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Top Banks Conspired to Defraud Taxpayers

More than a dozen top American banks were involved in a conspiracy to swindle taxpayers by rigging auctions in the $2.8 trillion municipal bond market, according to an indictment filed by the Department of Justice and multiple lawsuits across the country.

Some conspirators are now cooperating with investigators or have already pled guilty, while other alleged participants deny wrongdoing and await trial.

The federal government and dozens of municipal bond issuers claim "advisory" firms like CDR Financial Products were fixing the bidding process on guaranteed investment contracts (GICs, basically a deposit that is supposed to provide higher returns than a traditional savings account) for state and local authorities in exchange for illegal kickbacks from banks. In hundreds of deals from coast to coast and over 34 states, CDR is alleged to have provided bogus information to municipalities while secretly telling the banks what rates to offer in order to win the bidding. The banks were conspiring together too, letting each other win or lose — always at the expense of taxpayers.

Among the institutions named by federal prosecutors after the three-year investigation are Wachovia, JP Morgan Chase, Citigroup, UBS, General Electric, and other industry giants. Bank of America, which was also involved but will not be prosecuted under an amnesty deal, announced in a press release that it had voluntarily informed the government of its illegal actions and was cooperating with the Justice Department. One of the firm's employees is a key witnesses in the case and reportedly explained the whole scam to investigators.

Three former employees of CDR have already pleaded guilty in connection with the ongoing federal investigation. Many of the banks have disclosed in regulatory filings that they may be sued by the Securities and Exchange Commission. And a former UBS municipal-bond trader named Mark Zaino pled guilty to conspiracy and fraud last week, and he also "spilled the beans" about the banks' taxpayer-extortion gimmicks.

"As a part of the bid-rigging conspiracy, Zaino, acting as a broker of investment agreements, and co-conspirator providers designated in advance which co-conspirator provider would be the winning bidder for certain investment agreements brokered by Zaino's employer," the Justice Department said in a press release announcing his guilty plea. "After the winning co-conspirator provider was designated, Zaino caused the other co-conspirator providers to submit intentionally losing bids, giving the false appearance that the investment agreements had been bid competitively … kickbacks in the form of inflated or unearned fees were paid to Zaino's employer and its parent financial institution in exchange for assistance in controlling the bidding process."

The City of San Jose, one of many alleged victims of the bankers' deception currently suing the banks, said in a federal complaint that its investigation revealed "a far-reaching, industry-wide conspiracy through which municipal derivative providers, working with municipal derivative brokers, foreswore competition with one another in the municipal derivative transactions of San Jose and others." The conspiracy also compelled the city to pay "exorbitant fees," it said.

San Jose summed up its claims against the alleged perpetrators, including Goldman Sachs, Citibank, Morgan Stanley, and others, saying: "They manipulated and allocated the municipal derivatives market amongst themselves in ways that included but was not limited to: signaling to each other their intended bids and whether they were interested in winning a particular transaction; submitting courtesy bids on transactions they had no intention or desire to win in order to give transactions an artificial veneer of fairness; refraining from bidding on transactions to allow another to prevail without competition; lowering their intended bids in response to signals that the transaction could be won by them at terms that would yield higher profits; giving false price verification reports; kicking back money through undisclosed and/or unearned fees; and other actions that depressed the returns that San Jose and other municipal bond issuers earned on municipal derivative transactions and otherwise caused them economic injury, while inflating the profits of defendants."

"Because of the pervasiveness of this conduct and the inter-transactional relationship of defendants' illegal conduct, the conspiracy has had a market-wide effect on the terms of municipal derivative transactions and prices of services associated therewith, depriving San Jose and other municipal bond issuers of the benefits of free competition. As a result, San Jose suffered harm in several ways, including, but not limited to: (a) receiving rates on municipal derivatives that were artificially depressed and uncompetitive; (b) being forced to engage counter-parties to municipal derivative transactions that carried increased credit risks that were not reflected in the terms of the transactions; and (c) being forced to pay uncompetitive, inflated fees and costs in municipal derivative transactions."

Using various sources including federal indictments, government lawsuits across the country, e-mails, and interviews, Bloomberg news service wrote a comprehensive piece about the "workings of the conspiracy" entitled "Conspiracy of Banks Rigging States Came With Crash." "As the banks were steering the world's financial system to the brink of catastrophe by loading more than $1 trillion of subprime mortgage loans into opaque debt investments, they were also duping public officials across the U.S.," the service reported. "The bid rigging in GIC contracts has reduced public funding for schools and housing across the U.S." Most of the accused individuals and institutions refused to comment, it added.

"The whole investment process was rigged across the board," former chief of field operations for the Internal Revenue Service's tax-exempt bond division Charlie Anderson told Bloomberg. "It was so commonplace that people talked about it on the phones of their employers and ignored the fact that they were being recorded." He estimated the frauds looted taxpayers for billions of dollars, but warned that there are a lot more indictments to come. "They were gouging the municipalities.... We could hear people talking about how everyone knew who was going to win the bid. You could tell it was just everyday business."

The Bloomberg article also pointed out that this is not the first time big banks were ripping off clueless local politicians. Around the year 2000, multiple banks including "vampire squid" Goldman Sachs agreed to pay over $170 million for selling Treasury bonds to municipalities for more than they were worth. Of course, they're also involved in manipulating precious metals, stocks, real-estate, and other markets with the help of their cohorts at the Federal Reserve central bank.

But unfortunately for Americans, the financial "reform" legislation set to be foisted on the nation will only serve to further entrench the activities of the banking cartel while regulating and robbing "main street" into total bankruptcy, doing absolutely nothing to rein in the criminal banking syndicate or the myriad federally created problems that caused the economic collapse. Congress should look to the

Constitution for solutions — not the big banks busily fleecing American taxpayers.