

# Big Wall Street Banks Face Charges, Collapse

by Paul Gallagher

Sept. 6—After the Federal Housing Finance Agency (FHFA) on Sept. 1 charged 17 major financial firms with \$200 billion worth of blatant securities fraud, and demanded repayment with penalties, Wall Street commentators screamed, “the government is trying to break up the banks, stop lending, and force a recession.”

These claims are ridiculous: The Obama White House is fighting against the Glass-Steagall restoration which would break up the biggest banks; the banks themselves are not lending; and the economy is continuing to collapse into depression.

But in fact, if any chance remains to save the commercial-lending banking core of the system from the oncoming final trans-Atlantic debt blowout, Glass-Steagall restoration is the only action that could do it; and the FHFA suit is a warning that it must be done immediately. The suit could be the final blow that forces the reeling giant Bank of America into collapse, feeding the maelstrom that will take others down as well. Immediately after the FHFA suit, on Sept. 2, the Federal Reserve formally demanded that Bank of America tell the Fed what cards it had left to play, divisions to sell, etc., to avoid collapse.

But in fact, only the Congress has a card to play here: Restore Glass-Steagall, protect the depository core of commercial banks like BoA, while letting the speculative bonfires of their investment, securities, hedge fund, arbitrage, derivatives, etc., divisions burn. Taking that “no-bailout” action will soon be tested in the Bank of America case.

The FHFA was created as the conservator and regulator of the government mortgage enterprises Fannie Mae

and Freddie Mac, when those were nationalized in July 2008. During the mortgage bubble years 2002-07, Fannie and Freddie had bought and/or guaranteed some \$5 trillion in mortgage-backed securities (MBS) issued by the banks FHFA is now suing, and others. It was the biggest securities fraud in history. The MBS were based on millions of mortgage loans the banks had not underwritten (investigated for soundness), or whose “soundness” was deliberately fabricated and forged.

The banks created or bought mortgage companies; gave them huge “warehouse loans” to create and market mortgages so wildly inflated in size that vast numbers of them would never be repaid; they then bought the mortgages, and turned around and sold them as “toxic” securities to investors all over the world.

Fannie and Freddie were the biggest buyers and guarantors. As these MBS have collapsed in market value since 2007, they have taken the losses under an “unlimited” bailout by the Treasury—so far, about \$200 billion in U.S. taxpayer funds thrown down the gaping hole that Goldman Sachs et al. created.

The FHFA has now moved to stop absorbing those losses—which are accelerating again as the housing market goes through a new wave of collapse—by suing 17 banks for repayment of \$196 billion in fraudulent securities. This is only a fraction, clearly, only those MBS on which the fraud is most clearly and readily proven. But that fraction is enough to be Bank of America’s final blow.

JPMorgan Chase, Bank of America, Citigroup, Goldman Sachs, Merrill Lynch, Barclays, Nomura Holdings, HSBC, Société Générale, Credit Suisse, Deutsche Bank, and First Horizon National were sued in New York Federal court. Ally Financial (formerly GMAC), Countrywide Financial Corp., General Electric, and Morgan Stanley were sued in New York state court. Royal Bank of Scotland was sued in Federal court in Connecticut.

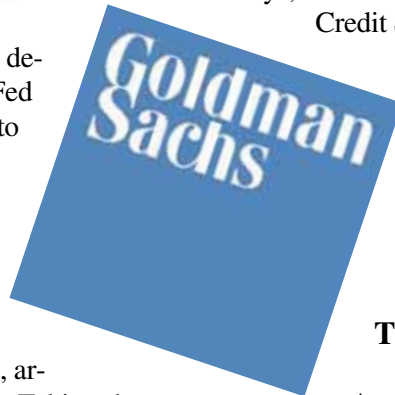
## The Glass-Steagall Connection

The filing makes clear that Bank of America receives the hardest blow, and why. BoA earned the massive losses it is now facing, by buying, in 2008, mortgage and securities firms which the Glass-Steagall Act did not allow a commercial bank to own, before it was disastrously repealed in 1999. The

Bank of America



Goldman Sachs



suit names just \$6 billion in fraudulent mortgage-backed securities bought by Fannie and Freddie from Bank of America itself; but \$24.8 billion were bought from its affiliate Merrill Lynch, and \$26.6 billion from the biggest, most criminal mortgage company, Countrywide Financial, which Bank of America took over.

This is a huge total of \$57.4 billion in losses facing a bank already desperately selling its holdings to raise capital to stave off collapse. The suit also immediately strengthens New York Attorney General Eric Schneiderman's intervention to block the \$8 billion "sweet-heart" settlement of another suit against Bank of America, which is now more likely to cost it \$35 billion.

BoA has just sold off half of its mortgage business and its investment in China's development company to raise \$11-12 billion in capital; but bank analysts say it needs to raise \$100-200 billion to survive, and its losses are constantly worsening. Its stock capital value has fallen on the market in recent weeks to below the liquidation value of the bank.

### The Notorious Goldman Sachs

The FHFA's hardest case for civil and criminal securities fraud, however, is against a non-bank financial firm—the notorious Goldman Sachs. With "Goldman Sucks," the amount of losses at issue is smaller (\$11.1 billion), but the crime is more blatant. Goldman in 2010 waged a fierce fight to get the SEC to drop its demand that Goldman admit to mortgage securities fraud, and the SEC finally settled for just a \$550 million fine. Now comes another open-and-shut criminal fraud suit against Goldman.

Goldman Sachs' mortgage, securities, and underwriting divisions ran every step of the fraudulent securitization of mortgages, and thus had complete knowledge that they were fraudulent when they sold them to Fannie and Freddie, pension funds, other private investors, etc. As the FHFA filing says, "Goldman Sachs knew ... that it was falsely representing the underlying process and riskiness of the mortgage loans ... because Goldman's longstanding relationships with the problematic originators [mortgage companies], and its numerous roles in the securitization chain, made it uniquely positioned to know the originators had abandoned their underwriting guidelines...."


Goldman funded the mortgage companies and largely controlled their "Wild West" mortgage selling and inflated home appraisals; it bought the mortgages; to cover itself, it funded third-party "due diligence" firms to in-

spect the mortgages to be securitized, but then ignored their findings when creating the MBS; it created the trusts and "special purpose vehicles" which sold the securities; it created, bought and sold credit derivatives contracts supposed to "insure" against the coming losses. And its divisions collected fat fees at every step.

All of this helped bring on the still-ongoing financial collapse. And none of this speculative debt gambling Goldman did, and does, should be recognized as protectable "banking activity" by the United States. It should all be left to blow out at Goldman's expense—and will be, with Glass-Steagall restored.

Yet with Glass-Steagall repealed, Goldman was rewarded in 2009 for these crimes with a \$25 billion TARP bailout; \$12.5 billion in the "AIG bailout"; hundreds of billions in Federal Reserve short-term loans under various Fed bailout windows; and the right to call itself a "bank holding company" and engage in commercial banking!

From Goldman, the FHFA is suing for the \$11.1 billion Fannie and Freddie spent, plus the amount of the losses they have absorbed, plus interest—a total which could reach \$20 billion.



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