Reno Pays Goldman 15% Plus Fees for Derivatives

The city of Reno, Nev. may be the most extreme victim of the Libor-based interest-rate derivatives traps set by bankers—in this case, Goldman Sachs—for city managers. While the one-year dollar Libor is currently .6%, Reno has been paying Goldman 15% on its bonds since 2008, and has laid off more and more city employees, and cut more and more city programs for five straight years.

To issue bonds in early 2007 for a downtown events center and a railroad spur, Goldman sold this city of 225,000 people the biggest interest-rate swap wing-ding of all, an "auction rate" derivative. This means Goldman promised to take Reno's long-term bond for $210 million, and refinance it *every month*, selling it to different investors each month, turning a long-term bond into a long series of 30-day loans (with a far lower interest rate) through the "magic of derivatives."

But in early 2008, when the "auction-rate bonds" derivatives market suddenly disappeared in the financial crash, Reno had to replace the bond with a new one—at 15%, plus pay Goldman millions in fees. It has been paying—and laying off—ever since.

Reno sought damages in a claim with the Financial Industry Regulatory Authority (FINRA) in February; Goldman, of course, is fighting this "attempt to circumvent the terms of its original agreement."