Bernanke in Blatant Coverup for Geithner, Banks

In July 17 testimony to the Senate Banking Committee, Fed Chairman Ben Bernanke shockingly tried to justify and mitigate the Libor rigging by big banks, and the indifference to it exhibited by Treasury Secretary Tim Geithner.

Geithner, in 2008, headed the New York branch of Bernanke's Federal Reserve, and the first question to Bernanke, from Sen. Tim Johnson (D-S.D.), was about the N.Y. Fed's non-response when it knew the Libor was being rigged. Bernanke tried to claim that the Barclays Bank executives in those cases were "only," perhaps even "understandably," manipulating the world's most important interest rate to improve their bank's position, and not its derivatives profits, "as alleged in the decision." The fraudulent conduct was not alleged, but admitted by Barclays; and Bernanke's claim was not only outrageous, but a coverup—Geithner's N.Y. Fed also learned that Barclays' derivatives traders knew they were "submitting a dishonest Libor."

But Bernanke's later reactions to Sen. Jeff Merkeley's (D-Ore.) questions, was even worse. Bernanke claimed the Fed only knew of bank traders blatantly demanding false Libor submissions which would maximize their derivatives bets at the expense of clients, "recently, from the CFTC's investigation." That investigation is more than four years old! Merkeley then read from telephone transcripts showing clear fraud and manipulation of Libor by bankers for specific derivatives profits. "Does this constitute fraud? Does this fall into a criminal area?" he asked Bernanke, who answered "It does seem to be so, yes." Merkeley then asked "Isn't there a [Federal Reserve] responsibility to alert the customers, the municipalities that are making swaps, the folks that are getting mortgages based on Libor, and so forth?"

Bernanke's response was no, there was no responsibility, because "the financial press was full of stories. So I think there was a good bit of knowledge, at least among more sophisticated investors, about this problem."

Caveat emptor, said the banks' primary regulator about what is shaping up as the worst, most massive, most damaging criminal fraud ever committed in the banking sector.

Bernanke's attempt at a shameless coverup for Geithner, will turn out to be a big mistake for the Fed Chairman.