachs, JPMorgan Chase and Deutsche Bank, the newspaper said citing people with knowledge of the complaint.

Last week, shares of the largest U.S. bank tanked on news the New York attorney general would reject its $8.5 billion mortgage settlement with BlackRock, BNY Mellon, and PIMCO.

Shares of Bank of America today are down more than 8% in premarket trading after closing down Friday more than 7.47%, or $0.66, to end at $8.17 a share.

Read more: http://www.businessinsider.com/aig-suing-bank-of-america-2011-8#ixzz1URa6iZzj

Outrageous Alleged Misdeeds Of For-Profit Education Provider EDMC

An image circulated in company emails

The Justice Department filed suit yesterday against the Education Management Corp charging that it was not eligible for $11 billion received in financial aid since 2003.

At the heart of the lawsuit is the claim brought by two former employees that EDMC recruiters were compensated based entirely on the number of students added, in direct violation of the law. In a "boiler-room" culture, recruiters allegedly pressured uncertain students into loans they couldn't afford.

EDMC, which by the way is 41% owned by Goldman Sachs, denies claims about its compensation scheme.

http://www.nytimes.com/2011/08/09/education/09forprofit.html?_r=1

For-Profit College Group Sued as U.S. Lays Out Wide Fraud

By TAMAR LEWIN

Published: August 8, 2011

The Department of Justice and four states on Monday filed a multibillion-dollar fraud suit against the Education Management Corporation, the nation's second-largest for-profit college company, charging that it was not eligible for the $11 billion in state and federal financial aid it had received from July 2003 through June 2011.

- *Questions Follow Leader of For-Profit Colleges (May 27, 2011)*
- *U.S. to Join Suit Against For-Profit College Chain (May 3, 2011)*
- *Times Topics: Education Management Corporation | For-Profit Schools*

Should federal student loans be cut off at "career colleges" whose graduates have a lot of debt and struggle to repay it?

While the civil lawsuit is one of many raising similar charges against the expanding for-profit college industry, the case is the first in which the government intervened to back whistle-blowers' claims that a company consistently violated federal law by paying recruiters based on how many students it enrolled. The suit said that each year, Education Management falsely certified that it was complying with the law, making it eligible to receive student financial aid.

"The depth and breadth of the fraud laid out in the complaint are astonishing," said Harry Litman, a lawyer in Pittsburgh and former federal prosecutor who is one of those representing the two whistle-blowers whose 2007 complaints spurred the suit. "It spans the entire company — from the ground level in over 100 separate institutions up to the most senior management — and accounts for nearly all the revenues the company has realized since 2003."

Education Management, which is based in Pittsburgh and is 41 percent owned by Goldman Sachs, enrolls about 150,000 students in 105 schools operating under four names: Art Institute, Argosy University, Brown Mackie College and South University.

In a statement Monday, the company denied any wrongdoing.

“The pursuit of this legal action by the federal government and a handful of states is flat-out wrong,” said Bonnie Campbell, a spokeswoman for the company’s legal counsel. “EDMC’s 2003 compensation plan followed the law in both its design and implementation, as EDMC’s response to the governments’ complaint will show.”

“Federal regulations issued in 2002 permitted companies to consider enrollments in admission officer compensation, so long as enrollments were not the sole factor considered,” the statement continued. “To ensure compliance with this regulation, EDMC worked closely with outside experts in both human resources and education law to develop a plan that required consideration of five quality factors along with enrollment numbers to determine salaries.”

The government’s incentive compensation ban was designed to stop companies from signing up unqualified students for their aid money. The False Claims Act, the basis for the government’s lawsuit, provides for triple damages, and since the complaint said all the government student aid came from such claims, the damages could be as much as $33 billion. As a practical matter, though, such huge cases are usually settled for far less than the maximum damages.

Since 1986, the government has recovered more than $25 billion in false-claim cases, many of them based on pharmaceutical company marketing, hospitals overbilling or defense contractor fraud. Given their explosive growth, for-profit colleges — which now serve more than 10 percent of the students enrolled in higher education, yet account for about half of all defaults on student loans — could become a new prime source for such cases.

According to the 122-page complaint, Education Management got $2.2 billion of federal financial aid in fiscal 2010, making up 89.3 percent of its net revenues.

The states joining in the suit are California, Florida, Illinois and Indiana.

The complaint said the company had a “boiler-room style sales culture” in which recruiters were instructed to use high-pressure sales techniques and inflated claims about career placement to increase student enrollment, regardless of applicants’ qualifications.

Recruiters were encouraged to enroll even applicants who were unable to write coherently, who appeared to be under the influence of drugs or who sought to enroll in an online program but had no computer.

According to the suit, recruiters were also led to exploit applicants' psychological vulnerabilities — for example, a parent's hopes of moving a child out of a dangerous neighborhood.

Under the False Claims Act, individual whistle-blowers can file suits charging that the government has been defrauded, leaving the government the option to intervene. Either way, the government gets the majority of any money recovered; the whistle-blowers also get a share.

The Justice Department, which has declined to intervene in two dozen whistle-blower suits charging for-profit colleges with fraudulent recruiting practices, said in May that it would act against Education Management, four years after a complaint filed by two former employees: Lynntoya Washington, an assistant director of admissions at the Art Institute of Pittsburgh Online Division, and Michael T. Mahoney, the director of training for the Online Higher Education Division.

Publicly traded for-profit college companies have recently been a target both of government scrutiny and whistle-blower suits. In 2009, the Apollo Group, which owns the University of Phoenix, the largest for-profit college, settled a whistle-blower case for $78 million.

JPMorgan Proves Jefferson County Bond Death No Bar to Business

Q

By William Selway and Martin Z. Braun - Aug 12, 2011 12:01 AM ET

JPMorgan Chase & Co. (JPM)'s Charles LeCroy said the key to landing bond deals in Jefferson County, Alabama, was finding out whom to pay off. In one example, that meant a $2.6 million payment to Bill Blount, a local banker and longtime friend of County Commissioner Larry Langford.

JPMorgan Chase & Co. (JPM)’s Charles LeCroy said the key to landing bond deals in Jefferson County, Alabama, was finding out whom to pay off. In one example, that meant a $2.6 million payment to Bill Blount, a local banker and longtime friend of County Commissioner Larry Langford. Photographer: Jin Lee/Bloomberg

Q

Aug. 12 (Bloomberg) -- Robert Shapiro, chairman of Sonecon LLC, and Kevin Hassett, director of economic-policy studies at the American Enterprise Institute, debate whether the Dodd-Frank financial regulation law is a success. U.S. Analyst Christopher Payne moderates this episode of Bloomberg Government's "BGOV Debate." (Source: Bloomberg)

JPMorgan Chase & Co. (JPM)’s Charles LeCroy said the key to landing bond deals in Jefferson County, Alabama, was finding out whom to pay off. In one example, that meant a $2.6 million payment to Bill Blount, a local banker and longtime friend of County Commissioner Larry Langford.

“It’s a lot of money, but in the end it’s worth it on a billion-dollar deal,” LeCroy told a colleague in 2003, according to a complaint filed by the Securities and Exchange Commission.

That’s because in the $2.9-trillion market for state and local government debt, where 80 percent of all financings are negotiated in private, conflicts of interest prevail. While Langford and Blount are in jail, LeCroy is fighting an SEC action. JPMorgan, which provided most of the toxic debt that devastated Jefferson County, has suffered no loss of business as the nation’s third-largest underwriter of municipal bonds, according to data compiled by Bloomberg.

Just 21 months ago, JPMorgan agreed to a $722 million SEC settlement to end a case over secret payments to friends of Jefferson County commissioners. The financings arranged by JPMorgan, a package of floating-rate debt and derivatives, exposed taxpayers to the 2008 credit crisis and dealt a blow that may lead the county to approve the biggest U.S. municipal bankruptcy as soon as today.

“As an outsider looking in, it just certainly appears to me that JPMorgan ravaged this county,” said Robert Brooks, a finance professor at the University of Alabama in Tuscaloosa and the author of a textbook on derivatives. “They convinced Jefferson County to pursue a strategy they never would have followed to generate a lot of fees.”

Deals Backfired

Jefferson County’s financing shows how Wall Street peddled complex bond-and-derivative deals that backfired on taxpayers, from small Pennsylvania school districts to California’s state government. Banks may have charged $20 billion in hidden fees on the derivatives alone, Andrew Kalotay, a New York-based financial consultant who specializes in such agreements, told an SEC hearing in Jefferson County last month. The agreements allowed lenders to earn fees that were rarely, if ever, disclosed, while exposing municipalities to unexpected increases in borrowing costs.

Yet while JPMorgan’s deals denuded Jefferson County, the company has emerged with its municipal-debt underwriting business unscathed. During the past two years, public officials from California to Massachusetts hired the New York-based bank to arrange $64.7 billion of bond offerings, making it the third- largest underwriter in the market for state and local securities, according to Bloomberg data.

‘Very Aggressive’

“The issuers need the bankers,” said Christopher Whalen, managing director of Torrance, California-based Institutional Risk Analytics, which assesses banks. “Morgan’s a big house and they’re very aggressive and they’re out there looking for business everywhere. So people tend to forget.”

Last month, without admitting or denying wrongdoing, JPMorgan agreed to pay $211 million in a separate settlement with state and federal regulators over charges that its municipal-derivatives unit participated in an industry-wide scheme to fix prices and overcharge local governments on investment contracts. The bank blamed former employees and said it has increased oversight of its public finance business.

In a motion to dismiss a lawsuit by Jefferson County, JPMorgan said the county was inappropriately attempting to lay blame for the debt crisis at the bank's feet.

"The simple fact is that the county took on too much debt and vastly underestimated the cost of building out its sewer system," lawyers for JPMorgan argued. "These problems were only exacerbated by the county's poor management of its sewer system and the current credit crisis."

Dodd-Frank Law

JPMorgan spokesman Justin Perras declined to comment for this story and said Chief Executive Officer Jamie Dimon, who joined JPMorgan after the Jefferson County deals were done, wasn't available for an interview. William B. Harrison Jr., the bank's CEO at the time it sold the contracts, didn't return phone calls seeking comment.

The county's collapse has loomed over the municipal bond market for more than three years and inspired provisions in the Dodd-Frank law seeking to protect localities from complex financial trades involving derivatives. Officials are asking JPMorgan and other creditors to forgive about $1 billion of the bonds or may decide as soon as today to file for bankruptcy protection to escape the debts.

Money-Saving Plan

In Jefferson County, JPMorgan pitched a money-saving plan that converted almost all the county's $3 billion of sewer- system debt into floating-rate securities coupled with derivatives. The deals comprised the largest transactions in municipal swaps and auction-rate bonds, a form of floating-rate borrowing, in the bank's history, according to the SEC.

Like homeowners who turned to exotic mortgages, officials refinanced 93 percent of the sewer bonds into securities with adjustable interest rates. They bought interest-rate swaps, in which two parties make periodic payments based on an underlying measure of borrowing costs. The contracts were supposed to offset the floating rates the county paid and give it a fixed rate that was lower than on traditional bonds.

The county paid JPMorgan, Bear Stearns Cos, Bank of America Corp. and Lehman Brothers Holdings Inc. $120 million in fees for swap trades. Those fees were as much as six times the prevailing rate, according to a report by former county financial adviser Porter White & Co. of Birmingham, Alabama.

The money-saving strategy backfired. JPMorgan's financings unraveled in early 2008 as the subprime mortgage-market meltdown sent ripples through Wall Street, undermining the credit ratings of the companies that insured Jefferson County's bonds.

Interest Costs Soared

The county's interest costs soared as investors dumped the bonds. After banks demanded early payoffs, the county defaulted. The swaps exposed the county to hundreds of millions in fees to refinance.

JPMorgan's Dimon has moved to put the municipal crisis behind him.

In 2008, the bank said it got out of the business of selling interest-rate swaps to state and local governments. In November 2009, it settled with the SEC over allegations that LeCroy and former JPMorgan colleague Douglas MacFaddin funneled $8 million of secret payments to bankers, including Blount, who had ties to Jefferson County politicians.

"It looks like they've done the right things to limit the reputational damage," said Matt Fabian, who tracks the state and local government securities industry for Municipal Market Advisors Inc. in Concord, Massachusetts.

In the Jefferson County case, much of the blame for the collapse has been cast on corrupt politicians.

'Hasn't Hurt'

"It hasn't hurt them a bit because the whole thing has been sold that they were dealing with corrupt officials," said Christopher Taylor, the executive director of the

Municipal Securities Rulemaking Board from 1978 until 2007. "But the truth of the matter is they were in bed with the issuer."

Larry Langford, the former commissioner in charge of finance, was found guilty on U.S. criminal charges of accepting bribes from Blount, who pleaded guilty in the case.

LeCroy and MacFaddin, the former head of municipal derivatives for the bank, are fighting SEC civil claims that they failed to disclose payments to Blount and others. JPMorgan fired LeCroy in 2004 and terminated MacFaddin in 2008. No one from JPMorgan is accused of criminal wrongdoing.

MacFaddin and LeCroy have argued that the SEC lacks authority to pursue them under federal anti-fraud statutes because the interest-rate swaps aren't securities.

Richard Lawler, MacFaddin's attorney, declined to comment. LeCroy's lawyer, Lisa Mathewson, also declined to comment.

21 People

In Jefferson County, 21 people, including four county commissioners, were convicted or pleaded guilty to charges related to the sewer construction or financing.

Former County commissioner Langford, 63, a longtime friend of Blount's who was responsible for finance, was convicted of taking $242,000 in bribes in exchange for steering business to Blount. Langford lost an appeal of his convictions, according to a notice posted Aug. 5 by the federal appeals court in Atlanta.

According to the SEC, LeCroy also paid fees to two other local firms to win the support of another former commissioner.

LeCroy joked about the tactics with a fellow JPMorgan banker in 2003. "We have to pick the partners who are going to get free money from us this time," he said, according to the SEC complaint.

Deals Raised Questions

Bond insurer Syncora Guarantee Inc., which backed about $1 billion of the bonds, said in a lawsuit that JPMorgan knew that the county wouldn't have enough revenue to pay its debts in a few years but kept a report documenting that secret.

A least one banker at JPMorgan, Charles Giffin, raised internal questions about the risk.

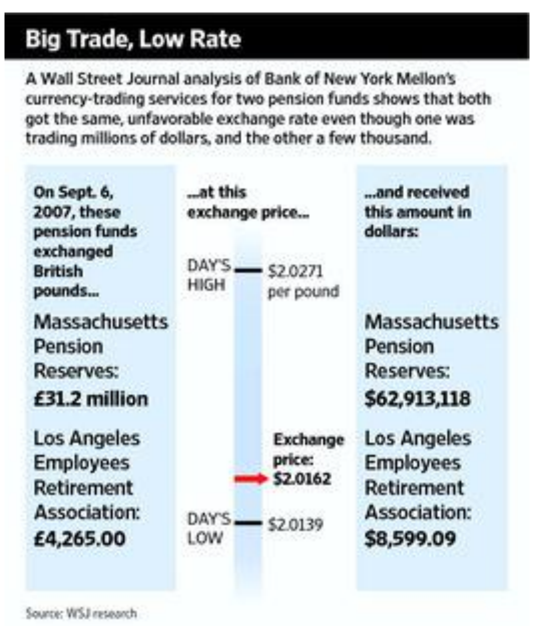
"Do these guys know the risks they are taking (in large doses)?" Giffin wrote in a May 12, 2003, e-mail to a colleague, when asked to prepare materials explaining why the county should buy more derivatives, according to SEC records. "Shouldn't we be pitching diversification arguments?"

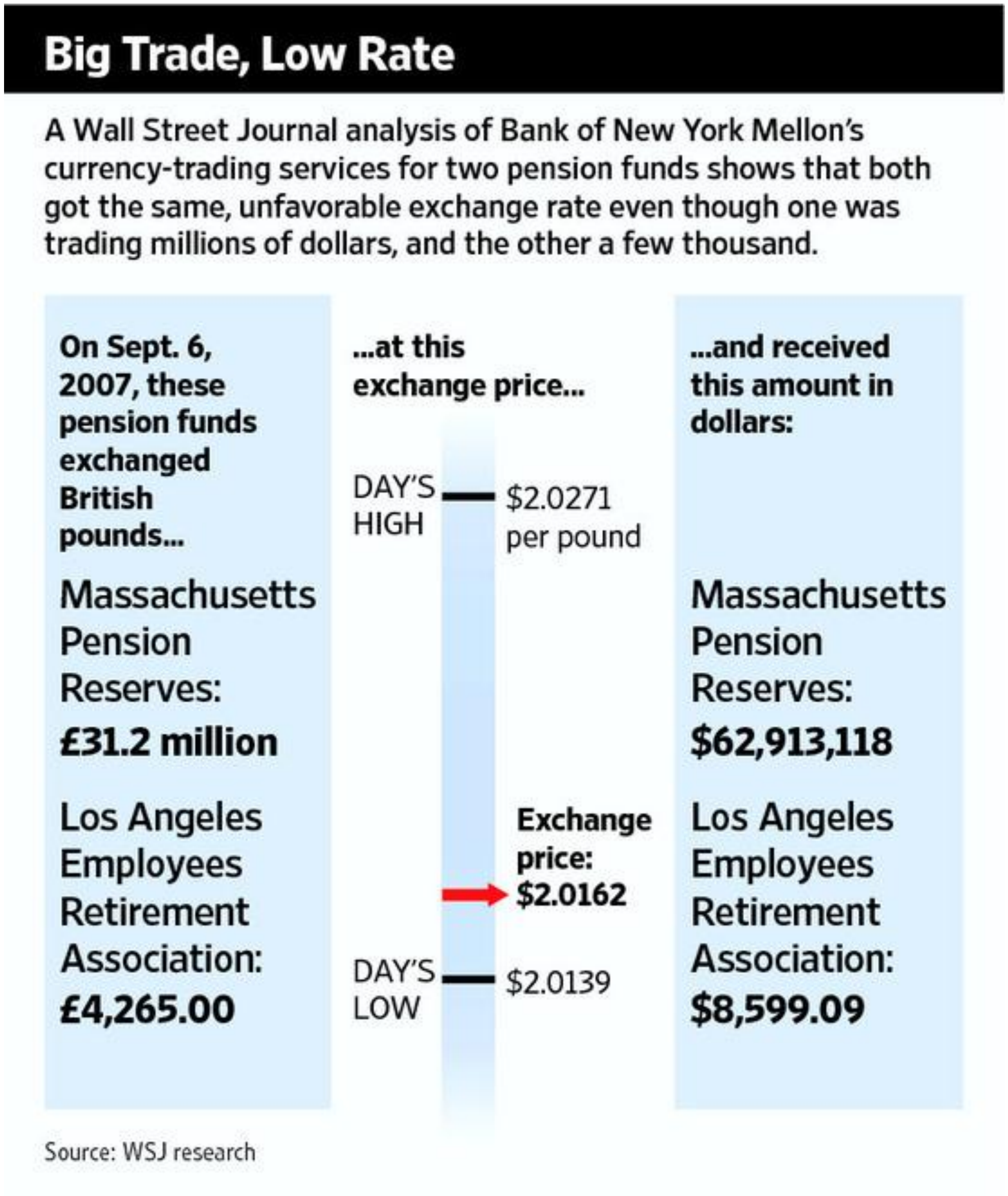
States Go After Big Bank on Forex

By **TOM MCGINTY** And **CARRICK MOLLENKAMP** WSJ

The legal stakes are rising for Bank of New York Mellon Corp. in a widening controversy over the way it prices currency trades for pension funds and other big clients.

On Thursday, attorneys general in Virginia and Florida filed civil suits against BNY Mellon alleging that the bank cheated pension funds in those states by choosing improper prices for currency trades the bank processed for the funds. The Virginia lawsuit, filed in a Fairfax, Va., state court, cites internal bank emails allegedly showing that senior bank officials knew about, and endorsed, a currency-trading method that hurt state pensioners.





The complaint cites what it describes as a 2008 email from a senior BNY Mellon banker, Jorge Rodriguez, warning his colleagues that if the bank was required to provide "full transparency" to its clients, the clients' "ability to carefully monitor each and every trade at the time of execution" would eat into profits by reducing the bank's "margins dramatically."

The bank strongly denies the allegations of wrongdoing. A BNY Mellon spokesman said the firm treats clients fairly. He declined to detail specifically how the bank assigns currency prices to its clients and said the bank will defend itself against litigation and expects to win "on the facts and the law."

Separately, a Wall Street Journal examination of almost four years of currency-trading data for two U.S. pension funds in California and Massachusetts indicates that BNY Mellon often gave both funds exactly the same exchange rates.

According to the Journal analysis, the rates BNY Mellon gave the two funds often were at or near the less favorable ends of the daily trading range.

The issues are particularly significant during heightened financial-market volatility. An internal 2008 BNY Mellon document reviewed by the Journal said large currency-price swings help the bank's revenue because they allow traders to "capture greater trading gains" when executing currency trades for institutional clients.

In a statement Thursday, a BNY Mellon spokesman said, "The lawsuits filed by the Virginia and Florida Attorneys General are unwarranted and reflect a flawed understanding of foreign currency markets." The spokesman said Mr. Rodriguez wasn't available for comment.

The recent developments come amid growing controversy over whether banks including BNY Mellon and State Street Corp.—which offer specialized securities-handling and trade-processing services to institutional investors—profited by providing pension-fund clients with unfavorable currency rates.

A whistleblower group has filed civil suits against BNY Mellon and State Street in California, Virginia and Florida, alleging the banks unfairly priced currency trades for their clients, pension funds that

Morgan Stanley owned Frontpoint

Ex-FrontPoint Fund Manager Skowron Pleads Guilty in Insider-Trading Case

Q

By Bob Van Voris and David McLaughlin - Aug 15, 2011 10:13 AM ET

Ex-FrontPoint Partners LLC hedge fund manager Joseph F. "Chip" Skowron pleaded guilty in a U.S. insider-trading case.

Skowron pleaded guilty to one count of conspiracy before U.S. District Judge Denise Cote in Manhattan today. Conspiracy carries a maximum prison term of five years.

The government claimed that Skowron obtained nonpublic information from Yves Benhamou, an expert in hepatitis drugs and a former adviser for Human Genome Sciences Inc. (HGSI) The tips, concerning hepatitis C drug trials, let Greenwich, Connecticut- based FrontPoint avoid more than $30 million in losses, the U.S. said. Benhamou has pleaded guilty.

FrontPoint oversaw $7 billion at the start of November before Skowron, a co-portfolio manager of its health-care funds, was tied to claims that the firm got advance notice on the drug- trial results. FrontPoint's assets slipped to $4.5 billion by January and the firm closed its health-care funds.

The Securities and Exchange Commission accused Skowron of insider trading in a lawsuit filed the day of his surrender in April. Skowron and the staff of the SEC's Division of Enforcement last week said they had agreed in principle to the terms of a settlement that the division will recommend that the commission accept and that would "fully resolve the SEC's claims against defendant."

The criminal case is U.S. v. Skowron, 11-MAG-00997; the civil case is Securities and Exchange Commission vs. Benhamou, 10-cv-8266, U.S. District Court, Southern District of New York (Manhattan).

Steven Rattner

Ruth Fremson/The New York Times

Updated: Jan. 3, 2011

Steven L. Rattner is a financier who led the Obama administration's efforts to restructure the auto industry. He stepped down from that post in July 2009 as he became embroiled in a scandal involving New York State's pension fund.

In November 2010, Mr. Rattner agreed to pay $6.2 million in repayments and penalties to settle a suit brought by the Securities and Exchange Commission; the settlement also banned him from "associating with any investment advisor or broker dealer" for two years.

On Dec. 30, Mr. Rattner reached a settlement with Andrew M. Cuomo, two days before Mr. Cuomo shifted from being New York's attorney general to its governor. Mr. Cuomo had filed two suits against him, seeking at least $26 million from Mr. Rattner and a lifetime ban from the securities industry in New York. The suits charged that the Quadrangle Group, the private equity firm formerly headed by Mr. Rattner, paid kickbacks to win lucrative contracts managing assets of the pension fund.

In the settlement of the New York suits, Mr. Rattner agreed to pay $10 million.

Quadrangle also struck a deal with both Mr. Cuomo and the S.E.C., paying $12 million to end its role in the case. The firm acknowledged paying more than $1 million in fees to a political consultant, Hank Morris, in exchange for his help in landing a state investment contract. Mr. Morris pleaded guilty to security fraud.

The battle between Mr. Rattner and Mr. Cuomo, two of New York's most powerful Democrats, grew intense before the settlement was reached. Mr. Cuomo considered perjury charges against Mr. Rattner, and Mr. Rattner called Mr. Cuomo's behavior "close to extortion."

Reporting by The New York Times revealed a previously undisclosed 2007 meeting in which Mr. Rattner first provided his account to Mr. Cuomo's investigators about how the Quadrangle Group had obtained a $150 million investment from the pension fund. That account, investigators said, was later undercut by Mr. Rattner's own e-mails, enraging Mr. Cuomo, who had extended Mr. Rattner deference and immunity from criminal prosecution.

Mr. Rattner, a longtime Wall Street deal maker, now works at Willett Advisors, the personal money-management arm of his close friend Michael R. Bloomberg, the billionaire mayor of New York. The attorney general's settlement will no have no effect on Mr. Rattner's current work. The S.E.C.'s two-year ban currently prohibits him from being paid by Willett and participating in some investment activities at the firm.

Mr. Rattner — whose net worth was $188 million to $608 million, according to a 2009 disclosure filing — spent much of late 2010 promoting his book on the restructuring of General Motors and Chrysler.

Read More...

For Mr. Cuomo, the settlement let him avoid having a motivated enemy in Mr. Rattner, who, despite being brought low by his involvement in the scandal, continues to hold influence in New York's financial, political, and media circles.

Dealmaker

For years, Mr. Rattner has cultivated a reputation as a major player in New York's political and charity circles, though he is less known in Washington and Detroit. Mr. Rattner was a financial reporter for The New York Times who entered investment banking in the 1980s, becoming a deal maker in the media and communications sectors for the likes of Lehman Brothers, Morgan Stanley and Lazard.

In 2000, he co-founded Quadrangle, a media-focused private equity firm. In January 2008, Mayor Michael R. Bloomberg chose the firm to manage the investments of his multibillion-dollar fortune.

Mr. Rattner has long harbored political ambitions. A longtime Democratic contributor, he backed Senator Hillary Rodham Clinton's presidential campaign, and some speculated that he sought the Treasury secretary post in a Clinton administration. His wife, Maureen White, was Mrs. Clinton's finance co-chairwoman.

In 2009, Mr. Rattner counseled Treasury Secretary Timothy F. Geithner and Lawrence H. Summers, the director of the National Economic Council, on reorganization efforts by General Motors and Chrysler, two carmakers receiving federal bailout money.

Mr. Rattner was one of 14 people on a committee orchestrating the rescue of the giant automakers. Still, he played a central role, advising the White House on which companies seemed salvageable and how.

In September 2010, Mr. Rattner published a book about his experience trying to restructure the American auto industry, which was widely praised, and he is playing a vital role in creating an investment office for Mayor Michael R. Bloomberg of New York, which will oversee billions of dollars for the mayor's ambitious new philanthropic foundation.

Wall Street even Steals from Foreigners

Reuters) - Venezuela received an enviable honor last month: OPEC said it is sitting on the biggest reserves of crude oil in the world -- even more than Saudi Arabia.

But the Venezuelan oil industry is also sitting atop a well of trouble.

The South American nation has struggled to take advantage of its bonanza of expanding reserves. And a scandal over embezzled pension funds at state oil company PDVSA has renewed concerns about corruption and mismanagement.

Retired workers from the oil behemoth have taken to the streets in protest. Their beef: nearly **half a billion dollars** of pension fund money was lost after it was invested in what turned out to be a Madoff-style Ponzi scheme run by a U.S. financial advisor who was closely linked to President Hugo Chavez's government.

The fraud case centers on Francisco Illarramendi, a Connecticut hedge fund manager with joint U.S.-Venezuelan citizenship who used to work as a U.S.-based advisor to PDVSA and the Finance Ministry.

Several top executives at PDVSA have been axed since the scandal, which one former director of the company said proved Venezuela under Chavez had become "a moral cesspool."

Pensioners are not the only ones still wondering how such a large chunk of the firm's $2.5 billion pension fund was invested with Illarramendi in the first place.

The question cuts to the heart of the challenges facing PDVSA, one of Latin America's big three oil companies alongside Pemex of Mexico and Brazil's Petrobras.

The Organization of the Petroleum Exporting Countries issued a report last month showing Venezuela surpassed Saudi Arabia as the largest holder of crude oil reserves in 2010.

PDVSA is ranked by Petroleum Intelligence Weekly as the world's fourth largest oil company thanks to its reserves, production, refining and sales capacity, and it has been transformed in recent years into the piggy-bank of Chavez's "21st Century Socialism."

The timing of the scandal is not good for Chavez: the charismatic, 57-year-old former coup leader underwent cancer surgery in Cuba in June and is fighting to recover his health to run for re-election next year. He needs every cent possible from PDVSA for the social projects that fuel his popularity.

SHOW ME THE MONEY

U.S. investigators say Illarramendi, the majority owner of the Michael Kenwood Group LLC hedge fund, ran the Ponzi scheme from 2006 until February of this year, using deposits from new investors to repay old ones. He pleaded guilty in March to multiple counts of wire fraud, securities and investment advisor fraud, as well as conspiracy to obstruct justice and defraud the U.S. Securities and Exchange Commission. He could face up to 70 years in prison.

By those outside the circles of power in Venezuela, Illarramendi was seen as one of the "Boli-Bourgeoisie" -- someone who was already wealthy but grew much richer thanks to the "Bolivarian Revolution," named by Chavez after the dashing 19th century South American independence hero Simon Bolivar. In one widely-circulated image, Illarramendi is seen overweight and balding, wearing a dark blue overcoat and clutching a blue briefcase as he left federal court in Bridgeport, Connecticut after pleading guilty.

An ex-Credit Suisse employee and Opus Dei member in his early 40s who lived in the United States for at least the last 10 years but traveled frequently to Venezuela, Illarramendi is on bail with a bond secured on four U.S. properties he owns.

He was close to PDVSA board members and Ministry of Finance officials, but is not thought to have known Chavez personally. The son of a minister in a previous Venezuelan government, Illarramendi did enjoy some perks -- including using a terminal at the capital's

Maiquetia International Airport normally reserved for the president and his ministers, according to one source close to his business associates.

His sentencing date has not been set yet, but a receiver's report by the attorney designated to track down the cash is due in September. In June, SEC regulators said they found almost $230 million of the looted money in an offshore fund.

That was just part of the approximately $500 million Illarramendi received, about 90 percent of which was from the PDVSA pension fund, according to the SEC.

Goodbye Mary Schapiro: Grassley Asks SEC To Account For Illegal Document Destruction

Flashing headlines:

- **GRASSLEY ASKS SEC TO ACCOUNT FOR ALLEGED DOCUMENT DESTRUCTION**
- **SENATE'S GRASSLEY MAKES REQUEST IN LETTER TO SEC'S SCHAPIRO**
- **GRASSLEY: WHISTLEBLOWER CITED `UNLAWFUL DESTRUCTION' OF RECORDS**
- **GRASSLEY CITES ALLEGATIONS IN LETTER FROM SEC WHISTLEBLOWER**

As a reminder, Grassley is after Stevie Cohen. If Mary Schapiro indeed willingly destroyed docs that exposed SAC as a criminal organization, she is going to prison. And if indeed this is true, in the aftermath of Madoff, that is where she belongs.

http://www.rollingstone.com/politics/news/is-the-sec-covering-up-wall-street-crimes-20110817

see below

Is the SEC Covering Up Wall Street Crimes?

A whistleblower claims that over the past two decades, the agency has destroyed records of thousands of investigations, whitewashing the files of some of the nation's worst financial criminals.

Comment 23

By Matt Taibbi

August 17, 2011 8:00 AM ET

Pete Gardner/Getty

Imagine a world in which a man who is repeatedly investigated for a string of serious crimes, but never prosecuted, has his slate wiped clean every time the cops fail to make a case. No more Lifetime channel specials where the murderer is unveiled after police stumble upon past intrigues in some old file – "Hey, chief, didja know this guy had *two* wives die falling down the stairs?" No more burglary sprees cracked when some sharp cop sees the same name pop up in one too many witness statements. This is a different world, one far friendlier to lawbreakers, where even the *suspicion* of wrongdoing gets wiped from the record.

That, it now appears, is exactly how the Securities and Exchange Commission has been treating the Wall Street criminals who cratered the global economy a few years back. For the past two decades, according to a whistle-blower at the SEC who recently came forward to Congress, the agency has been systematically destroying records of its preliminary investigations once they are closed. By whitewashing the files of some of the nation's worst financial criminals, the SEC has kept an entire generation of federal investigators in the dark about past inquiries into insider trading, fraud and market manipulation against companies like Goldman Sachs, Deutsche Bank and AIG. With a few strokes of the keyboard, the evidence gathered during thousands of investigations – "18,000 ... including Madoff," as one high-ranking SEC official put it during a panicked meeting about the destruction – has apparently disappeared forever into the wormhole of history.

Under a deal the SEC worked out with the National Archives and Records Administration, all of the agency's records – "including case files relating to preliminary investigations" – are supposed to be maintained for at least 25 years. But the SEC, using history-altering practices that for once actually deserve the overused and usually hysterical term "Orwellian," devised an elaborate and possibly illegal system under which staffers were directed to dispose of the documents from any preliminary inquiry that did not receive approval from senior staff to become a full-blown, formal investigation. Amazingly, the wholesale destruction of the cases – known as MUIs, or "Matters Under Inquiry" – was not something done on the sly, in secret. The enforcement division of the SEC even spelled out the procedure in writing, on the commission's internal website. "After you have closed a MUI that has not become an investigation," the site advised staffers, "you should dispose of any documents obtained in connection with the MUI."

Many of the destroyed files involved companies and individuals who would later play prominent roles in the economic meltdown of 2008. Two MUIs involving con artist Bernie Madoff vanished. So did a 2002 inquiry into financial fraud at Lehman Brothers, as well as a 2005 case of insider trading at the same soon-to-be-bankrupt bank. A 2009 preliminary investigation of insider trading by Goldman Sachs was deleted, along with records for at least three cases involving the infamous hedge fund SAC Capital.

The widespread destruction of records was brought to the attention of Congress in July, when an SEC attorney named Darcy Flynn decided to blow the whistle. According to Flynn, who was responsible for helping to manage the commission's records, the SEC has been destroying records of preliminary investigations since at least 1993. After he alerted NARA to the problem, Flynn reports, senior staff at the SEC scrambled to hide the commission's improprieties.

As a federally protected whistle-blower, Flynn is not permitted to speak to the press. But in evidence he presented to the SEC's inspector general and three congressional committees earlier this summer, the 13-year veteran of the agency paints a startling picture of a federal police force that has effectively been conquered by the financial criminals it is charged with investigating. In at least one case, according to Flynn, investigators at the SEC found their desire to investigate an influential bank thwarted by senior officials in the enforcement division – whose director turned around and accepted a lucrative job from the very same bank they had been prevented from investigating. In another case, the agency farmed out its inquiry to a private law firm – one hired by the company under investigation. The outside firm, unsurprisingly, concluded that no further investigation of its client was necessary. To complete the bureaucratic laundering process, Flynn says, the SEC dropped the case and destroyed the files.

Much has been made in recent months of the government's glaring failure to police Wall Street; to date, federal and state prosecutors have yet to put a single senior Wall Street executive behind bars for any of the many well-documented crimes related to the financial crisis. Indeed, Flynn's accusations dovetail with a recent series of damaging critiques of the SEC made by reporters, watchdog groups and members of Congress, all of which seem to indicate that top federal regulators spend more time lunching, schmoozing and job-interviewing with Wall Street crooks than they do catching them. As one former SEC staffer describes it, the agency is now filled with so many Wall Street hotshots from oft-investigated banks that it has been "infected with the Goldman mindset from within."

The destruction of records by the SEC, as outlined by Flynn, is something far more than an administrative accident or bureaucratic fuck-up. It's a symptom of the agency's terminal brain damage. Somewhere along the line, those at the SEC responsible for policing America's banks fell and hit their head on a big pile of Wall Street's money – a blow from which the agency has never recovered. "From what I've seen, it looks as if the SEC might have sanctioned some level of case-related document destruction," says Sen. Chuck Grassley, the ranking Republican on the Senate Judiciary Committee, whose staff has interviewed Flynn. "It doesn't make sense that an agency responsible for investigations would want to get rid of potential evidence. If these charges are true, the agency needs to explain why it destroyed documents, how many documents it destroyed over what time frame and to what extent its actions were consistent with the law."

How did officials at the SEC wind up with a faithful veteran employee – a conservative, mid-level attorney described as a highly reluctant whistle-blower – spilling the agency's most sordid secrets to Congress? In a way, they asked for it.

On May 18th of this year, SEC enforcement director Robert Khuzami sent out a mass e-mail to the agency's staff with the subject line "Lawyers Behaving Badly." In it, Khuzami asked his subordinates to report any experiences they might have had where "the behavior of counsel representing clients in... investigations has been questionable."

Khuzami was asking staffers to recount any stories of *outside* counsel behaving unethically. But Flynn apparently thought his boss was looking for examples of lawyers "behaving badly" anywhere, including *within* the SEC. And he had a story to share he'd kept a lid on for years. "Mr. Khuzami may have gotten something more than he expected," Flynn's lawyer, a former SEC whistle-blower named Gary Aguirre, later explained to Congress.

Flynn responded to Khuzami with a letter laying out one such example of misbehaving lawyers within the SEC. It involved a case from very early in Flynn's career, back in 2000, when he was working with a group of investigators who thought they had a "slam-dunk" case against Deutsche Bank, the German financial giant. A few years earlier, Rolf Breuer, the bank's CEO, had given an interview to *Der Spiegel* in which he denied that Deutsche was involved in *übernahmegespräche* – takeover talks – to acquire a rival American firm, Bankers Trust. But the statement was apparently untrue – and it sent the stock of Bankers Trust tumbling, potentially lowering the price for the merger. Flynn and his fellow SEC investigators, suspecting that investors of Bankers Trust had been defrauded, opened a MUI on the case.

A Matter Under Inquiry is just a preliminary sort of look-see – a way for the SEC to check out the multitude of tips it gets about suspicious trades, shady stock scams and false disclosures, and to determine which of the accusations merit a formal investigation. At the MUI stage, an SEC investigator can conduct interviews or ask a bank to send in information voluntarily. In the Deutsche case, Flynn and other SEC investigators collected sworn testimony and documents indicating that plenty of *übernahmegespräche* indeed had been going on when Breuer spoke to *Der Spiegel*. Based on the evidence, they sent an "Action Memorandum" to senior SEC staff, formally recommending that the agency press forward and transform the MUI into a full-blown fraud case against Deutsche. Bumping a MUI up to a formal investigation is critical, because it enables investigators to pull out the full law-enforcement ass-kicking measures – subpoenas, depositions, everything short of hot pokers and waterboarding.

Breuer responded to the threat as big banks like Deutsche often do: He hired a former SEC enforcement director to lobby the agency to back off. The ex-insider, Gary Lynch, launched a creative and inspired defense, producing a linguistic expert who argued that *übernahmegespräche* only means "advanced stage of discussions." Nevertheless, the request to launch a formal investigation was approved by several levels of the SEC's staff. All that was needed to proceed was a thumbs-up from the director of enforcement at the time, Richard Walker.

But then a curious thing happened. On July 10th, 2001, Flynn and the other investigators were informed that Walker was mysteriously recusing himself from the Deutsche case. Two weeks later, on July 23rd, the enforcement division sent a letter to Deutsche that read, "Inquiry in the above-captioned matter has been terminated." The bank was in the clear; the SEC was not launching a fraud investigation. In contradiction to the agency's usual practice, it provided no explanation for its decision to close the case.

On October 1st of that year, the mystery was solved: Dick Walker was named general counsel of Deutsche. Less than 10 weeks after the SEC had refused to investigate the bank, the agency's director of enforcement was handed a cushy, high-priced job at Deutsche.

Deutsche's influence in the case didn't stop there. A few years later, in 2004, Walker hired none other than Robert Khuzami, a young federal prosecutor, to join him at Deutsche. The two would remain at the bank until February 2009, when Khuzami joined the SEC as Flynn's new boss in the enforcement division. When Flynn sent his letter to Khuzami complaining about misbehavior by Walker, he was calling out Khuzami's own mentor.

The circular nature of the case illustrates the revolving-door dynamic that has become pervasive at the SEC. A recent study by the Project on Government Oversight found that over the past five years, former SEC personnel filed 789 notices disclosing their intent to represent outside companies before the agency – sometimes within *days* of their having left the SEC. More than half of the disclosures came from the agency's enforcement division, who went to bat for the financial industry four times more often than ex-staffers from other wings of the SEC.

Even a cursory glance at a list of the agency's most recent enforcement directors makes it clear that the SEC's top policemen almost always wind up jumping straight to jobs representing the banks they were supposed to regulate. Lynch, who represented Deutsche in the Flynn case, served as the agency's enforcement chief from 1985 to 1989, before moving to the firm of Davis Polk, which boasts many top Wall Street clients. He was succeeded by William McLucas, who left the SEC in 1998 to work for WilmerHale, a Wall Street defense firm so notorious for snatching up top agency veterans that it is sometimes referred to as "SEC West." McLucas was followed by Dick Walker, who defected to Deutsche in 2001, and he was in turn followed by Stephen Cutler, who now serves as general counsel for JP Morgan Chase. Next came Linda

Chatman Thomsen, who stepped down to join Davis Polk, only to be succeeded in 2009 by Khuzami, Walker's former protégé at Deutsche Bank.

This merry-go-round of current and former enforcement directors has repeatedly led to accusations of improprieties. In 2008, in a case cited by the SEC inspector general, Thomsen went out of her way to pass along valuable information to Cutler, the former enforcement director who had gone to work for JP Morgan. According to the inspector general, Thomsen signaled Cutler that the SEC was unlikely to take action that would hamper JP Morgan's move to buy up Bear Stearns. In another case, the inspector general found, an assistant director of enforcement was instrumental in slowing down an investigation into the $7 billion Ponzi scheme allegedly run by Texas con artist R. Allen Stanford – and then left the SEC to work for Stanford, despite explicitly being denied permission to do so by the agency's ethics office. "Every lawyer in Texas and beyond is going to get rich on this case, OK?" the official later explained. "I hated being on the sidelines."

Small wonder, then, that SEC staffers often have trouble getting their bosses to approve full-blown investigations against even the most blatant financial criminals. For a fledgling MUI to become a formal investigation, it has to make the treacherous leap from the lower rungs of career-level staffers like Flynn all the way up to the revolving-door level at the top, where senior management is composed largely of high-priced appointees from the private sector who have strong social and professional ties to the very banks they are charged with regulating. And if senior management didn't approve an investigation, the documents often wound up being destroyed – as Flynn would later discover.

After the Deutsche fiasco over Bankers Trust, Flynn continued to work at the SEC for four more years. He briefly left the agency to dabble in real estate, then returned in 2008 to serve as an attorney in the enforcement division. In January 2010, he accepted new responsibilities that included helping to manage the disposition of records for the division – and it was then he first became aware of the agency's possibly unlawful destruction of MUI records.

Flynn discovered a directive on the enforcement division's internal website ordering staff to destroy "any records obtained in connection" with closed MUIs. The directive appeared to violate federal law, which gives responsibility for maintaining and destroying all records to the National Archives and Records Administration. Over a decade earlier, in fact, the SEC had struck a deal with NARA stipulating that investigative records were to be maintained for 25 years – and that if any files were to be destroyed after that, the shredding was to be done by NARA, not the SEC.

But Flynn soon learned that the records for thousands of preliminary investigations no longer existed. In his letter to Congress, Flynn estimates that the practice of destroying MUIs had begun as early as 1993, and has resulted in at least 9,000 case files being destroyed. For all the thousands of tips that had come in to the SEC, and the thousands of interviews that had been conducted by the agency's staff, all that remained were a few perfunctory lines for each case. The mountains of evidence gathered were no longer in existence.

To read through the list of dead and buried cases that Flynn submitted to Congress is like looking through an infrared camera at a haunted house of the financial crisis, with the ghosts of missed prosecutions flashing back and forth across the screen. A snippet of the list:

PARTY	MUI #	OPENED/CLOSED	ISSUE
Goldman Sachs	MLA-01909	6/99 - 4/00	Market Manipulation
Deutsche Bank	MHO-09356	11/01 - 7/02	Insider Trading
Deutsche Bank	MHO-09432	2/02 - 8/02	Market Manipulation
Lehman Brothers	MNY-07013	3/02 - 7/02	Financial Fraud
Goldman Sachs	MNY-08198	11/09 - 12/09	Insider Trading

One MUI – case MNY-08145 – involved allegations of insider trading at AIG on September 15th, 2008, right in the middle of the insurance giant's collapse. In that case, an AIG employee named Jacqueline Millan reported irregularities in the trading of AIG stock to her superiors, only to find herself fired. Incredibly, instead of looking into the matter itself, the SEC agreed to accept "an internal investigation by outside counsel or AIG." The last note in the file indicates that "the staff plans to speak with the outside attorneys on Monday, August 24th [2009], when they will share their findings with us." The fact that the SEC trusted AIG's lawyers to investigate the matter shows the basic bassackwardness of the agency's approach to these crash-era investigations. The SEC formally closed the case on October 1st, 2009.

The episode with AIG highlights yet another obstacle that MUIs experience on the road to becoming formal investigations. During the past decade, the SEC routinely began allowing financial firms to investigate themselves. Imagine the LAPD politely asking a gang of Crips and their lawyers to issue a report on whether or not a drive-by shooting by the Crips should be brought before a grand jury – that's basically how the SEC now handles many preliminary investigations against Wall Street targets.

The evolution toward this self-policing model began in 2001, when a shipping and food-service conglomerate called Seaboard aggressively investigated an isolated case of accounting fraud at one of its subsidiaries. Seaboard fired the guilty parties and made sweeping changes to its internal practices – and the SEC was so impressed that it instituted a new policy of giving "credit" to companies that police themselves. In practice, that means the agency simply steps aside and allows companies to slap themselves on the wrists. In the case against Seaboard, for instance, the SEC rewarded the firm by issuing no fines against it.

According to Lynn Turner, a former chief accountant at the SEC, the Seaboard case also prompted the SEC to begin permitting companies to hire their own counsel to conduct their own inquiries. At first, he says, the process worked fairly well. But then President Bush appointed the notoriously industry-friendly Christopher Cox to head up the SEC, and the "outside investigations" turned into whitewash jobs. "The investigations nowadays are probably not worth the money you spend on them," Turner says.

Harry Markopolos, a certified fraud examiner best known for sounding a famously unheeded warning about Bernie Madoff way back in 2000, says the SEC's practice of asking suspects to investigate themselves is absurd. In a serious investigation, he says, "the last person you want to trust is the person being accused or their lawyer." The practice helped Madoff escape for years. "The SEC took Bernie's word for everything," Markopolos says.

At the SEC, having realized that the agency was destroying documents, Flynn became concerned that he was overseeing an illegal policy. So in the summer of last year, he reached out to NARA, asking them for guidance on the issue.

That request sparked a worried response from Paul Wester, NARA's director of modern records. On July 29th, 2010, Wester sent a letter to Barry Walters, who oversees document requests for the SEC. "We recently learned from Darcy Flynn... that for the past 17 years the SEC has been destroying closed Matters Under Inquiry files," Wester wrote. "If you confirm that federal records have been destroyed improperly, please ensure that no further such disposals take place and provide us with a written report within 30 days."

Wester copied the letter to Adam Storch, a former Goldman Sachs executive who less than a year earlier had been appointed as managing executive of the SEC's enforcement division. Storch's appointment was not without controversy. "I'm not sure what's scarier," Daniel Indiviglio of *The Atlantic* observed, "that this guy worked at an investment bank that many believe has questionable ethics and too cozy a Washington connection, or that he's just 29." In any case, Storch reacted to the NARA letter the way the SEC often does – by circling the wagons and straining to find a way to blow off the problem without admitting anything.

Last August, as the clock wound down on NARA's 30-day deadline, Storch and two top SEC lawyers held a meeting with Flynn to discuss how to respond. Flynn's notes from the meeting, which he passed along to Congress, show the SEC staff wondering aloud if admitting the truth to NARA might be a bad idea, given the fact that there might be criminal liability.

"We could say that we do not believe there has been disposal inconsistent with the schedule," Flynn quotes Ken Hall, an assistant chief counsel for the SEC, as saying.

"There are implications to admit what was destroyed," Storch chimed in. It would be "not wise for me to take on the exposure voluntarily. If this leads to something, what rings in my ear is that Barry [Walters, the SEC documents officer] said: This is serious, could lead to criminal liability."

When the subject of how many files were destroyed came up, Storch answered: "18,000 MUIs destroyed, including Madoff."

Four days later, the SEC responded to NARA with a hilariously convoluted nondenial denial. "The Division is not aware of any specific instances of the destruction of records from any other MUI," the letter states. "But we cannot say with certainty that no such documents have been destroyed over the past 17 years." The letter goes on to add that "the Division has taken steps... to ensure that no MUI records are destroyed while we review this issue."

Translation: Hey, maybe records were destroyed, maybe they weren't. But if we did destroy records, we promise not to do it again – for now.

The SEC's unwillingness to admit the extent of the wrongdoing left Flynn in a precarious position. The agency has a remarkably bad record when it comes to dealing with whistle-blowers. Back in 2005, when Flynn's attorney, Gary Aguirre, tried to pursue an insider-trading case against Pequot Capital that involved John Mack, the future CEO of Morgan Stanley, he was fired by phone while on vacation. Two Senate committees later determined that Aguirre, who has since opened a private practice representing whistle-blowers, was dismissed improperly as part of a "process of reprisal" by the SEC. Two whistle-blowers in the Stanford case, Julie Preuitt and Joel Sauer, also experienced retaliation – including reprimands and demotions – after raising concerns about superficial investigations. "There's no mechanism to raise these issues at the SEC," says another former whistle-blower. Contacting the agency's inspector general, he adds, is considered "the nuclear option" – a move "well-known to be a career-killer."

In Flynn's case, both he and Aguirre tried to keep the matter in-house, appealing to SEC chairman Mary Schapiro with a promise not to go outside the agency if she would grant Flynn protection against reprisal. When no such offer was forthcoming, Flynn went to the agency's inspector general before sending a detailed letter about the wrongdoing to three congressional committees.

One of the offices Flynn contacted was that of Sen. Grassley, who was in the midst of his own battle with the SEC. Frustrated with the agency's failure to punish major players on Wall Street, the Iowa Republican had begun an investigation into how the SEC follows up on outside complaints. Specifically, he wrote a letter to FINRA, another regulatory agency, to ask how many complaints it had referred to the SEC about SAC Capital, the hedge fund run by reptilian billionaire short-seller Stevie Cohen.

SAC has long been accused of a variety of improprieties, from insider trading to harassment. But no charge in recent Wall Street history is crazier than an episode involving a SAC executive named Ping Jiang, who was accused in 2006 of enacting a torturous hazing program. According to a civil lawsuit that was later dropped, Jiang allegedly forced a new trader named Andrew Tong to take female hormones, come to work wearing a dress and lipstick, have "foreign objects" inserted in his rectum, and allow Jiang to urinate in his mouth. (I'm not making this up.)

Grassley learned that over the past decade, FINRA had referred 19 complaints about suspicious trades at SAC to federal regulators. Curious to see how many of those referrals had been looked into, Grassley wrote the SEC on May 24th, asking for evidence that the agency had properly investigated the cases.

Two weeks later, on June 9th, Khuzami sent Grassley a surprisingly brusque answer: "We generally do not comment on the status of investigations or related referrals, and, in turn, are not providing information concerning the specific FINRA referrals you identified." Translation: We're not giving you the records, so blow us.

Grassley later found out from FINRA that it had actually referred 65 cases about SAC to the SEC, making the lack of serious investigations even more inexplicable. Angered by Khuzami's response, he sent the SEC another letter on June 15th demanding an explanation, but no answer has been forthcoming.

In the interim, Grassley's office was contacted by Flynn, who explained that among the missing MUIs he had uncovered were at least three involving SAC – one in 2006, one in 2007 and one in 2010, involving charges of insider trading and currency manipulation. All three cases were closed by the SEC, and the records apparently destroyed.

On August 17th, Grassley sent a letter to the SEC about the Flynn allegations, demanding to know if it was indeed true that the SEC had destroyed records. He also asked if the agency's failure to produce evidence of investigations into SAC Capital were related to the missing MUIs.

The SEC's inspector general is investigating the destroyed MUIs and plans to issue a report. NARA is also seeking answers. "We've asked the SEC to look into the matter and we're awaiting their response," says Laurence Brewer, a records officer for NARA. For its part, the SEC is trying to explain away the illegality of its actions through a semantic trick. John Nester, the agency's spokesman, acknowledges that "documents related to MUIs" have been destroyed. "I don't have any reason to believe that it hasn't always been the policy," he says. But Nester suggests that such documents do not "meet the federal definition of a record," and therefore don't have to be preserved under federal law.

But even if SEC officials manage to dodge criminal charges, it won't change what happened: The nation's top financial police destroyed more than a decade's worth of intelligence they had gathered on some of Wall Street's most egregious offenders. "The SEC not keeping the MUIs – you can see why this would be bad," says Markopolos, the fraud examiner famous for breaking the Madoff case. "The reason you would want to keep them is to build a pattern. That way, if you get five MUIs over a period of 20 years on something similar involving the same company, you should be able to connect five dots and say, 'You know, I've had five MUIs – they're probably doing something. Let's go tear the place apart.'" Destroy the MUIs, and Wall Street banks can commit the exact same crime over and over, without anyone ever knowing.

Regulation isn't a panacea. The SEC could have placed federal agents on every corner of lower Manhattan throughout the past decade, and it might not have put a dent in the massive wave of corruption and fraud that left the economy in flames three years ago. And even if SEC staffers from top to bottom had been fully committed to rooting out financial corruption, the agency would still have been seriously hampered by a lack of resources that often forces it to abandon promising cases due to a shortage of manpower. "It's always a triage," is how one SEC veteran puts it. "And it's worse now."

But we're equally in the dark about another hypothetical. Forget about what might have been if the SEC had followed up in earnest on *all* of those lost MUIs. What if even a handful of them had turned into real cases? How many investors might have been saved from crushing losses if Lehman Brothers had been forced to reveal its shady accounting way back in 2002? Might the need for taxpayer bailouts have been lessened had fraud cases against Citigroup and Bank of

America been pursued in 2005 and 2007? And would the U.S. government have doubled down on its bailout of AIG if it had known that some of the firm's executives were suspected of insider trading in September 2008?

It goes without saying that no ordinary law-enforcement agency would willingly destroy its own evidence. In fact, when it comes to garden-variety crooks, more and more police agencies are catching criminals with the aid of large and well-maintained databases. "Street-level law enforcement is increasingly data-driven," says Bill Laufer, a criminology professor at the University of Pennsylvania. "For a host of reasons, though, we are starved for good data on both white-collar and corporate crime. So the idea that we would take the little data we do have and shred it, without a legal requirement to do so, calls for a very creative explanation."

We'll never know what the impact of those destroyed cases might have been; we'll never know if those cases were closed for good reasons or bad. We'll never know exactly who got away with what, because federal regulators have weighted down a huge sack of Wall Street's dirty laundry and dumped it in a lake, never to be seen again.

http://www.bloomberg.com/news/2011-08-21/wall-street-aristocracy-got-1-2-trillion-in-fed-s-secret-loans.html

Wall Street Aristocracy Got $1.2T in Secret Loans

Q

By Bradley Keoun and Phil Kuntz - Aug 21, 2011 7:01 PM ET

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The Federal Reserve provided as much as $1.2 tillion in public money to banks and other companies from August 2007 through April 2010 to head off a depression.
Source: Bloomberg

Q

Aug. 21 (Bloomberg) -- Robert E. Litan, a former Justice Department official who in the 1990s served on a commission probing the causes of the savings and loan crisis, now vice president at the Kansas City, Missouri-based Kauffman Foundation, Richard Herring, a finance professor at the University of Pennsylvania, Roger Lister, a former Fed economist who's now head of financial-institutions coverage at credit-rating firm DBRS Inc., and Kenneth Rogoff, a former chief economist at the International Monetary Fund and now an economics professor at Harvard University, talk about the U.S. government's $1.2 trillion bailout of the banking system and the outlook for regulatory overhaul of the industry. (Source: Bloomberg)

Morgan Stanley, along with Citigroup Inc., and Bank of America Corp., were the biggest borrowers under seven Fed emergency-lending programs. The three banks' combined $298.2 billion in hidden Fed loans was triple what they received in publicly disclosed bailouts from the U.S. Treasury.

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Bank of America Corp., along with Morgan Stanley and Citigroup Inc. was one of the biggest borrowers under the U.S. Federal Reserve's emergency-lending programs. The three banks' combined $298.2 billion in hidden Fed loans was triple what they received in publicly disclosed bailouts from the U.S. Treasury.

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Citigroup Inc., along with Morgan Stanley and Citigroup Inc., were the biggest borrowers under seven U.S. Federal Reserve emergency-lending programs. The three banks' combined $298.2 billion in hidden Fed loans was triple what they received in publicly disclosed bailouts from the U.S. Treasury.

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The Royal Bank of Scotland took $84.5 billion in loans from the U.S. Federal Reserve's emergency-lending programs.

The Royal Bank of Scotland took $84.5 billion in loans from the U.S. Federal Reserve's emergency-lending programs. Photographer: Simon Dawson/Bloomberg

UBS AG, Switzerland's biggest bank, got $77.2 billion in loans from the U.S. Federal Reserve's emergency-lending programs.

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Goldman Sachs Group Inc., the fifth-biggest U.S. bank by assets.

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U.S. Federal Reserve borrowings by Societe Generale SA, France's second-biggest bank, peaked at $17.4 billion in May 2008, four months after the Paris-based lender announced a record 4.9 billion-euro ($7.2 billion) loss on unauthorizedstock-index futures bets by former trader Jerome Kerviel.

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Two weeks after Lehman Brothers Holdings Inc.'s bankruptcy triggered a global credit crisis, Morgan Stanley countered concerns that it might be next to go by announcing it had 'strong capital and liquidity positions.'

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Chief executive officers from eight of the largest U.S. banks receiving government aid testify at a House Financial Services Committee hearing in Washington, D.C on Feb. 11, 2009.

Chief executive officers from eight of the largest U.S. banks receiving government aid testify at a House Financial Services Committee hearing in Washington, D.C on Feb. 11, 2009. Photographer: Brendan Smialowski/Bloomberg

The biggest borrowers under seven Fed emergency-lending programs were Morgan Stanley, Citigroup Inc., and Bank of America Corp.The three banks' combined $298.2 billion in hidden Fed loans was triple what they received in publicly disclosed bailouts from the U.S. Treasury.

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Citigroup Inc. (C) and Bank of America Corp. (BAC) were the reigning champions of finance in 2006 as home prices peaked, leading the 10 biggest U.S. banks and brokerage firms to their best year ever with $104 billion of profits.

By 2008, the housing market's collapse forced those companies to take more than six times as much, $669 billion, in emergency loans from the U.S. Federal Reserve. The loans dwarfed the $160 billion in public bailouts the top 10 got from the U.S. Treasury, yet until now the full amounts have remained secret.

Fed Chairman Ben S. Bernanke's unprecedented effort to keep the economy from plunging into depression included lending banks and other companies as much as $1.2 trillion of public money, about the same amount U.S. homeowners currently owe on 6.5 million delinquent and foreclosed mortgages. The largest borrower, Morgan Stanley (MS), got as much as $107.3 billion, while Citigroup took $99.5 billion and Bank of America $91.4 billion, according to a Bloomberg News compilation of data obtained through Freedom of Information Act requests, months of litigation and an act of Congress.

"These are all whopping numbers," said Robert Litan, a former Justice Department official who in the 1990s served on a commission probing the causes of the savings and loan crisis. "You're talking about the aristocracy of American finance going down the tubes without the federal money."

Foreign Borrowers

It wasn't just American finance. Almost half of the Fed's top 30 borrowers, measured by peak balances, were European firms. They included Edinburgh-based Royal Bank of Scotland Plc, which took $84.5 billion, the most of any non-U.S. lender, and Zurich-based UBS AG (UBSN), which got $77.2 billion. Germany's Hypo Real Estate

Holding AG borrowed $28.7 billion, an average of $21 million for each of its 1,366 employees.

The largest borrowers also included Dexia SA (DEXB), Belgium's biggest bank by assets, and Societe Generale SA, based in Paris, whose bond-insurance prices have surged in the past month as investors speculated that the spreading sovereign debt crisis in Europe might increase their chances of default.

The $1.2 trillion peak on Dec. 5, 2008 -- the combined outstanding balance under the seven programs tallied by Bloomberg -- was almost three times the size of the U.S. federal budget deficit that year and more than the total earnings of all federally insured banks in the U.S. for the decade through 2010, according to data compiled by Bloomberg.

Peak Balance

The balance was more than 25 times the Fed's pre-crisis lending peak of $46 billion on Sept. 12, 2001, the day after terrorists attacked the World Trade Center in New York and the Pentagon. Denominated in $1 bills, the $1.2 trillion would fill 539 Olympic-size swimming pools.

The Fed has said it had "no credit losses" on any of the emergency programs, and a report by Federal Reserve Bank of New York staffers in February said the central bank netted $13 billion in interest and fee income from the programs from August 2007 through December 2009.

"We designed our broad-based emergency programs to both effectively stem the crisis and minimize the financial risks to the U.S. taxpayer," said James Clouse, deputy director of the Fed's division of monetary affairs in Washington. "Nearly all of our emergency-lending programs have been closed. We have incurred no losses and expect no losses."

While the 18-month U.S. recession that ended in June 2009 after a 5.1 percent contraction in gross domestic product was nowhere near the four-year, 27 percent decline between August 1929 and March 1933, banks and the economy remain stressed.

Odds of Recession

The odds of another recession have climbed during the past six months, according to five of nine economists on the Business Cycle Dating Committee of the National Bureau of Economic Research, an academic panel that dates recessions.

Bank of America's bond-insurance prices last week surged to a rate of $342,040 a year for coverage on $10 million of debt, above where Lehman Brothers Holdings Inc. (LEHMQ)'s bond insurance was priced at the start of the week before the firm collapsed. Citigroup's shares are trading below the split-adjusted price of $28 that they hit on the day the bank's Fed loans peaked in January 2009. The U.S. unemployment rate was at 9.1 percent in July, compared with 4.7 percent in November 2007, before the recession began.

Homeowners are more than 30 days past due on their mortgage payments on 4.38 million properties in the U.S., and 2.16 million more properties are in foreclosure, representing a combined $1.27 trillion of unpaid principal, estimates Jacksonville, Florida-based Lender Processing Services Inc.

Liquidity Requirements

"Why in hell does the Federal Reserve seem to be able to find the way to help these entities that are gigantic?" U.S. Representative Walter B. Jones, a Republican from North Carolina, said at a June 1 congressional hearing in Washington on Fed lending disclosure. "They get help when the average businessperson down in eastern North Carolina, and probably across America, they can't even go to a bank they've been banking with for 15 or 20 years and get a loan."

The sheer size of the Fed loans bolsters the case for minimum liquidity requirements that global regulators last year agreed to impose on banks for the first time, said Litan, now a vice president at the Kansas City, Missouri-based Kauffman

Foundation, which supports entrepreneurship research. Liquidity refers to the daily funds a bank needs to operate, including cash to cover depositor withdrawals.

The rules, which mandate that banks keep enough cash and easily liquidated assets on hand to survive a 30-day crisis, don't take effect until 2015. Another proposed requirement for lenders to keep "stable funding" for a one-year horizon was postponed until at least 2018 after banks showed they'd have to raise as much as $6 trillion in new long-term debt to comply.

'Stark Illustration'

Regulators are "not going to go far enough to prevent this from happening again," said Kenneth Rogoff, a former chief economist at the International Monetary Fund and now an economics professor at Harvard University.

Reforms undertaken since the crisis might not insulate U.S. markets and financial institutions from the sovereign budget and debt crises facing Greece, Ireland and Portugal, according to the U.S. Financial Stability Oversight Council, a 10-member body created by the Dodd-Frank Act and led by Treasury Secretary Timothy Geithner.

"The recent financial crisis provides a stark illustration of how quickly confidence can erode and financial contagion can spread," the council said in its July 26 report.

Any new rescues by the U.S. central bank would be governed by transparency laws adopted in 2010 that require the Fed to disclose borrowers after two years.

21,000 Transactions

Fed officials argued for more than two years that releasing the identities of borrowers and the terms of their loans would stigmatize banks, damaging stock prices or leading to depositor runs. A group of the biggest commercial banks last year asked the U.S. Supreme Court to keep at least some Fed borrowings secret. In March, the high court declined to hear that appeal, and the central bank made an unprecedented release of records.

Data gleaned from 29,346 pages of documents obtained under the Freedom of Information Act and from other Fed databases of more than 21,000 transactions make clear for the first time how deeply the world's largest banks depended on the U.S. central bank to stave off cash shortfalls. Even as the firms asserted in news releases or earnings calls that they had ample cash, they drew Fed funding in secret, avoiding the stigma of weakness.

Morgan Stanley Borrowing

Two weeks after Lehman's bankruptcy in September 2008, Morgan Stanley countered concerns that it might be next to go by announcing it had "strong capital and liquidity positions." The statement, in a Sept. 29, 2008, press release about a $9 billion investment from Tokyo-based Mitsubishi UFJ Financial Group Inc., said nothing about Morgan Stanley's Fed loans.

That was the same day as the firm's $107.3 billion peak in borrowing from the central bank, which was the source of almost all of Morgan Stanley's available cash, according to the lending data and documents released more than two years later by the Financial Crisis Inquiry Commission. The amount was almost three times the company's total profits over the past decade, data compiled by Bloomberg show.

Mark Lake, a spokesman for New York-based Morgan Stanley, said the crisis caused the industry to "fundamentally re- evaluate" the way it manages its cash.

"We have taken the lessons we learned from that period and applied them to our liquidity-management program to protect both our franchise and our clients going forward," Lake said. He declined to say what changes the bank had made.

Acceptable Collateral

In most cases, the Fed demanded collateral for its loans -- Treasuries or corporate bonds and mortgage bonds that could be seized and sold if the money wasn't repaid. That meant the central bank's main risk was that collateral pledged by banks that collapsed would be worth less than the amount borrowed.

As the crisis deepened, the Fed relaxed its standards for acceptable collateral. Typically, the central bank accepts only bonds with the highest credit grades, such as U.S. Treasuries. By late 2008, it was accepting "junk" bonds, those rated below investment grade. It even took stocks, which are first to get wiped out in a liquidation.

Morgan Stanley borrowed $61.3 billion from one Fed program in September 2008, pledging a total of $66.5 billion of collateral, according to Fed documents. Securities pledged included $21.5 billion of stocks, $6.68 billion of bonds with a junk credit rating and $19.5 billion of assets with an "unknown rating," according to the documents. About 25 percent of the collateral was foreign-denominated.

'Willingness to Lend'

"What you're looking at is a willingness to lend against just about anything," said Robert Eisenbeis, a former research director at the Federal Reserve Bank of Atlanta and now chief monetary economist in Atlanta for Sarasota, Florida-based Cumberland Advisors Inc.

The lack of private-market alternatives for lending shows how skeptical trading partners and depositors were about the value of the banks' capital and collateral, Eisenbeis said.

"The markets were just plain shut," said Tanya Azarchs, former head of bank research at Standard & Poor's and now an independent consultant in Briarcliff Manor, New York. "If you needed liquidity, there was only one place to go."

Below Market Rates

While the Fed's last-resort lending programs generally charge above-market interest rates to deter routine borrowing, that practice sometimes flipped during the crisis. On Oct. 20, 2008, for example, the central bank agreed to make $113.3 billion of 28-day loans through its Term Auction Facility at a rate of 1.1 percent, according to a press release at the time.

The rate was less than a third of the 3.8 percent that banks were charging each other to make one-month loans on that day. Bank of America and Wachovia Corp. each got $15 billion of the 1.1 percent TAF loans, followed by Royal Bank of Scotland's RBS Citizens NA unit with $10 billion, Fed data show.

JPMorgan Chase & Co. (JPM), the New York-based lender that touted its "fortress balance sheet" at least 16 times in press releases and conference calls from October 2007 through February 2010, took as much as $48 billion in February 2009 from TAF. The facility, set up in December 2007, was a temporary alternative to the discount window, the central bank's 97-year-old primary lending program to help banks in a cash squeeze.

'Larger Than TARP'

Goldman Sachs Group Inc. (GS), which in 2007 was the most profitable securities firm in Wall Street history, borrowed $69 billion from the Fed on Dec. 31, 2008. Among the programs New York-based Goldman Sachs tapped after the Lehman bankruptcy was the Primary Dealer Credit Facility, or PDCF, designed to lend money to brokerage firms ineligible for the Fed's bank-lending programs.

Michael Duvally, a spokesman for Goldman Sachs, declined to comment.

The Fed's liquidity lifelines may increase the chances that banks engage in excessive risk-taking with borrowed money, Rogoff said. Such a phenomenon, known as moral hazard, occurs if banks assume the Fed will be there when they need it, he said. The size of bank borrowings "certainly shows the Fed bailout was in many ways much larger than TARP," Rogoff said.

TARP is the Treasury Department's Troubled Asset Relief Program, a $700 billion bank-bailout fund that provided capital injections of $45 billion each to Citigroup and Bank of America, and $10 billion to Morgan Stanley. Because most of the Treasury's investments were made in the form of preferred stock, they were considered riskier than the Fed's loans, a type of senior debt.

Dodd-Frank Requirement

In December, in response to the Dodd-Frank Act, the Fed released 18 databases detailing its temporary emergency-lending programs.

Congress required the disclosure after the Fed rejected requests in 2008 from the late Bloomberg News reporter Mark Pittman and other media companies that sought details of its loans under the Freedom of Information Act. After fighting to keep the data secret, the central bank released unprecedented information about its discount window and other programs under court order in March 2011.

Bloomberg News combined Fed databases made available in December and July with the discount-window records released in March to produce daily totals for banks across all the programs, including the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, Commercial Paper Funding Facility, discount window, PDCF, TAF, Term Securities Lending Facility and single-tranche open market operations. The programs supplied loans from August 2007 through April 2010.

Rolling Crisis

The result is a timeline illustrating how the credit crisis rolled from one bank to another as financial contagion spread.

Fed borrowings by Societe Generale (GLE), France's second-biggest bank, peaked at $17.4 billion in May 2008, four months after the Paris-based lender announced a record 4.9 billion-euro ($7.2 billion) loss on unauthorized stock-index futures bets by former trader Jerome Kerviel.

Morgan Stanley's top borrowing came four months later, after Lehman's bankruptcy. Citigroup crested in January 2009, as did 43 other banks, the largest number of peak borrowings for any month during the crisis. Bank of America's heaviest borrowings came two months after that.

Sixteen banks, including Plano, Texas-based Beal Financial Corp. and Jacksonville, Florida-based EverBank Financial Corp., didn't hit their peaks until February or March 2010.

“At no point was there a material risk to the Fed or the taxpayer, as the loan required collateralization,” said Reshma Fernandes, a spokeswoman for EverBank, which borrowed as much as $250 million.

Using Subsidiaries

Banks maximized their borrowings by using subsidiaries to tap Fed programs at the same time. In March 2009, Charlotte, North Carolina-based Bank of America drew $78 billion from one facility through two banking units and $11.8 billion more from two other programs through its broker-dealer, Bank of America Securities LLC.

Banks also shifted balances among Fed programs. Many preferred the TAF because it carried less of the stigma associated with the discount window, often seen as the last resort for lenders in distress, according to a January 2011 paper by researchers at the New York Fed.

After the Lehman bankruptcy, hedge funds began pulling their cash out of Morgan Stanley, fearing it might be the next to collapse, the Financial Crisis Inquiry Commission said in a January report, citing interviews with former Chief Executive Officer John Mack and then-Treasurer David Wong.

Borrowings Surge

Morgan Stanley’s borrowings from the PDCF surged to $61.3 billion on Sept. 29 from zero on Sept. 14. At the same time, its loans from the Term Securities Lending Facility, or TSLF, rose to $36 billion from $3.5 billion. Morgan Stanley treasury reports released by the FCIC show the firm had $99.8 billion of liquidity on Sept. 29, a figure that included Fed borrowings.

“The cash flow was all drying up,” said Roger Lister, a former Fed economist who’s now head of financial-institutions coverage at credit-rating firm DBRS Inc. in New York. “Did they have enough resources to cope with it? The answer would be yes, but they needed the Fed.”

While Morgan Stanley's Fed demands were the most acute, Citigroup was the most chronic borrower among the largest U.S. banks. The New York-based company borrowed $10 million from the TAF on the program's first day in December 2007 and had more than $25 billion outstanding under all programs by May 2008, according to Bloomberg data. By Nov. 21, when Citigroup began talks with the government to get a $20 billion capital injection on top of the $25 billion received a month earlier, its Fed borrowings had doubled to about $50 billion.

Tapping Six Programs

Over the next two months the amount almost doubled again. On Jan. 20, as the stock sank below $3 for the first time in 16 years amid investor concerns that the lender's capital cushion might be inadequate, Citigroup was tapping six Fed programs at once. Its total borrowings amounted to more than twice the federal Department of Education's 2011 budget.

Citigroup was in debt to the Fed on seven out of every 10 days from August 2007 through April 2010, the most frequent U.S. borrower among the 100 biggest publicly traded firms by pre- crisis market valuation. On average, the bank had a daily balance at the Fed of almost $20 billion.

"Citibank basically was sustained by the Fed for a very long time," said Richard Herring, a finance professor at the University of Pennsylvania in Philadelphia who has studied financial crises.

Jon Diat, a Citigroup spokesman, said the bank made use of programs that "achieved the goal of instilling confidence in the markets."

Bank of America's Lawyers Knew AIG Was Ready To Sue For $10 Billion 6 Months Ago

Linette Lopez | **Aug. 30, 2011, 3:19 PM** | **182** | **3**

Bank of America's lawyers were aware that AIG was prepared to file a $10 billion lawsuit against the institution as early as 7 months before its filing, Reuters reports.

Bank of America made no mention of the suit in its quarterly SEC filing, which was released on August 4th. It didn't say anything of a potential suit on conference calls, either.

But on August 8th, AIG filed suit, Bank of America's stock plummeted, and the rest is history (or $5 billion in preferred stock for Warren Buffett).

Lawyers disagree as to whether Bank of America was obliged to report the lawsuit, as SEC rules on the matter are vague. But according to Richard Rowe, the former Director of the SEC's Division of Corporate Finance, while bank's get to make a judgment call on whether or not to report, if the accusation is "material" and there's "a number on it", it should be reported.

So then, the question becomes, "what is material"? The SEC hasn't forced any of of America's six largest banks to disclose detailed information about lawsuits in their early stages.

That means shareholders can either sell in the early days of trouble, or hang on and see what happens. In Bank of America's case, we know what choice they made

Read more: http://www.businessinsider.com/bank-of-americas-lawyers-knew-aig-was-ready-to-sue-as-early-as-january-2011-8#ixzz1WXrLG6kt

Goldman Sachs Sets Pact With Fed, N.Y. to Complete Litton Sale

Sept. 1 (Bloomberg) -- Goldman Sachs Group Inc. agreed to pay future Federal Reserve penalties and write down $53 million of mortgage loans in New York to gain approval for its sale of Litton Loan Servicing LP.

The Fed ordered Goldman Sachs to conduct an independent review of Litton's foreclosures in 2009 and 2010 to address a "pattern of misconduct and negligence," the regulator said today in a statement. Litton's sale to Ocwen Financial Corp. was completed today after reaching accords with the Fed and New York state regulators, according to a Goldman Sachs statement.

Goldman Sachs leaves mortgage servicing after Litton was accused of robo-signing, in which foreclosure documents are signed by company officials who vouch for their accuracy without personally verifying the contents. The practice raised concern that some borrowers may have been wrongfully evicted and triggered calls for more staffing and oversight.

“Our agreement sets a new higher standard for the residential mortgage-servicing industry, whose troubling foreclosure and servicing practices we have been investigating along with other regulators across the country,” Benjamin Lawsky, superintendant at the New York State Department of Financial Services, said in a statement.

Mortgage servicers send out bills, collect payments and handle foreclosures. New York-based Goldman Sachs acquired Houston-based Litton with 1,000 employees in 2007, took a writedown of about $200 million earlier this year and agreed in June to sell the unit to Ocwen for $263.7 million. The value of mortgage servicing companies has been eroded as record U.S. foreclosures and delinquencies drove up costs.

Review Findings

Ocwen, based in West Palm Beach, Florida, will also pay about $337.4 million to retire some of Litton’s debt.

Goldman Sachs agreed to provide the Fed with findings of the independent review as well as its plans to reimburse customers for fees or losses stemming from improper foreclosures, according to the settlement. The firm also agreed to improve compliance and borrower communications should it re- enter the business.

“The review is intended to provide remediation to borrowers who suffered financial injury as a result of wrongful foreclosures or other deficiencies identified in a review of the foreclosure process,” according to the Fed’s statement.

Future Penalties

Goldman Sachs also agreed to pay any penalty the Fed imposes on Litton based on today’s enforcement action. The regulator said it plans penalties for Litton as well as other large servicers, including Bank of America Corp. and JPMorgan Chase & Co., which received enforcement actions in April.

Attorneys general from all 50 states last year announced their investigation into bank foreclosure practices after reports that faulty or manufactured documents were being used to seize homes. Since then, a group of attorneys general and officials from federal agencies, including the Justice Department, have been negotiating a settlement with the nation’s five largest mortgage servicers.

The New York agreement requires the companies to withdraw pending foreclosures with robo-signed affidavits and compensate borrowers whose homes were wrongfully foreclosed, according to the statement. The $53 million represents 25 percent of unpaid principal for all 60-day delinquent home loans serviced by Litton.

Ocwen is getting a portfolio of loans with about $41.2 billion in unpaid principal balance as of March 31, most of them non-prime home mortgages, according to a June filing.

Possible Pattern

Goldman Sachs's agreement to reduce unpaid principal in the New York accord is "the most specific we've seen," said Guy Cecala, publisher of Bethesda, Maryland-based trade publication Inside Mortgage Finance. While the need for sale approval and small size of Litton may limit the comparability with other potential settlements, the deal may give some insight to how future deals could be structured, he said.

"In Goldman's case, this is a cost of doing business in terms of getting this deal done," Cecala said. "This is a blueprint for what the states are looking for: potentially some lump sum that they can use to help out borrowers who are in trouble, regardless of whether or not they've suffered any foreclosure abuse."

U.S. Is Set to Sue a Dozen Big Banks Over Mortgages

By NELSON D. SCHWARTZ

Published: September 1, 2011

The federal agency that oversees the mortgage giants Fannie Mae and Freddie Mac is set to file suits against more than a dozen big banks, accusing them of misrepresenting the quality of mortgage securities they assembled and sold at the height of the housing bubble, and seeking billions of dollars in compensation.

Joshua Lott for The New York Times

- **Bank of America Corporation**
- **Citigroup Inc**
- **Goldman Sachs Group Inc**
- **JPMorgan Chase & Company**
- **Deutsche Bank AG**
- **American International Group Inc**
- **Federal Home Loan Mortgage Corp (Freddie Mac)**
- **UBS AG**
- **Federal National Mortgage Association Fannie Mae**

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Andrew Harrer/Bloomberg News

Edward DeMarco of the Federal Housing Finance Agency.

The Federal Housing Finance Agency suits, which are expected to be filed in the coming days in federal court, are aimed at Bank of America, JPMorgan Chase, Goldman Sachs and Deutsche Bank, among others, according to three individuals briefed on the matter.

The suits stem from subpoenas the finance agency issued to banks a year ago. If the case is not filed Friday, they said, it will come Tuesday, shortly before a deadline expires for the housing agency to file claims.

The suits will argue the banks, which assembled the mortgages and marketed them as securities to investors, failed to perform the due diligence required under securities law and missed evidence that borrowers' incomes were inflated or falsified. When many borrowers were unable to pay their mortgages, the securities backed by the mortgages quickly lost value.

Fannie and Freddie lost more than $30 billion, in part as a result of the deals, losses that were borne mostly by taxpayers.

In July, the agency filed suit against UBS, another major mortgage securitizer, seeking to recover at least $900 million, and the individuals with knowledge of the case said the new litigation would be similar in scope.

Private holders of mortgage securities are already trying to force the big banks to buy back tens of billions in soured mortgage-backed bonds, but this federal effort is a new chapter in a huge legal fight that has alarmed investors in bank shares. In this case, rather than demanding that the banks buy back the original loans, the finance agency is seeking reimbursement for losses on the securities held by Fannie and Freddie.

The impending litigation underscores how almost exactly three years after the collapse of Lehman Brothers and the beginning of a financial crisis caused in large part by subprime lending, the legal fallout is mounting.

Besides the angry investors, 50 state attorneys general are in the final stages of negotiating a settlement to address abuses by the largest mortgage servicers, including Bank of America, JPMorgan and Citigroup. The attorneys general, as well as federal officials, are pressing the banks to pay at least $20 billion in that case, with much of the money earmarked to reduce mortgages of homeowners facing foreclosure.

And last month, the insurance giant American International Group filed a $10 billion suit against Bank of America, accusing the bank and its Countrywide Financial and Merrill Lynch units of misrepresenting the quality of mortgages that backed the securities A.I.G. bought.

Bank of America, Goldman Sachs and JPMorgan all declined to comment. Frank Kelly, a spokesman for Deutsche Bank, said, “We can’t comment on a suit that we haven’t seen and hasn’t been filed yet.”

But privately, financial service industry executives argue that the losses on the mortgage-backed securities were caused by a broader downturn in the economy and the housing market, not by how the mortgages were originated or packaged into securities. In addition, they contend that investors like A.I.G. as well as Fannie and Freddie were sophisticated and knew the securities were not without risk.

Investors fear that if banks are forced to pay out billions of dollars for mortgages that later defaulted, it could sap earnings for years and contribute to further losses across the financial services industry, which has only recently regained its footing.

Bank officials also counter that further legal attacks on them will only delay the recovery in the housing market, which remains moribund, hurting the broader economy. Other experts warned that a series of adverse settlements costing the banks billions raises other risks, even if suits have legal merit.

The housing finance agency was created in 2008 and assigned to oversee the hemorrhaging government-backed mortgage companies, a process known as conservatorship.

“While I believe that F.H.F.A. is acting responsibly in its role as conservator, I am afraid that we risk pushing these guys off of a cliff and we’re going to have to bail out the banks again,” said Tim Rood, who worked at Fannie Mae until 2006 and is now a partner at the Collingwood Group, which advises banks and servicers on housing-related issues

Bank Probe in Stanford Case

Prosecutors Are Investigating Whether Societe Generale Ignored Suspicious Transactions

By **MICHAEL ROTHFELD**

SEPTEMBER 16, 2011

The Justice Department is investigating whether French bank Société Générale SA helped facilitate Texas financier R. Allen Stanford's alleged $7 billion Ponzi scheme by ignoring suspicious transactions, people familiar with the matter said.

At issue is a Swiss bank account held by one of Mr. Stanford's companies at SG Private Banking (Suisse) SA, a Société Générale subsidiary, that was allegedly funded with investors' money and used to make payments into Mr. Stanford's personal accounts and for bribes to his Antiguan auditor. Prosecutors in the criminal probe are examining whether Société Générale failed to follow due diligence procedures or to ask questions about irregular banking activity, the people familiar with the matter said.

Mr. Stanford, 61 years old, was accused by federal prosecutors and the Securities and Exchange Commission in 2009 of fabricating high returns to lure investors around the world to buy about $7 billion worth of certificates of deposit from Stanford International Bank Ltd. in Antigua, the island where he was knighted.

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- **Stanford Says He Has Lost Memory**

"Sir Allen," as he was sometimes known, spent millions to travel by private jet, sponsor cricket matches, and buy real estate in the Caribbean and elsewhere. He has pleaded not guilty to charges of fraud, conspiracy and obstruction in Texas.

In a court filing in Mr. Stanford's criminal case last year, federal prosecutors wrote that he "secretly funneled more than $100 million of investors' money through his numbered Société Générale account in Switzerland to his personal bank accounts for the payment of bribes and lavish personal expenditures."

That the bank is a focus of prosecutors' interest hasn't previously been disclosed.

SG Private Banking (Suisse) "has received requests for documents and other information" related to Mr. Stanford from the Justice Department, a Société Générale spokesman said in a statement. He said the bank is cooperating but will not comment further because it is an ongoing investigation.

Enlarge Image

Close

European Pressphoto Agency

R. Allen Stanford at the federal courthouse in Houston in April 2010.

If the Justice Department concludes that the bank turned a blind eye to potential criminal activity, that could be a basis for a prosecution under the federal anti-money laundering statute, the Bank Secrecy Act, or other conspiracy or fraud charges, lawyers not involved in the case said. A Justice Department spokeswoman declined to comment. However, defense lawyers say it would be highly unusual to criminally prosecute a bank for facilitating a fraud based on the failures of its employees to uncover it. "At that level, prosecutions are reserved for the bad actor, unless you are prepared to say that the bank has a systemic problem and is corrupt at its core," said Robert W. Ray, a white collar defense lawyer at Pryor Cashman LLP.

People familiar with the matter said the focus for prosecutors is trying Mr. Stanford and any action against the bank is likely to wait until after the proceedings involving Mr. Stanford are finished. His case has been on hold as aA judge is expected to determine in the coming months whether he is competent to stand trial.

The probe shows that after more than two years investigators are still trying to unravel the global fraud allegedly carried out by Mr. Stanford and his associates. Mr. Stanford's companies utilized accounts at several Swiss banks, according to court documents and people familiar with the matter.

The investor money that prosecutors allege was siphoned off by Mr. Stanford for bribes and other purposes through Société Générale related to an SG Private Banking account numbered 108731 in the name of Stanford Financial Group, a parent entity for the many Stanford companies. The Swiss account was allegedly funded with investor money transferred from Stanford International Bank accounts, according to the people familiar with the situation and records filed in court.

Prosecutors have said that 108731 was a "secret account" because it wasn't included in the Stanford corporate accounting system, and because only Mr. Stanford and his chief financial officer, James Davis, had access to it. The account was overseen by Blaise Friedli, an SG Private Banking executive vice president in Lausanne, Switzerland, who Mr. Stanford named to his company's "international advisory board," according to a corporate newsletter filed in court.

A former lawyer for Mr. Stanford, Dick DeGuerin, said at a 2009 hearing that 108731 was "not a secret bank account," and that records would show funds didn't go to Mr. Stanford, "but were used within the

Stanford companies." Mr. Davis has pleaded guilty to criminal charges and is cooperating with authorities. Mr. Friedli didn't respond to requests for comment.

Some of the investor money in the 108731 account was used for allegedly illegal transactions, prosecutors have said in filings and in court. Mr. Stanford also used investor funds in the 108731 account as collateral for a $95 million loan Société Générale gave him around 2004, according to people familiar with the situation. Money from the loan was allegedly spent on bribes and transferred into Mr. Stanford's personal accounts, the people familiar with the matter said.

In December 2008, as his alleged scheme began to fall apart amid investor redemptions, Mr. Stanford's company authorized the bank to take the funds that were used as collateral out of the 108731 account to repay the loan, the people said.

Prosecutors are investigating whether Société Générale did proper due diligence on the loan to Mr. Stanford and how it was spent, and why the bank didn't identify or report that investor money was being used for suspicious transactions, the people said.

A lawyer for Mr. Stanford, Ali Fazel, declined to discuss the case or the Société Générale accounts, citing a gag order. "We disagree with the government's theory of the case and we are looking forward to the trial to be able to show that," Mr. Fazel said.

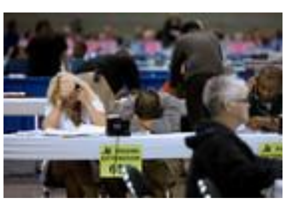
Mr. Davis regularly corresponded with Mr. Friedli, making written requests for wire transfers of millions of dollars to Mr. Stanford's personal accounts, and payments of up to $125,000 to the Antiguan auditor's accounts in London and the British Virgin Islands, court filings show. Prosecutors have said in court filings that the payments to the auditor were bribes.

A phone number for the auditor, CAS Hewlett & Co., has been disconnected. The owner of the company, Charles Hewlett, died in 2009.

Mortgage Debacle Costs Banks $66 Billion

Q

By James Sterngold - Sep 16, 2011 12:00 AM ET

Enlarge image 

Matthew Staver/Bloomberg

Homeowners seeking to modify their mortgages speak with loan servicers at the Neighborhood Assistance Corp. of America's (NACA) "Save-the-Dream Tour" at the Colorado Convention Center in Denver on June 9, 2011.

Homeowners seeking to modify their mortgages speak with loan servicers at the Neighborhood Assistance Corp. of America's (NACA) "Save-the-Dream Tour" at the Colorado Convention Center in Denver on June 9, 2011. Photographer: Matthew Staver/Bloomberg

Faulty mortgages and foreclosure abuses have cost the nation's five biggest home lenders at least $65.7 billion, according to a tally by Bloomberg News, and new claims may push the industrywide total to twice that amount.

Bank of America Corp. (BAC), the largest U.S. lender, had the biggest costs, totaling $39.1 billion since the start of 2007, according to data compiled by Bloomberg. JPMorgan Chase & Co. (JPM), ranked second by assets, followed with $16.3 billion, and Wells Fargo & Co. (WFC), the biggest U.S. home lender, had $5.09 billion, the data show.

The costs have eclipsed predictions from bankers and analysts that lenders would suffer only modest damage from what Bank of America Chief Executive Officer Brian T. Moynihan has called "the mortgage mess." Paul Miller, the FBR Capital Markets & Co. analyst, said costs for all banks could surpass $121 billion as the bill comes due for lax lending practices.

"You're not talking about improperly stapling together two documents, you're talking about systematic fraud in the system," Neil Barofsky, the former special inspector general for the U.S. Treasury's Troubled Asset Relief Program, said in an interview. "What this shows is that before the financial crisis, the banks were essentially lying to the purchasers of the mortgages about the quality."

What's Included

Bloomberg's tally was compiled from regulatory filings, company statements and financial presentations by the nation's five biggest mortgage lenders. The data cover provisions and expenses attributable to repurchases, foreclosure errors and abuses, payments to reimburse investors for lost value on faulty mortgages, legal settlements and litigation expenses.

The compilation also includes writedowns of assets, such as mortgage servicing rights, when the company attributed the loss in value to problems in mortgage underwriting or foreclosures and the costs of remedies. The figures may increase as more detailed breakdowns become available.

Miller, a former bank examiner, previously said costs might range from $54 billion to $106 billion for the banking industry. Under his new $121 billion estimate, which covers only repurchase costs, Bank of America, Wells Fargo, JPMorgan and Ally Financial Inc. will bear 60 percent of the burden, with Bank of America alone paying 33 percent.

Ally, previously known as GMAC Inc., has been hit with $3.28 billion in costs. The Detroit-based financer of auto loans and leases lost $10.3 billion in 2009 and required a government bailout totaling more than $17 billion, largely due to losses from its Residential Capital mortgage unit. Ally is now 74 percent owned by the U.S. Treasury Department.

Adding Up

Costs at Citigroup Inc. (C), ranked third by assets among U.S. lenders, totaled $1.9 billion. The New York-based lender needed a $45 billion bailout as bad bets on subprime loans drove the company to post a 2008 net loss of $27.7 billion. The bailout has since been repaid.

"We have been diligent in settling claims related to the mortgage business, where appropriate," said Gina Proia, a spokeswoman for Ally. "We believe we are appropriately reserved based on what we know today and what we are able to estimate."

Shannon Bell at Citigroup, Thomas Kelly at JPMorgan and Richele Messick at Wells Fargo declined to comment on the data.

Most of Bank of America's costs have been tied to mortgages written by Countrywide Financial Corp., the leading subprime lender, which Bank of America rescued from collapse in 2008.

“The reserves that we have established are part of the effort to address legacy and Countrywide issues and put them behind us,” said Jerry Dubrowski, a Bank of America spokesman.

Guarantees Offered

Banks typically made home loans and bundled them into securities sold to private investors and government-backed enterprises. They usually offered “representations and warranties” in which lenders promised to buy back the mortgages or cover losses if the loans turned out to be based on inaccurate or missing data on criteria such as the borrower’s income, the property’s value or whether it would be used as a primary residence.

“The impact of the reps and warranties was completely underestimated for a long time,” said Laurie Goodman, a senior managing director at Amherst Securities Group LP in New York who specializes in mortgage-backed securities. “It’s not anymore.”

Actions that may boost the total costs include the Federal Housing Finance Agency’s Sept. 2 lawsuit against 17 firms, which cited possible defects in $196 billion of mortgage securities bought by the Washington-based Fannie Mae and Freddie Mac, based in McLean, Virginia. FHFA became the conservator for Fannie Mae and Freddie Mac following government takeovers in the 2008 credit crisis.

AIG Lawsuit

Last month, American International Group Inc. (AIG) filed a suit against Bank of America for more than $10 billion, alleging fraud. The bank denied AIG’s allegation and blamed the New York- based insurer for the problems.

“AIG recklessly chased high yields and profits throughout the mortgage and structured finance markets,” said Larry DiRita, a Bank of America spokesman. “It is the very definition of an informed, seasoned investor, with losses solely attributable to its own excesses and errors.”

As for foreclosures, banks are negotiating a settlement with state attorneys general that may be valued at $20 billion. All 50 states are investigating whether banks relied on inaccurate, inadequate or missing documents to seize homes.

Success by claimants could push the costs for errors and misrepresentations to more than $100 billion, said Robert Litan, a vice president of research and policy at the Kansas City, Missouri-based Kauffman Foundation, which promotes entrepreneurial activity.

What Went Wrong

"As large as that number is, it's a small fraction of the overall economic damage that the crisis and these mortgages caused to the economy," said Litan, who was on a commission that investigated the savings and loan crisis in the 1980s. "There were trillions of dollars of damage."

The FHFA lawsuit cited the prospectus for one mortgage- backed security underwritten by Bank of America entities, which said no loans were larger than the underlying value of the homes. In fact, 11 percent of loans sampled by the agency fit that description, the suit said. Another securitization said 4.45 percent of the homes weren't owner-occupied, while the true percentage was 15.27 percent, according to the suit.

Fannie Mae and Freddie Mac "acknowledged that their losses in the mortgaged-backed securities market were due to the unprecedented downturn in housing prices and other economic factors," said DiRita at Bank of America.

The industry-wide errors "were not minor slip-ups," said Peter Swire, a law professor at Ohio State University in Columbus, Ohio, and until last year a special assistant to President Barack Obama for economic policy. "Our biggest banks were talking homeowners into taking some of these bad loans at the front end and then dumping fraudulent loans on investors at the back end."

Selling Contracts

Moynihan at Bank of America has said the lender will sell some of its contracts to handle billings, collections and foreclosures on home loans, and JPMorgan will reduce its remaining mortgage portfolio “until it’s close to zero,” Chief Executive Officer Jamie Dimon told analysts on a July 14 conference call.

JPMorgan liabilities could swell if it’s forced to bear the cost of bad loans made by Washington Mutual Inc., according to the bank’s regulatory filings. JPMorgan acquired most of WaMu’s assets from the Federal Deposit Insurance Corp. in 2008 after the Seattle-based company became the biggest bank to fail in U.S. history.

WaMu sold securitized mortgages to investors that might be subject to repurchase demands, according to JPMorgan. While the bank contends the FDIC would be responsible for the costs, the agency contested that position and the dispute hasn’t been resolved, according to a July 14 JPMorgan presentation.

More Claims

Analysts have predicted banks will face more claims if home prices continue to decline and foreclosures keep rising. Default notices sent to overdue U.S. homeowners surged 33 percent in August from the previous month, and total foreclosure filings increased 7 percent, according to a Sept. 15 report from RealtyTrac Inc., the Irvine, California-based data seller.

Collectively, that leaves investors with little certainty on how big the tally may become, according to Barofsky, the former TARP official and now a senior fellow and adjunct professor at the New York University School of Law.

“I don’t think anyone knows where the bottom is for all these costs,” he said.

- SEPTEMBER 16, 2011, 10:38 A.M. ET

UBS Trader Charged With Fraud

By **CASSELL BRYAN-LOW** And **PAUL SONNE**

LONDON—Police in the U.K. have charged Kweku Adoboli, the London trader arrested in the investigation into the $2 billion of losses at Swiss bank UBS AG, with fraud.

Sarah Ainslie

UBS said its London employee Kweku Adoboli, shown here in 2010, allegedly lost $2 billion of the bank's money in unauthorized trades.

City of London Police, who arrested Mr. Adoboli early Thursday morning, said Friday that they have charged the 31-year-old with committing fraud by abusing his position and false accounting. He faces three fraud charges in total, one of which relates to abuse of position and two relate to false accounting.

He remained in police custody as of early Friday afternoon and is due to appear at City of London Magistrates court later Friday. Police added their investigation is continuing.

Mr. Adoboli is being represented by lawyer Michael Caplan at Kingsley Napley LLP, a London-based law firm that also represented Nick Leeson, the former trader who sunk Britain's oldest merchant bank, Barings, in 1995.

Mr. Caplan couldn't immediately be reached for comment. A spokeswoman for the law firm confirmed they are acting for him but declined to comment on the charges.

UBS declined to comment. The Swiss bank is enlisting the help of law firm Herbert Smith LLP to help investigate the matter. A spokesman for Herbert Smith, which has a long relationship with UBS, declined to comment.

Bad Bets, Big Losses

A look at traders known for bad bets, including Nick Leeson.

View Interactive

Mike Clarke/Agence France-Presse/Getty Images

Mr. Adoboli's arrest came as UBS said Thursday that a rogue trader racked up as much as $2 billion in losses using the firm's own money, a dramatic admission that raised new questions about the ability of one of the world's largest banks to manage risk and global regulators' ability to monitor it.

Risk-control officers at UBS discovered unauthorized trades allegedly made by Mr. Adoboli, who in turn admitted to having made the trades, according to a person familiar with the situation. The 31-year-old Mr. Adoboli worked on a UBS desk in London dealing with exchange-traded funds.

UBS discovered the loss late Wednesday, although it isn't clear when the bank's risk-control department first became suspicious about the trades, according to a person familiar with the matter. On Wednesday, risk-control officers began questioning Mr. Adoboli, who then left UBS's London office for his home.

From there, this person said, Mr. Adoboli sent an email to managers at the bank admitting that he had made the unauthorized trades.

[redacted]

Since the news broke, questions have emerged about the efficacy of UBS's risk-management and risk-control systems, which were overhauled in the three years since the Swiss bank had to write down $50 billion in securities trades. The loss is a major embarrassment for a bank that was still working to win back client confidence following its near-collapse at the height of the financial crisis in 2008. Swiss regulators have closely watched developments at the bank since then, with a keen eye on how it

Now Every Single Bad Thing About UBS Will Come Out

Julia La Roche | **Sep. 21, 2011, 11:42 AM**

Read more: http://www.businessinsider.com/ubs-rogue-trading-scandal-fallout-2011-9-21#ixzz1YbXHhPYU

In the wake of the $2.3 billion alleged rogue trading scandal that has rocked UBS, it appears the dirt on the already embattled Swiss bank is starting to come out of the woodwork.

“Now that the machine has got going, every single bad thing is going to come out,” Fred Ponzo, a capital markets adviser at Greyspark Partners in London, told Bloomberg BusinessWeek.

BusinessWeek has already dug up one dirty secret involving the former CEO of UBS's wealth management division in London.

John Pottage, the ex-CEO of UBS's wealth management division in London, was stripped of his leadership role in August 2008.

At the time it wasn't clear why he was ousted, but it may have been due to his failure to ensure proper risk management. Eventually everyone forgot about it, but now it's coming back to haunt the firm again.

Pottage, who was authorized by the Financial Services Authority until December 2008, is planning to challenge the U.K. financial regulatory body at a court hearing in November over a fine from the agency for not making sure his division had risk controls to prevent unauthorized trades dating back to 2006, the report said.

From BusinessWeek:

The FSA fined UBS 8 million pounds ($12.5 million) in 2009, at the time the third-largest penalty imposed by the regulator, for failing to prevent employees in the international wealth-management business from making as many as 50 unauthorized trades a day with funds from at least 39 customer accounts. The case is an example of UBS failing to police errant trading in London years before the bank said this week it lost $2.3 billion from unauthorized trades.

Interesting: Pottage now works in risk management for UBS in Zurich, the report said

Read more: http://www.businessinsider.com/ubs-rogue-trading-scandal-fallout-2011-9-21#ixzz1YbX8VLWZ

SEC Charges Former Goldman Employee Spencer Mindlin With Insider Trading With His Father

Courtney Comstock | **Sep. 21, 2011, 2:14 PM** | **286** |

A Goldman Sachs employee on the firm's Delta One desk allegedly tipped his father after finding out that Goldman was about to participate in a big ETF deal.

The SEC just charged 33-year old Spencer Mindlin with insider trading, alleging that he tipped his dad after he found out that his employer, Goldman Sachs, had plans to purchase and sell securities underlying XRT, the S&P Retail Index.

Once he found out about the deal -- and pumped a Goldman employee on the floor of the NYSE for info -- he and his dad traded the stock via TD Ameritrade, according to recorded phone conversations and emails that the SEC cites in their lawsuit.

Here's how he pumped the Goldman employee at the NYSE for info, according to the SEC:

On December 17, 2007 at 1:30 p.m., Spencer Mindlin emailed a Goldman employee on the floor of the New York Stock Exchange, asking “you got 10 min to talk about this rebal trade?” The email further stated that Spencer Mindlin “just want[ed] to better understand how we put together the rebalance trade and the piece to short in advance.”

This is the first ETF insider trading case, says the SEC.

Mindlin hasn't been an employee at Goldman since August 2009. He started at the firm in June 2001, first as an analyst at the predecessor to Goldman Sachs Execution & Clearing desk, the firm Spear, Leeds & Kellogg from June 2001. In 2009 he left to launch an equity derivative swap execution facility called eDeriv with a Goldman colleague, Jason Yoong-Hendricks. At the time Mindlin told Derivatives Week they picked the niche area based out of necessity they saw in the market.

“There is currently no electronic platform for dealers to effectively make markets in these products.” Mindlin said. “[Our platform], eDEX Crossing allows dealers to trade with guaranteed anonymity, in smaller sizes, with greater frequency and at tighter spreads.” There was no specific timeline for the launch. said, launching the first equity derivative swap execution facility, called eDeriv. The facility will focus on dealer-to-dealer over-the- counter delta one swaps such as exchange-traded fund swaps and total return index swaps.

From the SEC's press release:

The Securities and Exchange Commission today charged a former Goldman, Sachs & Co. employee and his father with insider trading on confidential information about Goldman’s trading strategies and intentions that he learned while working on the firm’s exchange-traded funds (ETF) desk.

The SEC’s Division of Enforcement alleges that **Spencer D. Mindlin obtained non-public details about Goldman’s plans to purchase and sell large amounts of securities underlying the SPDR S&P Retail ETF** (XRT).

He tipped his father Alfred C. Mindlin, a CPA. Father and son then illegally traded in four different securities underlying the XRT with knowledge of massive, market-moving trades in these securities that Goldman would later execute.

The case marks the SEC’s first insider trading enforcement action involving ETFs.

“With his father’s helping hand, Spencer Mindlin exploited his inside knowledge of Goldman’s complex hedging strategies to line his own pockets,” said George S. Canellos, Director of the SEC’s New York Regional Office.

Sanjay Wadhwa, Associate Director of the SEC’s New York Regional Office and Deputy Chief of the Market Abuse Unit, added, “We are aggressively working to identify and prosecute illegal insider trading across multiple markets and derivatives products regardless of the complexity of the trading pattern that we have to unravel in our investigations.”

According to the SEC's order instituting proceedings against the Mindlins, the insider trading occurred in December 2007 and March 2008. Goldman was the largest institutional holder of the XRT in order to allow its customers to short the XRT. To hedge its long position in the XRT, Goldman shorted the individual securities underlying the XRT.

The SEC’s Division of Enforcement alleges that **by virtue of his position on Goldman’s ETF desk, Spencer Mindlin knew Goldman’s current nonpublic position in the XRT** and Goldman’s nonpublic plans to trade large amounts of securities underlying the XRT in order to hedge its position in the XRT. Spencer and Alfred Mindlin began purchasing and selling the four individual securities underlying the XRT within months after Spencer Mindlin joined Goldman’s ETF desk. They placed almost all of their trades in a brokerage account in the name of another family member. Spencer Mindlin failed to disclose his and his father’s trading to Goldman.

According to the SEC’s order, Spencer Mindlin learned on multiple occasions about Goldman’s trading intentions through e-mail communications he received shortly before he and his father placed their trades.

In one instance when **Alfred Mindlin phoned TD Ameritrade to upgrade the family member’s account to allow for the trading of options**, he received a call on another line from Spencer Mindlin while on hold with the TD Ameritrade representative. Because the TD Ameritrade call was recorded, Spencer and Alfred Mindlin’s conversation discussing a trade was captured on tape. In later instances, Spencer Mindlin impersonated his father on at least four calls to TD Ameritrade. **On one call, he instructed the firm not to execute a trade too early in the day because this would "chew into my profit – my profit on this trade."**

Read more: http://www.businessinsider.com/spencer-mindlin-insider-trading-2011-9#ixzz1YcBcJUu6

Hedge Fund Sues Morgan Stanley Over Sino-Forest Options Deal

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By Kit Chellel - Sep 23, 2011 5:50 AM ET

Hedge fund Oasis Management LLC sued Morgan Stanley for C$9.5 million ($9.3 million) over options in Sino-Forest Corp. (TRE) bought before the Toronto-listed timber company's stock plunged 71 percent in two days in June.

Morgan Stanley failed to settle the options contracts in an effort to "limit its liability," Oasis said in a lawsuit filed in London in July. Hong Kong-based Oasis bought options to sell Sino-Forest at C$19 on May 12, three weeks before shares fell to C$5.22 on allegations it had overstated forestry holdings.

Shares in Sino-Forest have fallen 74 percent since June 1, the day before short-seller Carson Block's Muddy Waters LLC research firm said the company had overstated its holdings. While investors including hedge fund manager John Paulson and billionaire Richard Chandler took losses when Sino-Forest shares sank, holders of put contracts could reap returns from selling stock at prices far above the present value.

The Oasis deal will cost Morgan Stanley (MS) C$7.5 million to settle, the hedge fund said it its court filing. The put options are valued at C$9.5 million, compared with C$2 million for the equivalent shares, it said in the lawsuit. Oasis paid Morgan Stanley a premium of C$770,000 for the options in May.

New York-based Morgan Stanley claimed the options were terminated because trading in Sino-Forest's shares was suspended, Oasis lawyers said in the filing. The bank offered Oasis C$3.8 million to cancel the deal, the hedge fund said in the lawsuit.

Morgan Stanley spokesman Michael Wang declined to comment yesterday. Katie Bolton, a Hong Kong-based spokeswoman for Oasis, declined to comment.

The Ontario Securities Commission halted trading in Sino- Forest on Aug. 26, saying the company appeared to have misrepresented its sales and timber stocks.

Sino-forest, which last traded at C$4.81 on Aug. 25, has set up an independent committee to examine the allegations in the Muddy Waters report. The company's chief executive officer Allen Chan resigned on Aug 28.

- OCTOBER 4, 2011

Capital Gains

Hedge Funds Pay Top Dollar for Washington Intelligence

By **BRODY MULLINS** And **SUSAN PULLIAM**

WASHINGTON—At a breakfast fund-raiser last year at the Liaison Capitol Hill hotel, former lobbyist Paul Equale pulled up a chair next to Sen. Richard Durbin. As they chatted, the Illinois Democrat told him about a recent breakthrough in his efforts to push through a bill to cap debit-card fees.

Melissa Golden for The Wall Street Journal

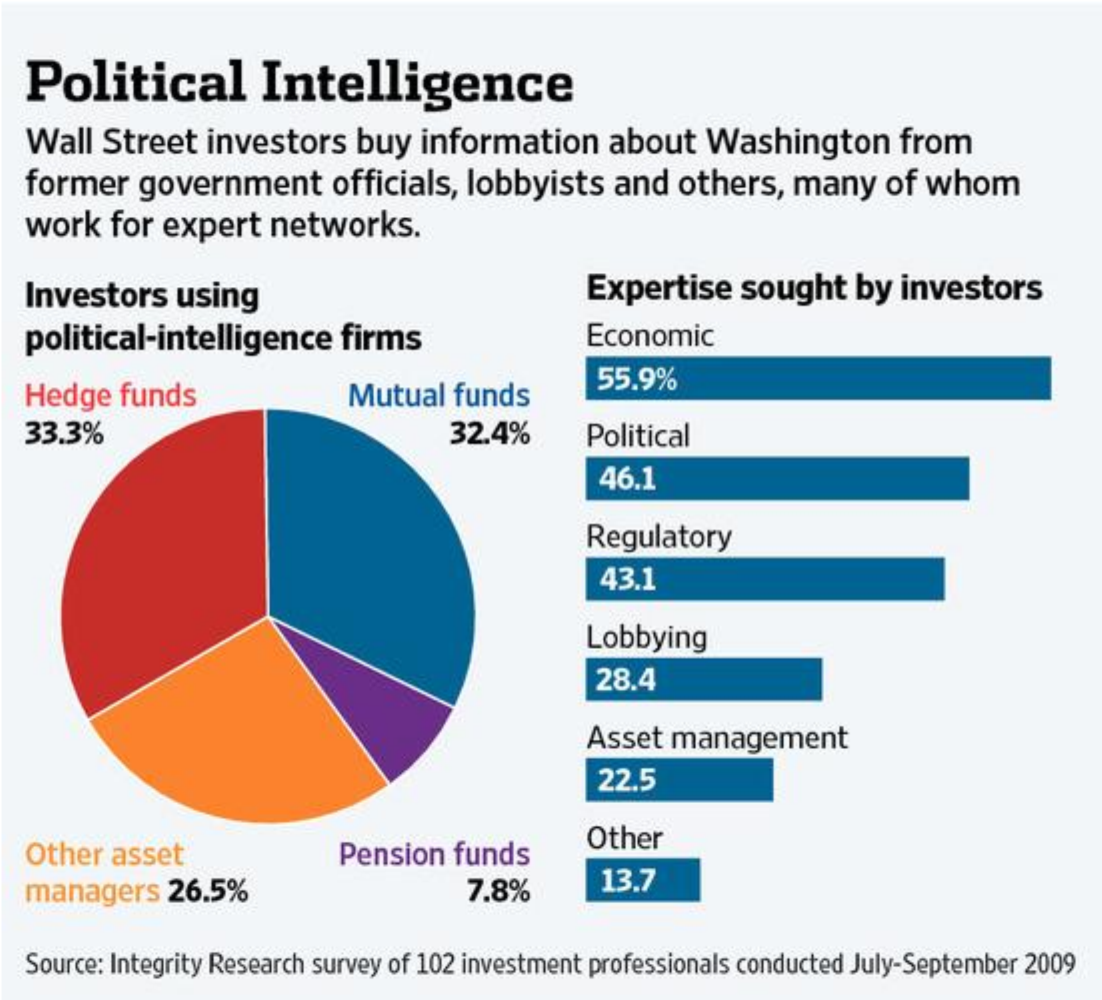
Paul Equale is a consultant for a firm that connects Wall Street investors with Washington insiders.

In Washington, such shop talk between political insiders is so routine that it hardly warrants mention. For Mr. Equale, however, it yields intelligence that fetches good money on Wall Street.

Mr. Equale works as a consultant for Gerson Lehrman Group Inc., which connects Wall Street investors hungry for information with Washington insiders who possess it. After hobnobbing with Mr. Durbin, Mr. Equale shared his conclusions about the debit-card legislation with hedge funds including Perry Capital and Jana Partners. Both funds subsequently traded in the stocks of Visa Inc. and MasterCard Inc., according to regulatory filings. It is unclear what role Mr. Equale's report played in their investment decisions.

Information about what's happening in Washington is at a premium on Wall Street these days. Government regulatory changes and economic initiatives following the 2008 financial crisis have affected numerous industries, and even minor shifts in policy can be of interest to hedge-fund managers. When the health-care bill was snaking its way through Congress in 2009, for example, hedge funds wanted to know about every twist and turn. They followed the debt-ceiling showdown over the summer just as closely.

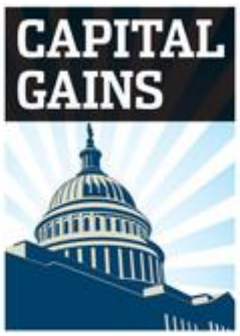
Keen for information about what's happening behind the scenes, hedge funds have been drilling ever deeper into the government. Thousands of political insiders are being paid by hedge funds, private-equity firms and other big investors. Former Federal Reserve Chairman Alan Greenspan, for example, is an adviser to Paulson & Co., and former Treasury Secretary John Snow works for Cerberus Capital Management. SAC Capital Advisors and Eton Park Capital Management have hired former congressional staffers.



Some investment groups contract with lobbyists to pass along information they pick up during conversations with lawmakers, congressional aides and other government officials. "I have information from doing my day job as a lobbyist," explains one lobbyist. "That information has value on Wall Street. So I sell it."

Securities laws generally prohibit trading on the basis of material nonpublic information about public companies, if the person with access to the information has a duty to keep it secret. Expert networks that traffic in corporate information have attracted government scrutiny. Prosecutors have charged five consultants at Primary Global Research LLC, an expert-network firm in Mountain View, Calif., with violating those prohibitions.

Securities laws don't, however, bar most political insiders from sharing nonpublic information about government affairs. On the contrary, part of the job of lawmakers, staffers and lobbyists is to discuss policy options and pending legislation with anyone who might be considered an interested party. "A legislator normally talks to a lobbyist without any expectation that the information will be kept confidential," says Karl Groskaufmanis, a lawyer at Fried, Frank, Harris, Shriver & Jacobson LLP in Washington who focuses on securities regulations.



"The ultimate [investing edge] is insider information, so you want to get as close to the line as possible without crossing the line," says Sanford Bragg, chief executive officer of Integrity Research Associates LLC, which evaluates investment-research firms. "That's why Washington is so interesting—because there is no line."

Insider-trading rules are more restrictive in the Executive Branch, but enforcement is difficult. Over the years, there have only been a few insider-trading cases involving nonpublic information from federal agencies. Federal prosecutors recently charged a chemist at the Food and Drug Administration with trading on inside information about drug-approval decisions that moved pharmaceutical stocks.

Political "expert networks" like the one Mr. Equale works for have emerged as a big business. Companies like Gerson Lehrman, Coleman Research Group Inc. and Public Insight LP offer investors the chance to talk one-on-one with any of a roster of experts on various aspects of government. More than 2,000 people work for expert-network companies in the capital.

The political-intelligence industry has become a roughly $100-million a year business in Washington, according to Integrity Research Associates.

Gerson Lehrman, the largest expert-network firm, says political consulting is growing. The firm has assembled a global roster of more than 300,000 experts on a wide variety of subjects. Hedge funds and other investors pay up to $240,000 a year for unlimited access to the Washington experts. Most Gerson experts, who aren't technically employees, charge between $200 and $1,000 per hour to talk to clients.

Mr. Equale, who is 60 years old, runs a small consulting firm that, among other things, helps companies navigate regulatory channels in Washington. He has been in Washington since the 1970s, when he worked for the Energy Department during the Carter administration. He served as a top lobbyist for an association of insurance agents before going out on his own. Over the years, he has donated personally more than $70,000, mostly to Democrats.

His work for Gerson Lehrman, which began in 2005, is a side job—a lucrative one. Gerson pays him $600 an hour for passing information and advice to Wall Street investors. He has done that some 650 times, he says, earning himself about $400,000. "It's put my kids through college," he says. On one particularly good day in spring 2010, he earned $5,200 in a few hours during a break from his vacation at his beach house on the Outer Banks of North Carolina.

One day recently, Mr. Equale logged on to his laptop, called up a private Gerson Lehrman Web page and scrolled through a list of investors that had consulted him. Some are identified only by numbers, others by name: Goldman Sachs Group Inc. and hedge funds Och-Ziff Capital Management Group, Viking Global Investors and Third Point. Gerson's clients indicate online what kind of information they are looking for. Experts like Mr. Equale reply with information about their expertise and their backgrounds, and certify that they won't illegally divulge inside information. Investors decide to whom they want to speak.

Modern government is so complicated even the smartest people on Wall Street need an interpreter to fully understand the political discourse in Washington," Mr. Equale says. "I am their interpreter."

Last year, the financial-services industry was worried about an amendment being pushed by Mr. Durbin in the Senate to cap the fees banks and credit-card companies, including Visa and MasterCard, collect from retailers on debit-card purchases. Analysts warned that the provision, attached to a rewrite of financial regulation in the Senate but not the House, could cost the credit-card industry billions in debit-transaction revenue. It was pummeling the firms' share prices. Wall Street wanted more information about what to expect.

Mr. Equale paid $1,000 to attend a campaign fund-raiser in May 2010 for Senate Majority Leader Harry Reid, a Nevada Democrat. A number of senior Senate Democrats, including Mr. Durbin, attended.

When Mr. Equale sat down with Mr. Durbin, he says, the senator told him something not widely known at the time: His amendment was gaining traction with a crucial House lawmaker, Financial Services Committee Chairman Barney Frank (D., Mass.), who previously had publicly opposed the provision. A spokesman for Mr. Durbin said the senator doesn't recall the conversation.

Mr. Equale says he doesn't relay to investors details of his private conversations with politicians. Based in part on his talk with Mr. Durbin, he says, he concluded that the chances were good the fee-cap provision would become law, which would be bad news for credit-card companies.

In a flurry of calls following the event, Mr. Equale says, he shared his opinion with a number of hedge-fund analysts, including at Perry Capital and Jana Partners. Later, he says, he told hedge funds he thought the Fed would propose a tough fee cap at first, but would ultimately water it down.

Just how useful the funds regarded Mr. Equale's intelligence is difficult to know. At that time, markets appeared to have reached the conclusion—even without the information Mr. Equale gleaned from Mr. Durbin—that the fee-cap provision would pass in some form.

Shares of Visa and MasterCard dropped in December after the Fed initially proposed a tougher-than-expected cap. In the fourth quarter, Perry snapped up 400,000 shares of Visa and 90,000 of Mastercard, public filings indicate. Jana bought about 1.6 million shares of Visa.

The outlook brightened in the first quarter when lawmakers pressed the Fed to soften its proposal. Perry and Jana sold their positions in the first quarter of 2011, public filings show. In June, shares of Visa and MasterCard surged when the Fed's final rule set a less-restrictive fee cap of about 21 cents per transaction, almost double its initial proposal. Visa and MasterCard have been among the best performing stocks this year.

Late last year, Mr. Equale also doled out information about the likelihood of Congress legalizing gambling over the Internet. In 2006, Congress had essentially banned online gambling in the U.S. by prohibiting credit-card companies from processing payments from online gaming sites. Four years later, under pressure from the industry, including some U.S. casino companies, a House committee approved legislation to legalize Internet gambling. When Nevada's Mr. Reid, the Democratic leader of the Senate with close ties to the gaming industry, won a close re-election last year, many on Wall Street thought a bill was in the bag.

In December, Mr. Equale attended a small gathering Mr. Reid hosted for longtime supporters in Las Vegas. Although he didn't discuss the issue directly with the senator, he says, he talked about it with two top supporters whom Mr. Reid routinely consults.

According to Mr. Equale, they concluded that it wouldn't be politically smart for Mr. Reid to push for a vote at that time on a bill narrowly benefiting the gambling industry.

"Here is what [investors] didn't know and I did: Reid was never really going to do this," Mr. Equale says.

Mr. Equale shared that conclusion with hedge fund D.E. Shaw. Once again, it is unclear how the information factored into the fund's investment decisions. During the fourth quarter, the fund increased its holdings in MGM Resorts International to 304,529 shares, from 67,822 in the prior quarter. Shares of MGM jumped from $9 at the beginning of September to nearly $15 at the end of the year, due in large part to persistent rumors about the legislation, analysts say. Mr. Equale's prediction that the legislation wouldn't come to a vote proved correct, and shares of MGM trailed off to below $13 by the end of March.

In some cases, Mr. Equale's predictions are based on little more than his reading of how the politics of a situation will play out, something he calls "sniffing the air."

H&R Block Inc., the tax-preparation company, disclosed on Dec. 24 that an obscure government agency had blocked the line of credit it uses to fund "refund-anticipation loans" for customers—consumer loans that were under fire for their high interest rates. Investors figured the decision would hurt the company's earnings during the 2011 tax season, and shares fell 7% the first full trading day after the disclosure.

Mr. Equale figured the government would eventually allow H&R Block to replace the financing. Republicans had taken over control of the House and were unlikely, he thought, to allow a crackdown on the industry. The incoming chairman of the Senate Banking Committee, Sen. Tim Johnson, had a good relationship with the financial-services industry.

In a Jan. 17 phone call, Mr. Equale shared his views with Watershed Asset Management. During this year's first quarter, when H&R Block stock was trading as low as the low teens, Watershed bought 510,300 shares and an options contract to sell 510,300 shares at a future date at a predetermined price.

The stock began rising in early January and continued until April, partly due to the expectation that H&R Block would line up alternate financing. Since then, the stock has slipped, in part due to a settlement with regulators regarding its subprime lending business.

H&R Block announced on Sept. 13 that it won't offer refund-anticipation loans during next year's tax season.

Watershed sold its shares in the second quarter but continued to hold the options contract on 510,300 shares, according to the most recent public filings by the hedge fund.

That kind of insider's political perspective "is the sort of stuff they want," Mr. Equale says of investors. "I teach them how democracy works."

- OCTOBER 4, 2011, 5:18 P.M. ET

New York Sues BNY Mellon in Forex Case

By **CARRICK MOLLENKAMP**

New York's attorney general sued Bank of New York Mellon Corp. in state court Tuesday, alleging that one of the world's largest custody banks defrauded pension funds when it improperly charged for currency transactions.

In a civil complaint, New York Attorney General Eric Schneiderman says he is seeking nearly $2 billion—the amount that the bank had generated in profits in the alleged scheme.

The lawsuit is the latest legal threat to hit BNY Mellon over how it processed currency transactions. In August, attorneys general in Virginia and Florida sued the bank in legal claims that also allege improper pricing for currency transactions.

In the complaint, Mr. Schneiderman alleges that the bank fraudulently charged clients for foreign-exchange transactions for more than a decade by giving clients least-favorable exchange rates instead of doing as the bank had promised and providing competitive market rates.

"Entrusted by clients and client investment managers to buy and sell foreign currencies for them at or near the market rate at the time of the trades, (BNY Mellon) priced the transactions to their clients at the worst rate at which the currency had traded during the trading day rather than at the market rate," the lawsuit alleges.

A BNY Mellon spokesman said in a statement that the bank, which specializes in handling funds for financial institutions and corporations, will defend against the claim.

"We are extremely disappointed that the Attorney General has opted to bring a lawsuit based on a fundamental misunderstanding of the role of custodian banks and the operation of the global foreign currency market. Simply put, this is the kind of prosecutorial overreach that ill serves New York, New Yorkers and the pension funds that the Office of the New York Attorney General purports to represent," the statement said.

In pursuing his claim, Mr. Schneiderman is wielding a powerful 1921 New York state law called the Martin Act, according to the lawsuit. The law allows Mr. Schneiderman to pursue civil and criminal charges. In using the law, the attorney general doesn't have to prove intent to defraud, in contrast to federal securities laws.

The lawsuit was filed on behalf of the New York City Employees' Retirement System, the Teachers' Retirement System of the City of New York, the New York City Police Pension Fund, the New York City Fire Department Pension Fund and other retirement systems

Saturday, October 1st, 2011

Maui County Settles Dispute with Merrill Lynch Over Student Auction Rate Securities

WAILUKU, Maui, Hawaii – Mayor Alan Arakawa is pleased to announce that the County of Maui has reached a resolution regarding the purchase of $32 million in student loan auction rate securities from Merrill Lynch.

As part of the agreement with Corporation Counsel and Merrill Lynch, Pierce, Fenner & Smith Inc, Merrill Lynch has agreed to buy back the County's full investment. The issue has been ongoing ever since the County filed claims against Merrill Lynch with the Financial Industry Regulatory Authority (FINRA) along with a lawsuit against Merrill Lynch in federal court in February 2010.

"This resolution means the County can reinvest these funds short-term and later use them for our Capital Improvement Projects," said Mayor Arakawa. "This is all thanks to the hard work of Corporation Counsel Pat Wong along with support from Finance Director Danny Agsalog.

"We have a good team here and I'm proud of their work regarding this matter."

Wong said the following terms were reached as part of the agreement:

1) Merrill Lynch will buy at full par value, and with no loss to the principal amount of the County's investment, the $32 million of SLARS remaining in the County's Merrill Lynch account.

2) Merrill Lynch will pay the County of Maui $44,500.00 for the realized losses that resulted from the September 2009 sale of $12.2 million of SLARS at a discount to par value.

3) The County has released all pending claims against Merrill Lynch and any affiliated entities or individuals in connection with its investment in SLARS, and Merrill Lynch admits no wrongdoing.

4) Merrill Lynch and County of Maui will each be responsible for their own fees and costs in this matter, except Merrill Lynch will be responsible for the total amount of any FINRA fees and costs not already assessed by FINRA.

"I'd like to thank Merrill Lynch and their attorneys for helping us to resolve this matter once and for all," Wong said. "Their cooperation saved taxpayers time and money."

Finance Director Agsalog added that "The County's objectives in this case have always been safety and liquidity.

"I'm glad that we can put this in the past so that we can plan for the future."

Voting today on a more than $200 million settlemen

Oot 19, 2011

Shira Ovide

SEC commissioners are voting today on a more than $200 million settlement with Citigroup in connection with the bank's role in a $1 billion mortgage-bond deal called Class V Funding III.

Here is a look at how Citigroup's potential $200 million settlement stacks up against other Wall Street payouts in controversial CDO transactions:

Abacus 2007-AC1 Last year, Goldman Sachs agreed to pay $550 million to settle SEC charges that the firm misled clients by failing to disclose the role in Abacus played by John Paulson's hedge fund, which bet some of the assets in the CDO deal would fall in value.

Squared CDO 2007-1 J.P. Morgan in June agreed to pay $153.6 million to settle charges that the firm misled investors in a mortgage-backed securities transaction "just as the housing market was starting to plummet."

The SEC had said J.P. Morgan set up the $1.1 billion CDO deal without properly telling investors that hedge fund Magnetar helped select assets packed into the CDO, and had bet against more than half those assets.

Citigroup Nearing Roughly $300M SEC Settlement

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By Joshua Gallu - Oct 19, 2011 10:10 AM ET

Jason Alden/Bloomberg

Citigroup Inc. has agreed to pay close to $300 million to resolve U.S. Securities and Exchange Commission claims that it misled investors about a financial product linked to risky mortgages.

Citigroup Inc. has agreed to pay close to $300 million to resolve U.S. Securities and Exchange Commission claims that it misled investors about a financial product linked to risky mortgages. Photographer: Jason Alden/Bloomberg

Citigroup Inc. has agreed to pay close to $300 million to resolve U.S. Securities and Exchange Commission claims that it misled investors about a financial product linked to risky mortgages, according to a person with direct knowledge of the matter.

The settlement is subject to approval by the SEC commissioners, who are scheduled to vote on it today, the person said, declining to be identified because the matter isn't public. One Citigroup executive and an employee of another firm involved in the deal are also faulted in the case, the person said.

Danielle Romero-Apsilos, a spokeswoman for New York-based Citigroup, and SEC spokeswoman Florence Harmon declined to comment. The proposed settlement was reported earlier today by the Wall Street Journal.