State Street Bank: No 'Razzle-Dazzle'?

Sept. 7 (EIRNS)—House Financial Services Committee chairman Barney Frank described Boston's State Street Bank as a "legitimate business," not part of the "razzle-dazzle" perpetrated by such high-flying financial predators and speculators as AIG. Here's the real story.

On Feb. 4, 2010, the Securities and Exchange Commission instituted cease-and-desist proceedings against State Street Bank and Trust, charging the bank with having "misled investors about the extent of subprime mortgage-backed securities held in certain unregistered funds under its management. As a result of State Street's conduct, investors in State Street's funds lost hundreds of millions of dollars during the subprime market meltdown in mid-2007."

The SEC further charged:

"State Street provided certain investors with accurate and more complete information about the Fund's subprime concentration. These other investors included clients of State Street's internal advisory groups.... During 2007, State Street's advisory groups became aware, based on internal discussions and internally available information, that the Fund was concentrated in subprime investments. Prior to July 26, 2007, at least one internal advisory group also learned that State Street was going to sell a significant amount of the Fund's distressed assets to meet significant anticipated redemptions. State Street's internal advisory groups subsequently decided to redeem or recommend redemption from the Fund and the related funds for their clients. State Street Corporation's pension plan was one of those clients. State Street sold the Fund's most liquid holdings and used the cash it received from these sales to meet the redemption demands of these better informed investors, leaving the Fund with largely illiquid holdings."

The SEC charged that State Street had not informed its victimized investors that "the Fund was concentrated in subprime bond investments and derivatives tied to subprime investments."

As a result of the government's action, State Street agreed to pay over $300 million to investors, in addition to hundreds of millions the bank had already agreed to pay as compensation.

On its own website, State Street boasts about its global, offshore, speculative activities:

"State Street now services more than $455 billion in alternative [!] assets and ranks as No. 1 in alternative asset servicing globally; No. 1 in private equity servicing globally; No. 2 in real estate asset servicing globally and No. 2 in hedge fund servicing globally, based on industry survey data....

"Through our Alternative Investment Solutions group, we administer more than 1,100 hedge and private equity funds across a wide range of investment strategies....

"State Street's extensive offshore operations require us to support many of the most complex fund structures, including structured finance products, multi-tiered legal entities, derivative-based funds, mortgage-backed funds, offshore trust products and alternative investment funds."

—*Anton Chaitkin*