Head of Bush’s "financial crimes swat team": a fox to guard the henhouse

Joseph Kay
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Larry D. Thompson, the US deputy attorney general, has been named to head the new corporate crime task force that George W. Bush announced in his July 9 speech on Wall Street. The 16-member panel, which Bush called a financial crimes “swat team,” will include several individuals from the Justice Department as well as Treasury Secretary Paul O’Neill and FBI Director Robert Mueller.

But just as Bush is tarnished by his record at Harken Energy and Vice President Dick Cheney is under investigation for shady practices at Halliburton, Thompson’s public persona as anti-corruption cop is undermined by his past association with the credit card company Providian Financial Corp. While Thompson served on the Providian board of directors and audit committee, the firm was cited for consumer, shareholder and accounting fraud, as well as insider trading.

Thompson has long-standing ties with the most right-wing sections of the Republican Party. Prior to his nomination as deputy attorney general, he was most widely known for his role in the confirmation hearings of Supreme Court Justice Clarence Thomas. Like Thomas, Thompson was promoted as an African-American who could lend the Republican right an aura of “diversity.”

According to one account (*Strange Justice* by Jane Mayer and Jill Abramson), Thompson was involved in the plot to undermine the credibility of Anita Hill, who had claimed that she was sexually harassed by Thomas. In defending Thomas, Thompson helped develop the theory that Hill suffered from sexual delusions. Thompson was also active in promoting the failed Supreme Court nomination of Robert Bork, another extreme-right judge nominated by Reagan.

Thompson’s nomination as deputy attorney general, which coincided with the nomination of right-wing lawyer Ted Olson as solicitor general, was lauded by the Christian fundamentalist faction of the Republican Party. Olson was the lead attorney in the Bush vs. Gore cases before the Supreme Court that led to the anti-democratic installation of Bush as president in 2000. A co-counsel in those cases was former attorney general Griffen Bell, a partner at the law firm King & Spalding. Thompson has been a partner at King & Spalding and associate of Bell for much of his non-governmental career.

Thompson served as a US attorney for the northern district of Georgia during the Reagan administration, from 1982 to 1986. Prior to that he worked as an associate for King & Spalding and returned to the firm as a full partner in 1986, a position he held until his Justice Department appointment by George W. Bush.

It was a fellow partner at King & Spalding who recommended Thompson to serve on the board of directors of Providian. Thompson was a director and chairman of the company’s audit and compliance committee from June 1997 until he joined the Bush administration in May 2001.

Providian’s market niche is low-income people and those with bad credit histories. The company profits by extending credit at high rates to those least able to afford it—the so-called “subprime market.”

In addition to the unsavory practices inherent in such a business, Providian was apparently involved in outright corruption. Last year it settled charges that it illegally billed excessive fees and violated consumer protection regulations. Federal and state regulators charged the company with denying its low-income borrowers a customary grace period and tricking them into accepting higher interest rates and hidden charges.

For example, Providian claimed that one of its credit cards was available for "no annual fee," but failed to disclose that a fee would be charged if customers did not meet certain eligibility requirements. Providian employees stated that the company aggressively and misleadingly attempted to get customers to sign up for costly and unnecessary "add-on" services. One former customer service representative stated in 1999 that the company was "just bilking customers out of their money."

As an indication of the type of business the company runs, the *San Francisco Chronicle* cited an internal memo written by Providian founder Andrew Kahr to company executives in March 1999. The memo read: "Is any bit of food too small to grab when you're starving and when there is nothing else in sight? The trick is charging a lot, repeatedly, for small doses of instrumental credit." The problem, he continued, "is to squeeze out enough revenue and get customers to sit still for the squeeze."

Providian was eventually forced to pay over $400 million in two different settlements, though the company never admitted any wrongdoing.

In addition to consumer fraud, Providian was charged with accounting irregularities while Thompson was head of the audit committee. Starting in the second quarter of 2001, the company began writing off loan defaults on a monthly basis, rather than immediately. The change in accounting practice had the effect of delaying a sharp drop in earnings, shifting $30 million in loan losses to the third quarter report of 2001, rather than the second quarter report.

While eventually all the expenses were accounted for, the accounting gimmick allowed top executives to cash in on stock options before the value of the shares fell. Outstanding shareholder and employee lawsuits have alleged insider trading.

During this period, CEO Shailesh Mehta sold 75,000 shares worth $3.7 million. David Alvarez, a former president of the company's integrated circuit unit, sold off $12.2 million worth of options. Several other directors and executives followed suit.

It was also around this time—in May of 2001—that Thompson sold some $4.7 million worth of Providian stock upon being confirmed by the Senate to his government post. The sale was nominally carried out to comply with ethics regulations. It was nevertheless a lucky coincidence. Providian stock began to fall two months later from a high of nearly $60. The company only revealed its accounting change in August of that year, under pressure from investors. By November, the stock was trading at a low of $2.

Another class-action lawsuit filed by 10,000 Providian employees charges that throughout this period the company's officers and directors were recommending the stock for employee 401(k) plans, withholding information regarding the true health of the company and surreptitiously cashing in while the price was right. Thompson is one of the defendants in this case.

In the wake of the accounting revelations and subsequent 401(k) plan losses, thousands of Providian employees have been laid off.

There is essentially no difference between these practices and those carried out by Enron, WorldCom and the rest of the companies that Thompson will be tasked with policing. That he has been selected to head the "swat team" indicates how pervasive the corruption is in both business and government, and how much reliance the public should place in official pledges to "clean house."