A Scandal for Bankers and A Funeral for Banksters

by Paul Gallagher

July 16—Once again, with the Libor (London Inter-Bank Offered Rate) scandal, it has been revealed that the world's largest conglomerate banks systematically commit fraud, to increase their securities-dealing profits at the expense of cities, states, nations, even the very lives of people.

This time, prosecutions for fraud should see banksters to prison, finally, after two decades of torturing and looting the world in the wild "securitization" era—which really began with the London "Big Bang" deregulation of all banking in 1986.

Well before the handcuffs go on, the United States can *stop the crime*, which is still being committed, by reenacting and enforcing Franklin Roosevelt's Glass-Steagall Act, with other nations taking the same action. In the past three weeks, the severity of the Libor scandal has catalyzed important British figures and publications to propose a revived Glass-Steagall to the United States. Glass-Steagall bank reorganization will get the large commercial banks off the crime-ridden streets of casino securities-dealing, and will remove those "investment banks" and securities broker-dealers who operate on those streets, from all forms of government protection—unless it be protective incarceration.

The Libor rate-rigging scandal will expand to nearly all major international banks and come to feature President Obama's favorite banker, JPMorgan Chase CEO Jamie Dimon. It confirms that the most immense global mass of securities, the financial derivatives contracts, overwhelmingly represent criminal activity, cheating, and fraud, with no redeeming social value. The biggest investment banks in the United States alone, led by JPMorgan Chase, have, in the past four years, put $200 trillion "worth" of derivatives securities into the commercial banking units of those banks—*implicitly pledging depositors' money and FDIC insurance to back them.* The Glass-Steagall Act will rip the rug of deposit insurance, Federal Reserve lending, and promised bailouts out from under this multi-hundred trillions mountain of derivatives fraud, and bar commercial banks from engaging in it. That will stop the crime, and the 99% of all U.S. banks that have *zero* derivatives exposure, can carry on the banking.

But we also have to prosecute. Rigging the Libor rates, which had become the world economy's most important interest rates, for profit, constitutes fraud, one which is now being admitted by executives of a growing number of megabanks hoping to cop deals and escape prosecution. As we will show, when it comes to the securitizing banks' largest mountain of financial derivatives contracts, known as "interest-rate swaps," the rigging of interest rates is fraud with deadly consequences, for the cities, states, public authorities, and others that have been sold these swaps based on the Libors. An estimated $450 trillion in derivatives contracts are based on the Libors.

Obama an Obstacle

President Obama and his Justice Department will again be the Wall Street-protecting obstacle to this. Obama has repeatedly insisted that although the banksters may have done things immoral, they have done nothing illegal. As for Attorney General Eric Holder, his press release on the settlement of Barclays Bank's admitted Libor-rigging is a paean of praise for Barclays CEO Robert Diamond and the wonderful cooperation of all the other Barclays executives (see box). The DoJ is also, according to sources of the *Wall Street Journal* and *New York Times* in recent days, offering immunity from prosecution for rigging Libors at least to UBS and HSBC.

Agreements by Barclays traders with other bankers involved in the Libor process are, on their face, conspiracies in restraint of trade, which the Sherman Act says are illegal, and those who engage in such conspiracies "shall be deemed guilty of a felony." *Intent* is clear; the traders knew they, and other banks, were committing illegal acts. As one Barclays trader put it in e-mails to traders at other banks, "Don't talk about it too much; don't make any noise about it please"; and "This can backfire against us." Yet the Justice Department Criminal Division said its agreement with Barclays was reached in conjunction with the Antitrust Division.

As for Treasury Secretary Tim Geithner, he abetted the crime. It's already been shown that he knew about the Libor-rigging five years ago, but turned a benign gaze upon it, helped bail out the banks involved, and ignored further exposes of the practices in the financial press (see box).

The forces that are moving to reinstate Glass-Steagall will also have to finally push Obama, Holder, and Geithner out of the way.

U.S. Treasury Dept.

Treasury Secretary Tim Geithner should look worried: He's up to his neck in the Libor-rigging crime.

The 'Worst Scandal' and Serious Crime

On behalf of all the trans-Atlantic megabanks, the Bloomberg News panicked July 13, admitting the seriousness of the crimes now exposed and the vast number of victims.

In an prominent editorial, "The Worst Banking Scandal Yet," Bloomberg wrung its hands that the big banks are caught in their crimes and could all be destroyed. "The scandal over the manipulation of Libor has the potential to become one of the most costly and consequential in the history of banking. If the financial institutions involved want to prevent it from *overwhelming their businesses* and damaging the broader economy, they'll have to act fast" (emphasis added). The financial news service said that "Investigators in the U.S., Canada, Europe and Asia are piecing together a breathtaking portrait of avarice and deceit. . . . More important, criminal charges for the first time could threaten a significant number of bankers and traders with jail terms for their actions during the financial crisis. . . ."

This contrasts dramatically with Geithner's indifference and Holder's praise for one of these banks agreeing to pay a settlement equalling 1% of its annual revenue.

But then the editorial turned to the tens of thousands of potential lawsuits, some of which are already being filed. "A systemic disaster," it cried. "Plaintiffs ranging from investment firms to municipal governments, many of which bought bonds or entered into contracts that provided payments tied to Libor, are demanding compensation from banks for intentionally pushing down the benchmark. Attempts by traders to rig Libor on specific days, portrayed in detail in the Barclays case, will undoubtedly elicit more legal actions.

"Estimates of payments related to lawsuits are currently in the billions or tens of billions of dollars"—but then, Bloomberg took a swing at measuring the magnitude of the crime. "Consider this: If Libor was understated by an average of only 0.1 percentage point for a year, the discrepancy on the roughly $300 trillion in interest-rate swaps outstanding at the time [2008] would add up to $300 billion."

Rather than "cripple the entire banking system," Bloomberg advised, "Bank executives, regulators and prosecutors should be thinking now about how to come clean quickly, compensate the victims and move on."

"Out, out, damned spot!"? With victims all over the world nursing $300 billion in losses *per year* since the

2007-08 collapse? And many of those losses measured in layoffs, in lost city and state services, closed firehouses and police stations, even in deaths of human beings? Such a scheme won't work this time.

'Rip-Off of Cosmic Proportions'

Former Labor Secretary Robert Reich, an insistent advocate of re-enacting Glass-Steagall, put it this way:

"It would amount to a rip-off of almost cosmic proportions—trillions of dollars that average people would have received or saved on their lending and borrowing that have been going to the bankers instead. It would make the other abuses of trust Americans have witnessed in recent years—predatory lending, fraud, excessively risky derivative trading with commercial deposits, and cozy relationships with credit-rating agencies—look like child's play by comparison."

Already, four years ago, in the AIG collapse/bailout case, New York Insurance Commissioner Eric Dinallo showed Congressional investigators that 90% of all "credit default swaps" contracts—another form of financial derivative—were "bucket-shop activities," patently crimes under the laws of all U.S. Federal states for the last 100 years.

Already in April 2010, Sens. Carl Levin's and James Coburn's hearings proved that the banks' mortgage-backed securities business and collateralized debt obligations—still another type of derivative—constituted securities fraud in the hands, at least, of Goldman Sachs' top executives, at the expense of their clients and the government. Levin referred to the Justice Department for criminal prosecutions; AG Holder said the DoJ was "studying Senator Levin's referrals"; no prosecutions ensued, and Goldman escaped with a fine of half of one percent of its annual revenues.

Now interest-rate swaps—the biggest pot of derivatives—are also exposed to the world as securities fraud for profit, with grave human consequences. And JPMorgan Chase has admitted fraud by its derivatives division in its own second-quarter financial report. In the bank's conference call on the report, CEO Jamie Dimon and executive James Cavanagh absolutely refused comment on anything regarding Libor.

How It Was Committed

According to combined public reports, 14-16 of the largest "universal banks" in the world are now under investigation by U.S. and European authorities for rigging the Libor rates to their profit and the world's economies' loss. These are Barclays, Lloyds, HSBC, RBS, Credit Suisse, UBS, Deutschebank, Rabobank, Dexiabank, Citigroup, JPMorgan Chase, Bank of America, Goldman Sachs, Royal Bank of Canada, and Mitsubishi Bank. The number may grow to 40, according to the *Wall Street Journal* reporters who have exposed the rigging in occasional articles since 2008—which articles triggered the investigation of Barclays in April of 2008.

Geithner in 2008 Let Banks Decide About Libor

All of Treasury Secretary Tim Geithner's May 2008 proposals to the Bank of England, on what to do about flagrant Libor rigging by the biggest banks, came from the conspirator banks themselves.

When the New York Fed was forced to release documents on July 13, 2012, showing that its then-president Geithner had long known of the rigging of the Libor rate, it "featured" for the media his June 1, 2008 e-mail to Bank of England head Mervyn King, suggesting reforms. But none of Geithner's suggestions would have stopped the rigging of the rate. Moreover, when the Bank of England ignored them all, Geithner did nothing.

Most tellingly, *Huffington Post* columnist Ryan Grim established in a column July 16, using the Fed's own July 13 document-dump, that *every one* of the six recommendations Geithner sent King he had simply passed on from the Wall Street bankers whom he had consulted on Libor. Each of them appears identically, often word-for-word, in a May 20 New York Fed staff memo beginning, "A variety of changes aimed at enhancing Libor's credibility has been proposed by market participants [banks]. . . . These proposed changes include, but are not limited to. . . ."

The investigation of Libor rigging started with the U.S. Commodities Futures Trading Commission, and covers at least the period 2005-09. The number of banks which have admitted that they are under investigation include, besides Barclays: Citibank, JPMorgan Chase, HSBC, Royal Bank of Scotland, UBS, and Deutsche Bank(-Morgan Grenfell). In addition, Swiss authorities are investigating manipulation of the Euribor lending rate by UBS, which has taken the first steps toward admitting and settling. And there will be more.

Amid this welter of underfunded civil probes—Barclays was investigated for more than four years before the DoJ's mild settlement—12 U.S. Senators issued a demand July 12 that the investigations be criminal as well as civil, and potentially include investigations of regulators (including Geithner) who abetted this immense, years-long series of crimes.

Through the mid-1980s, long-term interest rates—like those on state or municipal bonds—were based on prime rates set by central banks. After Libor was launched and took off from the financial deregulation of the mid-1980s, the importance of prime rates withered away, supplanted by the untraceable, daily variable, bank-riggable Libors. By 2000, the Fed and other central banks had started to ritually pronounce that they had "no control or influence over long-term rates." Issuers of long-term bonds were at the mercy of the megabanks' Libor, and the ratings agencies' dicta on how much "above Libor" they would have to pay to borrow.

The Libor rates for overnight, one-month, three-month, and one-year interbank lending are essentially set by 18 megabank members of the British Banking Association (see box). They gave the original meaning to the term "liars' loans" from the mortgage meltdown. These banks simply state, every day, what interest rate they claim they *would pay* if they were borrowing, say, 3-month interbank money that day. If they do borrow, they can submit documentation of that; but if they don't do so, their statement is accepted at face value, as long as it's not too far out of line with the other megabanks' statements. Then, Thompson-Reuters, the British version of the Bloomberg financial data firm, "calculates" the rate for that day. And thus do hundreds of trillions of dollars of interest-rate swaps, other derivatives, and variable-rate loans of every conceivable kind the world over, receive their borrowing rate.

Since 2000, with long-term fixed rates washed away, and even ultrashort discount rates being pushed way up, then way down, then up again, by Alan Greenspan, states, cities, and public authorities the world over were buying "interest-rate swaps" and related derivatives from the megabanks. They were sold as "protection" from the wildly fluctuating Libors which threatened to send these agencies' bond-interest costs sky-high. They had virtually no choice but to issue floating-rate bonds and buy "rate swaps."

The swaps were based on Libor rates, in bet-counterbet schemes and formulas so complicated, that public treasurers could not understand them, and were lied to about them by the salesman-banks.

These swaps then became the instruments of the municipalities' destruction, when instead, Fed chairman Ben Bernanke, beginning early 2007, plunged short-term rates to virtually zero, and the Libor was pushed dramatically downward by what is now exposed as criminal rigging of the rates by the banks—in order to get themselves bailed out from the 2007-08 crash.

The interest-rate swaps contracts required the municipalities to issue bonds with initially low interest

Liborgate: Who Fixes The Libor Rate?

The Board of the rate-setting British Bankers Association (BBA) is made up of senior executives of the following 12 banks:

Barclays Bank plc
BNP Paribas
Citibank NA
Credit Suisse
Deutsche Bank AG
Hampshire Trust plc
HSBC Bank plc
JP Morgan Europe Limited
Lloyds Banking Group
Santander UK plc
Standard Chartered Bank
The Royal Bank of Scotland plc

rates which "re-set" higher in stages. The banks bought these, but then "swapped" their interest rates with those of other securities. The municipality then paid a gradually escalating interest rate, typically coming to rest at 4-6%; while the bank paid "interest payments" to the municipality based on a Libor rate—which broke steadily downward. This got much worse when these swaps markets "froze" in the 2007-08 crash, and states and munis suddenly were told they had to issue new bonds with rates as high as 8-9%, or default.

50 Times the Rate of Interest

By 2010, according to one exposé, "states and local governments are paying about 50 times [the rate of interest] the banks are paying." *New York Times* reporter Gretchen Morgenson, in a June 9, 2012 report, estimated that cities and states are still paying the banks 12 times and up, what the banks are paying them in the "swap." And the governments had—and still have—no way to get out of these derivatives deals without huge fee payments which would gouge their employees and services.

In the United States, the *New York Times* reported urban consultant Peter Shapiro's estimate that "about 75% of major cities have [swaps] contracts linked to this [Libor]." In Italy, France, and Spain, for example, the percentage of cities thus entrapped was even higher.

Besides all this, many tens of thousands of pension, retirement, and other funds bought interest-rate "swaps" to protect earnings on their investments, and it is clear the banks used those derivatives to loot those earnings into bank profits. And untold millions of investors bought forms of savings whose interest was based on Libors—and have earned almost nothing on them in recent years.

The banks engaged in two kinds of rigging of Libor, as noted in a lengthy analysis in July 6 *The Economist*. One, beginning no later than 2004-05, was arranged by the day-to-day cheating of groups of derivatives traders at the merchant banks, who increased the "skim" of their derivatives trades by lying their way into small changes in Libor—essentially driving the changes they

Department of Justice Won't Prosecute Banks

The announcement by Attorney General Eric Holder's Justice Department of agreement with Barclays Bank on a fine for Libor-rigging, indicates how Holder will protect these banks from prosecution. Note particularly that the DoJ considers it "mitigating" against criminal punishment, that other banks committed the same Libor-rigging Barclays did, and may have been more egregious at it. Would this "comparative standard" be applied, for example, to home break-ins and robberies? Here was robbery on a grander scale.

Reports already have Holder's DoJ offering immunity to two other megabanks, HSBC and UBS.

From the DoJ's announcement June 27: "Barclays has implemented a series of compliance measures and will implement additional internal controls regarding its submission of LIBOR and EURIBOR contributions, as required by the Commodity Futures Trading Commission (CFTC). Barclays will also continue to be supervised and monitored by the FSA.

"The agreement and monetary penalty further recognize certain mitigating factors to Barclays' misconduct. At times, Barclays employees raised concerns with the British Bankers Association, the United Kingdom Financial Services Authority (FSA), the Bank of England, and the Federal Reserve Bank of New York in late 2007 and in 2008 that the Dollar LIBOR rates submitted by contributing banks, including Barclays, were too low and did not accurately reflect the market. Further, during this time, notwithstanding Barclays's improperly low Dollar LIBOR submissions, those submissions were often higher than the contributions used in the calculation of the fixed rates.

"As a result of Barclays's admission of its misconduct, its extraordinary cooperation, its remediation efforts and certain mitigating and other factors, the department agreed not to prosecute Barclays for providing false LIBOR and EURIBOR contributions, provided that Barclays satisfies its ongoing obligations under the agreement for a period of two years. The non-prosecution agreement applies only to Barclays and not to any employees or officers of Barclays or any other individuals."

were betting on. The other, by 2007, was huge, and built the securitization bubble: "Barclays and, apparently, many other banks submitted dishonestly low estimates of bank borrowing costs over at least two years, including during the depths of the financial crisis. In terms of the scale of manipulation, this appears to have been far more egregious. Almost all the banks in the Libor panels were submitting rates that may have been 30-40 basis points [0.3-0.4%] too low on average." This, on a 3-month rate usually about 2%!

Thus down went the rates on hundreds of trillions in variable-rate mortgages, junk bonds, derivatives, and more derivatives, blowing up the securitization casino-banking bubble. The Bank of England and British "regulators," and the Fed, were clearly steering this, and did so again in late 2008, when they needed to make the bailouts of these casino banks—particularly RBS and HBOS in the U.K.—easier and more "credible."

Geithner in Trouble

This is where Treasury Secretary Tim Geithner is clearly entangled. New York Federal Reserve documents from 2007 and 2008 concerning Libor rates were released on July 12, pursuant to a letter from House Financial Services Oversight Subcommittee chairman Rep. Randy Neugebauer (R-Tex.). The document release is trouble for Geithner, who was then head of the New York Fed.

The documents prove that Barclays' disgraced CEO Robert Diamond's House of Commons testimony was correct on one point: He and other Barclays executives did, in fact, tell Geithner's New York Fed repeatedly, that not only Barclays, but the other BBA banks as well, were cheating on their Libor submissions. Geithner knew this as early as the late Summer of 2007, and was aware of its continuing through the period when he participated in bailing these same banks out with trillions, both as head of the New York Fed, and then as Obama's pick for Treasury Secretary.

One sample conversation with a Barclays executive talking to a New York Fed officer, occurring in March 2008, is typical of many: "...three-month libor is going to come in at 3.53.... It's a touch lower than yesterday's but please don't believe it. It's absolute rubbish. I'm ... putting my libor at 4%.... I think the problem is that the market so desperately wants libors down, it's actually putting wrong rates in." On another call, the same Barclay's executive said, "When libor was fixing at 3.55[%] ... just to give you a clue, I got paid 4.30 in threes [3-month loans] by Tokyo, via the yen." Here, Barclays was lending 3-month money, not borrowing it, and the rigging of Libor had deviated the rate downward by almost one-fifth, even from market "reality."

One Barclays trader told Geithner's Fed, clearly referring to other banks' Libor submissions as well, "We know that we're not posting, um, an honest Libor."

The New York Fed made much, in releasing the documents, of Geithner's having reacted, with some suggestions to the Bank of England for improving the Libor in Spring 2008. But a Geithner PowerPoint on what Barclays had admitted, showed that he treated the revelations skeptically—"These claims are difficult to evaluate"[!]—and that his ultra-mild, "best practices" recommendations were those the same Libor banks had made to him (see box).

Geithner then enthusiastically bailed these banks out, knowing that they had lied and cheated on the "mother of all interest rates" for their own profit, and the taxpayers' loss.

Cities Wrung Out

There are now literally thousands of lawsuits being initiated or consolidated internationally, because fully tens of thousands of cities, states, public authorities, hospitals, public retirement plans, and other agencies bought "interest rate swaps" in the 2000-07 period which have cost them dearly—as is now clear to all, because those contracts were rigged to loot them.

Internationally, the largest offender is the Belgian-French megabank Dexia. Outrageously, that bank, which failed in 2010, has been bailed out twice in three years, to the tune of nearly EU80 billion, and is now, as a zombie bank, demanding still more bailouts.

Dexia's remnant bank still holds state and city loans, and interest-rate swaps based on rigged Libor rates all over Europe and the United States. It is demanding that Belgian-French-Luxembourg guarantees for its bailout be increased from EU55-100 billion immediately. But at the same time, in June, it cut off its bond-lending lines to more than 100 cities all over France, putting the cities in a severe squeeze.

In Italy, where 400 local administrations bought interest-rate "swaps" totalling EU66 billion, Dexia's zombie is looting more than 10% of that. Its subsidiary Dexia-Crediop has sold "swaps" derivatives to 36 municipalities. Some cities, such as Florence, Pisa, and Prato, desperate at their condition with Eurozone austerity and looting payments to Dexia, have finally cancelled these looting contracts as illegal.

One U.S. victim of Dexia's "swaps" is Denver—although Royal Bank of Canada and Bank of America have taken them over from Dexia. Denver's public schools are now paying 6.17% interest on $396 million of variable-rate bonds to fund school pensions. Public school officials say they can't refinance the $396 million, even though interest rates on municipal bonds are at a historic low, which would make the current interest rate only 3.99%. This rate difference would save $8.6 million per year, enough to hire back a lot of teachers. But paying off the bonds at 6.17%, in order to refinance, would trigger a "termination event" of the bonds, demanding an up-front cash payment of the entire value of the criminally usurious interest-rate swaps. It is such austerity traps that a few Italian cities have started to break out of, taking advantage of the Libor rigging and other bank scandals.

In the U.S., Baltimore Mayor Stephanie Rawlings-Blake told CBS News July 14 that the Libor rate manipulation hurt most American cities at the worst possible time—the depth of the recession. Baltimore balanced a $62 million budget deficit by closing fire stations, recreational centers, and schools; the banks added $11 million to the deficit with artificially low interest rates on "swaps." Rawlings-Blake said there was no doubt that Barclays and other banks hurt Baltimore, an inner city with a very high death rate, tied, by comprehensive studies, to poverty. "We cannot stand by when we feel that we are being cheated," she said.

The Baltimore Firefighters Union head, Michael Campbell, said that the city's safety is affected by what the banks did. Some of the fire stations had to be closed. "Say, they're closed today and nobody's there. It's

The Libor Scandal and The European Union

This is an excerpt from an article by Helga Zepp-LaRouche, published in the German weekly Neue Solidaritaet of July 18.

For Europe, the consequences of this largest financial scandal in history are that the European Stability Mechanism (ESM) must be taken off the agenda! The bailout packages have unfortunately only helped the banks and speculators who, along with the Libor scandal, were probably also profiting from money laundering, and using taxpayers' money to speculate shamelessly against the government bonds of the very states that had financed the bailout packages.

Everything that the G-20 states and the EU have done since the outbreak of the financial crisis in July 2007 has proved without a doubt that the governments were being led by the nose by the major banks, which naturally were considered "systemic," or "too big to fail." The only problem is that this system is criminal, through and through. . . .

The ESM Directorate is supposed to be appointed by the EU finance ministers and to enjoy lifelong immunity. The finance ministers, the European Central Bank, and the European Commission in recent years were either incompetent and could not grasp the fact that a gigantic fraud was taking place under their noses, or they knew about it and turned a blind eye, thinking of their own advantage. In either case it would be gross negligence. The ESM's Directorate will be able to grab funds from national budgets at any time and speculate with the money on the primary and secondary money markets, creating a lawless playground for the members of a clique, whose trademark is their lack of any feeling of guilt.

In the aftermath of the Libor scandal, anyone who continues to support the ESM is guilty of high treason to the people and the general welfare!

Therefore a two-tier banking system must be immediately formed on the European continent, which renounces the EU treaties from Maastricht to Lisbon, and sets into motion a return to sovereign control of the currency and of economic policies.

There is life after the euro! We need the introduction of a new D-mark, and the creation of a credit system in the tradition of the Kreditanstalt für Wiederaufbau [Reconstruction Finance Agency] after the Second World War, but this time for the reconstruction program for Southern Europe, the Mediterranean, and Africa, as we have proposed. And there will also be an international Pecora Commission, though in the modified form of criminal proceedings by state prosecutors.

going to take a longer time for the next truck company to get here. So yes, it's a dramatic impact on safety."

Army of Lawsuits

A lawsuit started in August 2011 against Libor fraud, led by Baltimore, New Britain, Connecticut, and Charles Schwab Investments, is now consolidating into a nationwide action against the banksters. Some 24 class-action lawsuits brought by scores of city, agency, retirement, and investment funds were consolidated April 30 in U.S. Federal Court for the Southern District of New York, of Judge Naomi Reice Buchwald. There are 16 megabank defendants who sold "swaps" based on rigged Libor rates, accused of conspiring to suppress Libor rates, and to restrain trade from Aug. 8, 2007 to at least May 17, 2010 (Case I.D.: MDL No. 2262, 11 Civ. 2613). The suit charges that the banks "bilked" both the cities and the investors by manipulating Libor rates, and also misstated their own financial condition as bank counterparties; it is documented with detailed charts of interest rate changes to the banks' advantage and the cities' and investors' loss.

At least a plurality of major cities, state agencies, and investment funds in the country is now studying or considering such lawsuits.

In 2010, according to researcher Michael McDonald and Morgenson of the *Times*, municipalities alone paid over $4 billion to escape banksters' "swaps" deals, after paying monster interest rates until they did. North Carolina paid a $60 million "escape fee" that August to Dexiabank, equal to 1,400 full-time employees' salaries. California Water Resources spent $305 million to escape the clutches of Morgan Stanley "swaps." Reading, Pa. paid $21 million to JPMorgan Chase, equal to a year's real-estate tax revenue, and fell into state receivership. Oakland, Calif. is being destroyed by Goldman Sachs "swaps," and a popular campaign was started in 2011 to get the city to re-

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.

nounce these derivatives contracts.

More recently, New York State has bled to Wall Street $243 million—which it had to borrow on Wall Street.

Research by the Refund Transit Coalition found that a sample of 1,100 current "swaps" derivatives at more than 100 government agencies, together are robbing taxpayers of $2.5 billion a year.

Pennsylvania Auditor General Jack Wagner has made and published a study of the thousands of interest-rate swaps sold to government entities throughout his state by banksters. Philadephia and its school district had lost $331 million, as of 2010, in net interest payments and cancellation fees, and stood to lose another $240 million to Morgan Stanley, Goldman Sachs, Wells Fargo, and other banks. Reading and Harrisburg had both been pushed into state receivorship by termination fees on swaps; Harrisburg's incinerator project spiralled out of control into $300 million of unpayable debt, with the help of multiple interest-rate swaps. And "swaps" had cost Bethlehem $10-15 million above normal financing charges in 2009 alone, Wagner's study found.

Now—after the same banks which rigged the Libor rates have been bailed out with perhaps $6 trillion in purchases, and $25-30 trillion in liquidity loans by U.S. and European governments and central banks—these banks can borrow at virtually zero rates. But the states and municipalities trapped in their "swaps" can *not* refinance their bonds, and continue to pay 6-8% interest or monster criminal "penalties" to get out.

Time to turn the tables—with Glass-Steagall, and prosecutions for real.

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."