

VIKRAM PANDIT'S MATERIAL MISTATEMENTS

It appears that Vikram Pandit's failure to disclose material problems with Citibank's valuation of its shitpile is another of the crimes we're supposed to look forward and ignore. Jonathan Weil looks at how one of the documents disclosed in the FCIC dump—a February 14, 2008 OCC report finding that Citibank's models for measuring the value of its shitpile were crap.

The gist of the regulator's findings: Citigroup's internal controls were a mess. So were its valuation methods for subprime mortgage bonds, which had spawned record losses at the bank. Among other things, "weaknesses were noted with model documentation, validation and control group oversight," the letter said. The main valuation model Citigroup was using "is not in a controlled environment." In other words, the model wasn't reliable.

That report was addressed to Vikram Pandit.

But eight days later, in the annual report that Pandit certified himself, Citibank made no mention of its shitpile valuation problems.

Eight days later, on Feb. 22, Citigroup filed its annual report to shareholders, in which it said "management believes that, as of Dec. 31, 2007, the company's internal control over financial reporting is effective." Pandit certified the report personally, including the part about Citigroup's internal controls. So did Citigroup's chief financial officer at the time, Gary Crittenden. The annual report also included a Feb. 22 letter from KPMG LLP,

Citigroup's outside auditor, vouching for the effectiveness of the company's financial-reporting controls. Nowhere did Citigroup or KPMG mention any of the problems cited by the OCC. KPMG, which earned \$88.1 million in fees from Citigroup for 2007, should have been aware of them, too. The lead partner on KPMG's Citigroup audit, William O'Mara, was listed on the "cc" line of the OCC's Feb. 14 letter.

Now, if DOJ actually want to jail a high level criminal, this is the kind of easy thing they ought to look into. And perhaps Pandit's failure to disclose Citi's problems modeling shitpile is one of the things FCIC referred to DOJ.

But I doubt it. Pandit's a former MOTU, after all, and MOTUs simply shouldn't be bothered with minor things like misleading stockholders.

HAMP II: THE \$20 BILLION GET OUT OF JAIL FREE CARD

A day after the Case-Shiller Index confirmed that the housing market is in a double dip, the Powers that Be (a subsidiary of the Masters of the Universe, currently CEOed by one Barack Obama) have floated their proposal for a mortgage fraud settlement.

The settlement terms remain fluid, people familiar with the matter cautioned, and haven't been presented to banks. Exact dollar amounts haven't been agreed on by U.S. regulators and state attorneys general.

For the low, low price of \$20 billion, the Administration proposes, banks could be excused for the abundant mortgage fraud they've committed.

Terms of the administration's proposal include a commitment from mortgage servicers to reduce the loan balances of troubled borrowers who owe more than their homes are worth, people familiar with the matter said. The cost of those writedowns won't be borne by investors who purchased mortgage-backed securities, these people said.

But basically, it sounds like HAMP II—a "plan" that still lets banks decide how to implement that "plan"—with the sole improvement on HAMP I that it requires 2nd Liens to be "reduced" (but not eliminated) in the process of modifying the first liens.

The deal wouldn't create any new government programs to reduce principal. Instead, it would allow banks to devise their own modifications or use existing government programs, people familiar with the matter said. Banks would also have to reduce second-lien mortgages when first mortgages are modified.

In short, it includes bailout within bailout (since 2nd liens should be eliminated).

Over a quarter of mortgage holders are underwater on their homes. A big chunk of these people were sold houses at artificially inflated prices, courtesy of the bank and captured appraisers. Every single one of them is owed compensation for being cheated at the hands of the banks.

But \$20 billion won't even begin to compensate those victims of fraudulent appraisals for the fraud committed on them.

MUBARAK'S LOOT: \$38 MILLION FOUND! STILL HIDDEN? \$69,962 MILLION

The New York Times heralds that,

Swiss Locate Funds Linked to Mubarak

But what the story really reports is that the Swiss have located just "several dozen million Swiss francs," which works out to less than \$38 million of the up to \$70 billion Hosni Mubarak reportedly looted from Egypt. The real headline of the story ought to be...

Former Western Allies Dragging Feet on Mubarak's Millions

... as the important news of the story, appearing in paragraphs 11 and 12, is:

On Thursday, the United States Treasury Department advised American banks to monitor movements of funds by former senior Egyptian political figures that "could potentially represent misappropriated or diverted state assets, proceeds of bribery or other illegal payments."

European foreign ministers are scheduled to discuss the issue at a meeting on Sunday and Monday. As of Friday, no reports had emerged that assets belonging to the Mubaraks or the five associates had been frozen in the United

States or other countries in Europe.

In other words, while the Swiss have found some petty cash which might be Mubarak's, no one in Mubarak's former patron governments has bothered to freeze his assets (though the Treasury Department decided, a full week after Mubarak stepped down, weeks after Western intelligence services apparently listened in on urgent Mubarak family conversations about moving their loot, and almost a month since it looked like he might be forced to step down, to **start** monitoring funds that might be his or other former top Egyptian officials).

And it's not like this is the first that Egyptians have asked the rest of the world to stop Mubarak from looting their country. This WikiLeaks cable, reporting a meeting with one of the leaders of Egypt's April 6 movement (so probably someone who had a key role in the Egyptian uprising), not only dismissed the thought of overthrowing Mubarak before the 2011 elections to be "outside the mainstream" of Egyptian opposition.

XXXXXXXXXXXX offered no roadmap of concrete steps toward April 6's highly unrealistic goal of replacing the current regime with a parliamentary democracy prior to the 2011 presidential elections. Most opposition parties and independent NGOs work toward achieving tangible, incremental reform within the current political context, even if they may be pessimistic about their chances of success. XXXXXXXXXXXX's wholesale rejection of such an approach places him outside this mainstream of opposition politicians and activists.

But it also treated this activists' suggestion that the U.S. freeze Mubarak's accounts back in December 2008 with the thick disdain of scare quotes.

(C) XXXXXXXXXXXX described how he tried to convince his Washington interlocutors that the USG should pressure the G0E to implement significant reforms by threatening to reveal information about G0E officials' alleged "illegal" off-shore bank accounts. He hoped that the U.S. and the international community would freeze these bank accounts, like the accounts of Zimbabwean President Mugabe's confidantes. XXXXXXXXXXXX said he wants to convince the USG that Mubarak is worse than Mugabe and that the G0E will never accept democratic reform. XXXXXXXXXXXX asserted that Mubarak derives his legitimacy from U.S. support, and therefore charged the U.S. with "being responsible" for Mubarak's "crimes."

The diplomats who met with this activist made it clear to label the judgment that Mubarak's looting was "illegal" as the activist's viewpoint, not necessarily one they shared. So, too, did they mark U.S. "responsib[ility]" for Mubarak's "crimes" with quotation marks signaling they didn't necessarily agree.

This pisses me off all the more because – after seeing Yves Smith rave about it for weeks – I've been reading Nicholas Shaxson's *Treasure Islands* (I'm hoping we'll be able to arrange a book salon when the book comes out in the U.S. in April). Normally, discussions of developing nation elites looting their countries focus on the corruption of the countries themselves. But Shaxson shows how the ability to loot a country like Mubarak has depends on a whole network of secrecy jurisdictions, of which Switzerland is now just the stodgiest. Indeed, Shaxson shows that the UK and U.S. have competed since World War II to set up the most extensive secrecy jurisdictions to ensure the looted funds from the rest of the world end up driving our financialized economies.

Mubarak's looted billions – indeed, his ability

to loot billions as representatives of our government scoff at activists who call such looting illegal – plays a fundamental role in our house of cards economy. And, given that we reward obedient client dictators with permission to loot their country, it plays a fundamental role in American hegemony in this world.

Yves predicted that authorities would find a few billion, seize a few houses, and declare victory.

If the authorities nab a few billion, plus all the tangible assets like houses, they can declare victory and try to cover up the fact that a great deal was lost.

That seems to be what this NYT article serves to do: dangle the discovery of a fraction of a percent of Mubarak's total heist as a victory, as U.S. and British authorities very deliberately stall on doing anything to stop Mubarak from hiding the rest.

ANGELO MOZILO WILL NOT BE CHARGED

In news that will not surprise you in the least—but will put you off your breakfast—Countrywide CEO Angelo Mozilo will not be charged.

Federal prosecutors have shelved a criminal investigation of Angelo R. Mozilo after determining that his actions in the mortgage meltdown – which led to \$67.5-million settlement against him – did not amount to criminal wrongdoing.

Perhaps the most insightful comment in LAT's

coverage of Mozilo's escape of any liability is this:

Columbia University law professor John Coffee said mortgage cases like Mozilo's were muddled by the numerous parties involved, unlike Enron and other "cook the books" cases in which executives were convicted.

Countrywide's model was to make or buy mortgages only to sell them off immediately to Fannie Mae or Wall Street as fodder for securities.

Given that model, Coffee said, blame could be assigned to an entire chain of players: mortgage brokers who falsified applications; investment bankers who concocted complex and "opaque" mortgage bonds; rating firms that provided high ratings on the bonds but said they were lied to; and institutional investors that relied on dubious ratings because the securities carried above-market interest while promising to be risk-free.

"All share responsibility, but none are culpable enough by themselves to compare with [Enron's] Ken Lay, Jeff Skilling or the WorldCom CEO," Coffee said.

I guess we could write a new corollary to the line, "If you owe the bank \$100 that's your problem. If you owe the bank \$100 million, that's the bank's problem." If you commit massive amounts of fraud by yourself, even George Bush's DOJ will indict you; but if everyone in an industry conspires to commit the same kind of fraud, Barack Obama's DOJ won't charge anyone.

THE HOMES CHUCK SCHUMER DIDN'T SAVE

DDay and Zach Carter both reported yesterday on the NY Fed's conclusion that the 2005 Bankruptcy Bill had pushed an extra 200,000 people into foreclosure. Here's Zach:

Economists at the New York Federal Reserve have concluded that a controversial 2005 law backed by banks and credit card companies pushed more than 200,000 people into foreclosure and exacerbated the subprime mortgage crisis.

[snip]

In a paper released Tuesday, New York Fed researchers Donald P. Morgan, Benjamin Iverson and Matthew Botsch determined that the law sparked about 116,000 additional subprime mortgage foreclosures a year after going into effect. What's more, they note, these foreclosures pushed home prices down, which may have lead to additional foreclosures. When the value of a home drops below what a borrower owes on the mortgage, it becomes nearly impossible to get out of the loan by selling the house or refinancing, making foreclosure more likely if they become unable to afford the monthly payment.

"By making it harder for borrowers to avoid paying credit card debt, [the 2005 bankruptcy law] made it more difficult for them to pay their mortgages, so foreclosure rates rose," the economists wrote.

Which I guess means it's time again to recall what Chuck Schumer responded to me on January 28, 2008, when I pointed out that the bankruptcy bill was going to exacerbate the financial

crisis that was about to hit. Schumer, Byron Dorgan, and Sherrod Brown all agreed the law was a problem. (Schumer and Dorgan voted against the bill, though Debbie Stabenow, pictured in my post, voted for it.) But, Schumer said, we couldn't just fix the obvious problems with it in 2008 because (you guessed it) we needed a bigger majority.

Senator Schumer explained that he didn't want to pick around the edges, he wanted to make a real fix, and we're not going to be able to do that until we get a bigger majority.

That was, of course, in 2008. That November, the Democrats would win solid majorities in both houses, as big a majority as you're ever going to get. Yet the Democrats never found time to get around to fixing the Bankruptcy bill.

SECURITY FIRMS PITCHING BANK OF AMERICA ON WIKILEAKS RESPONSE PROPOSED TARGETING GLENN GREENWALD

✖ On Saturday, private security firm HBGary Federal bragged to the FT that it had discovered who key members of the hacking group Anonymous are. In response, Anonymous hacked HBGary Federal and got 44,000 of their emails and made them publicly available.

You believe that you can sell the information you've found to the FBI? False. Now, why is this one false? We've

seen your internal documents, all of them, and do you know what we did? We laughed. Most of the information you've "extracted" is publicly available via our IRC networks. The personal details of Anonymous "members" you think you've acquired are, quite simply, nonsense.

So why can't you sell this information to the FBI like you intended? Because we're going to give it to them for free. Your gloriously fallacious work can be a wonder for all to scour, as will all of your private emails (more than 44,000 beauties for the public to enjoy). Now as you're probably aware, Anonymous is quite serious when it comes to things like this, and usually we can elaborate gratuitously on our reasoning behind operations, but we will give you a simple explanation, because you seem like primitive people:

You have blindly charged into the Anonymous hive, a hive from which you've tried to steal honey. Did you think the bees would not defend it? Well here we are. You've angered the hive, and now you are being stung.

As TechHerald reports, among those documents was a presentation, "The Wikileaks Threat," put together by three data intelligence firms for Bank of America in December. As part of it, they put together what they claimed was a list of important contributors to WikiLeaks. They suggested that Glenn Greenwald's support was key to WikiLeaks' ongoing survival.

The proposal starts with an overview of WikiLeaks, including some history and employee statistics. From there it moves into a profile of Julian Assange and an organizational chart. The chart lists several people, including volunteers and actual staff.

One of those listed as a volunteer, Salon.com columnist, Glenn Greenwald, was singled out by the proposal. Greenwald, previously a constitutional law and civil rights litigator in New York, has been a vocal supporter of Bradley Manning, who is alleged to have given diplomatic cables and other government information to WikiLeaks. He has yet to be charged in the matter.

Greenwald became a household name in December when he reported on the “inhumane conditions” of Bradley Manning’s confinement at the Marine brig in Quantico, Virginia. Since that report, Greenwald has reported on WikiLeaks and Manning several times.

“Glenn was critical in the Amazon to OVH transition,” the proposal says, referencing the hosting switch WikiLeaks was forced to make after political pressure caused Amazon to drop their domain.

As TechHerald notes, an earlier version of the slide said support from people like Glenn needed to be “attacked.”

Now aside from the predictable, but nevertheless rather shocking detail, that these security firms believed the best way to take WikiLeaks out was to push Glenn to stop supporting them, **what the fuck are they thinking** by claiming that Glenn weighs “professional preservation” against “cause”? Could they be more wrong, painting Glenn as a squeamish careerist whose loud support for WikiLeaks (which dates back far longer than these security firms seem to understand) is secondary to “professional preservation”? Do they know Glenn is a journalist? Do they know he left the stuffy world of law? Have they thought about why he might have done that? Are they familiar at all with who Glenn is? Do they really believe Glenn became a household name—to the extent that he

did—just in December?

I hope Bank of America did buy the work of these firms. Aside from the knowledge that the money would be—to the extent that we keep bailing out Bank of America—taxpayer money, I'd be thrilled to think of BoA pissing away its money like that. The plan these firms are pushing is absolutely ignorant rubbish. They apparently know almost nothing about what they're pitching, and have no ability to do very basic research.

Which is precisely the approach I'd love to see BoA use to combat whatever WikiLeaks has coming its way.

CLINTON'S BLOWJOB: 5 TIMES MORE IMPORTANT THAN THE WALL STREET CRASH

Honest, I'm posting this video not for obvious affinities I have for Dylan Ratigan's argument. But mostly because of the obvious suggestion, based on the resources we dedicate to investigating them, that Clinton's blowjob was five times more dangerous for our country than the crash of our entire financial system.

"NO ONE COULD HAVE PREDICTED THE

HOUSING BUBBLE MIDDLE EAST STATUS QUO WOULD CRASH”

The WSJ has a fascinating narrative of how both the US and Mubarak’s government were utterly unprepared for a democratic revolution in Egypt. From a meeting two months ago at which Egypt again refused democratic reforms, after which Hillary declared Egypt to be the “cornerstone of stability and security in the Middle East and beyond,” to a meeting on Monday when when a Middle East expert asked Obama’s National Security Council, “Please tell me you have contingencies in case Mubarak’s regime collapses” (the NSC said they did not), our government’s certainty that it could depend on the status quo generally and Egypt specifically has utterly collapsed.

And it was not just the government generally; predictably, the intelligence services paid to anticipate such events had no idea it would happen, either. Just one week ago, the new head of Israel’s military intelligence, Major General Aviv Kochavi, echoed Clinton’s earlier certitude that Egyptian would remain stable.

...on January 25, the day when massive protests first erupted across Egypt, Major General Aviv Kochavi, newly appointed head of Israel’s Military Intelligence Directorate, told a Knesset committee that “there are no doubts about the stability of the regime in Egypt”...

And while he’s predictably using the observation to demagogue, Crazy Pete Hoekstra ascribes the surprise to same kind of group think that has long plagued our intelligence analysis.

We were blind sided on Egypt. Problem is group think and risk aversion in state/intel community!

Part of the problem may be that US intelligence services rely more on the Egyptian government than on talking to opposition figures directly.

For years, the US Central Intelligence Agency has worked closely with the Egyptian security establishment in the contentious context of Washington's "war on terrorism". But it is unlikely that the CIA has been as meticulous in developing trustworthy contacts inside Egypt's fragmented but dynamic and energized Egyptian opposition. The latter, whether religious or secular, is naturally distrustful of American officials, whom it sees as longtime supporters of the dictatorial rule of President Mubarak, in the interests of what US Vice President Joe Biden has called "geopolitical interests in the region".

But that's definitely not the whole of the problem. As Wikileaks revealed, we know our government met with a youth activist in 2008, as well as other NGOs. Yet embassy officials deemed that activist's assessment that the opposition would have to replace Hosni Mubarak with a parliamentary government before the 2011 elections to be "highly unrealistic, and [] not supported by the mainstream opposition." (Dismissing the activist's claims so easily undoubtedly also made it easier to dismiss the suggestion that the US should pressure Mubarak "by threatening to reveal information about GOE officials' alleged 'illegal' off-shore bank accounts.")

It appears, then, that the US has met with some of these activists; it just apparently dismissed them as a bunch of naive youth.

But, as the WSJ makes clear, a lot of the surprise simply comes down to a misjudgment about what ordinary people might do.

In Cairo, a beleaguered collection of

opposition groups plotted another in a series of demonstrations, this time to coincide with Police Day, a national holiday to thank Egypt's police forces. To activists, it was the perfect irony: Almost a year earlier, a young man from Alexandria with no history of political activism, Khaled Saied, had been beaten to death by police. Activists had managed to bring national attention to the case, and they intended to use Police Day to build on that.

Opposition activists rallied around a Facebook page called We Are All Khaled Saied. To call for a protest, Mr. Saied's death became the focal point for people who hadn't been involved in the rights movement before, says Ahmed Gharbia, an Egyptian activist associated with the page. "He was an everyman, and it was very difficult for people who wanted to paint him as an outlaw to do that." In the past week, supporters of the page swelled from 75,000 members to over 440,000.

[snip]

"More Egyptians were more angry than they've probably ever been, and not just activists, but ordinary people. And then came Tunisia, and suddenly people saw that maybe they could do something about that anger," said Ziad Al-Alimi, an organizer for Nobel Prize Laureate Mohamed ElBaradei.

[snip]

Broad swaths of Egyptian society were now in the streets. In Agouza, families with young children in tow marched into clouds of tear gas, toward the bridge over the Nile that led to Tahrir Square.

"I was shocked to see people on that bridge who had always been apathetic apologists for the regime yelling,

‘No’,” said Mr. Qassem, who himself joined the protesters for the first time in his life. Infuriated, he said he even threw rocks at police after he was tear-gassed and police fired rubber bullets.

Now, I made the analogy here with the elite surprise at the very foreseeable crash of the housing bubble they had blown up. And to the extent that a bunch of “experts” repeatedly insisted they were smarter than the people experiencing this stuff first hand, the analogy makes sense.

The self-declared smart people so sure they’ve got control over the situation are increasingly proving, of late, not to have that control.

But I also think Egypt must be a broader warning. The status quo everywhere—based on the Washington consensus economically and US hegemony geopolitically—may be a lot more fragile than the experts paid to sustain that status quo will admit.

I suspect Egypt is just one in a series of increasingly bigger surprises for our governing elite.

WORKING THREAD ON FCIC REPORT

I keep trying to immerse myself in the FCIC Report, but keep getting distracted—I guess I’ll have to read it this weekend. But it’s high time I put up a working thread for the rest of you.

The report itself is here.

Lambert Strether has made 1147 of the backup documents released by the FCIC available here.

And Masaccio sent me this observation from the

report last night:

The number of suspicious activity reports—reports of possible financial crimes filed by depository banks and their affiliates—related to mortgage fraud grew 20-fold between 1996 and 2005 and then more than doubled again between 2005 and 2009.

p. 22 in the .pdf

This means that the regulators were not doing their jobs under the Bank Secrecy Act, the PATRIOT ACT and other laws. These laws are designed to enable prosecutors and regulators to spot money-laundering and other crimes.

Lenders made loans that they knew borrowers could not afford and that could cause massive losses to investors in mortgage securities. As early as September 2004, Countrywide executives recognized that many of the loans they were originating could result in “catastrophic consequences.” Less than a year later, they noted that certain high-risk loans they were making could result not only in foreclosures but also in “financial and reputational catastrophe” for the firm. But they did not stop.

And the report documents that major financial institutions ineffectively sampled loans they were purchasing to package and sell to investors. They knew a significant percentage of the sampled loans did not meet their own underwriting standards or those of the originators. Nonetheless, they sold those securities to investors. The Commission’s review of many prospectuses provided to investors found that this critical information was not disclosed.

That is tantamount to saying that these people committed crimes. They sold

securities with documents that were knowingly false.

JEFF IMMELT'S GE: THE TOO BIGGEST TO FAIL

✖ In my first post on how stupid it was for Obama to pick Jeff Immelt for his election season commission to appear focused on jobs, I looked mostly at how much GE has been outsourcing manufacturing and technology. Though I mentioned GE's status as another TBTF finance company, I didn't explain that in depth.

Mike Konczal has a post in which he corrects Joe Klein's misperception that GE is not another big finance company, and in the process shows how GE was one of the biggest beneficiaries of the government's bailout of shadow banking in 2008-09.

In it, he shows how GE received the second biggest FDIC debt guarantees of any of the big finance firms, after only Citi. He borrows the graphic at the left from a Raj Date paper that also explains how GE leveraged (heh!) its teeny FDIC insured deposits to get a big debt guarantee.

Only a small fraction of GE Capital's funding (some \$24 billion in the middle of 2008) came through FDIC-insured deposits. Despite that, the structure of the FDIC's Debt Guaranty Program enabled GE Capital to issue well more than that (more than \$50 billion) in unsecured debt that was, in effect, taxpayer-guaranteed. In essence, the program was structured in a way that almost uniquely favored a shadow bank like GE – one with a relatively small depository, but with immense unsecured debt that had been

issued by the depository's affiliates.

Konczal then goes on to cite another paper explaining why this happened: GE used the credit rating it won in its manufacturing business to make a lot of big finance games possible.

1 run the industrial business for earnings;

2 add industrial services to cover hollowing out of the industrial base;

3 buy and sell companies through acquisition and divestment to achieve returns and growth objectives;

4 rely on large-scale acquisition to prevent like-for-like comparisons and to increase opacity and the power of narrative;

5 grow the financial-services business up to the limit of the company's credit rating;

6 accept the balance-sheet costs in terms of return on capital but focus on managing return on equity and cost of capital;

7 add financial engineering to smooth earnings and manage growth....

[snip]

If the expansion of GE Capital rested on judgement and controls, it also reflected the structural advantage of the triple-A credit rating, which effectively made the financial business (as user of the credit rating) dependent on the industrial business (as credit-rating generator), and this in turn set limits on how much GE could expand without risking reclassification by credit-rating agencies. GE Industrial may be a low-growth business but it has high margins, is consistently profitable

over the cycle and has funded almost all of the dividends that GE Consolidated has paid out, as well as providing the funds for acquisitions and repayment of debt. This solid industrial base is the basis for GE's triple- A credit rating, which allows GE Capital to borrow cheaply the large sums of money that it lends on to consumers and commercial customers... [my emphasis]

Konczal summarizes the business model that Obama tapped, through Immelt, to build American jobs and competitiveness this way:

GE has been at the forefront of blurring a "financial services"-centric model of business onto the remains of a hollowed out manufacturing base, one kept in a minimal state just strong enough to qualify for high credit scoring.

In other words, Immelt and GE aren't about building the jobs American needs (for graphic representation of that, see this post). Rather, they're about transforming the fruits of American manufacturing into yet more destabilizing casino games.

And **that's** what Obama picked today to lead his election-season effort to appear serious about job creation.

Sure, maybe it'll fool the Joke Lines of the world into believing outsourcing to China is a solution to America's job crisis. But those of us in flyover country seeing that jobs crisis up close are smarter than all that.