US bank regulator retires amid fraud scandal

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On February 27, Darrel W. Dochow quietly retired from his job at the US Treasury Department's Office of Thrift Supervision. Over more than two decades, Dochow compiled a record as a bank regulator that epitomizes the corrupt relationship between government agencies and the banks they nominally police that has played a significant role in the financial collapse and resulting global depression.

Dochow was removed from his post as West regional director of the Office of Thrift Supervision last December after an investigation by the Treasury Department's Inspector General's Office found that in May of 2008 he had allowed IndyMac Bank of Pasadena, California to falsify its financial filings with the government in order to conceal the bank's perilous capital position. Two months later IndyMac, which specialized in high-risk, high interest home loans, collapsed after a run on the bank by depositors and was seized by the Federal Deposit Insurance Corporation, at an estimated cost of $9 billion to US taxpayers.

At the time the third biggest bank failure in US history, the IndyMac collapse wiped out an estimated $300 million in depositors' savings. By colluding with the bank's management to conceal its losses and continue luring investors and ordinary depositors with high interest rates, Dochow helped raise the ultimate cost of the bailout by perhaps billions of dollars and increase the losses suffered by depositors by many millions.

Dochow continued to draw his lucrative salary even after he was removed from his high-level position. According to government reports, he earned $230,000 in 2007. A March 5 report by ABC News on Dochow's retirement concluded, "Dochow is not expected to go to prison."

At the time of the IndyMac collapse, depositors were enraged when they learned that two decades earlier Dochow, then head of supervision and regulation at the Federal Home Loan Bank Board in Washington, had intervened to veto calls by regional regulators to investigate Irvine, California-based Lincoln Savings & Loan.

Lincoln collapsed in 1989 with losses of $3.4 billion, making it the biggest of more than 700 thrift institution failures in the late 1980s and early 1990s that ultimately cost taxpayers over $130 billion in a government bailout and wiped out the life savings of tens of thousands of families. Lincoln's CEO, Charles Keating, went to prison in the biggest financial scandal in US history—until the current crisis.

Dochow was eventually demoted but then worked his way up through the ranks of the Office of Thrift Supervision, which replaced the Home Loan Bank Board, and was promoted in September of 2007 to the top position at the agency's western division.

After the IndyMac failure, the Office of Thrift Supervision categorically defended Dochow. Its spokesman declared, "The OTS has the highest confidence in Regional Director Darrel Dochow. Any attempt to draw parallels between the events of 2008 and two years ago is a stretch, at best. There is no valid comparison."

Among other failed banks that Dochow supervised were the giant subprime mortgage lender Countrywide Financial, Downey Savings & Loan and Washington Mutual. The latter, the sixth largest bank in the US, was the biggest bank failure in American financial history. It occurred in September of 2008, two months after the IndyMac collapse, while Dochow was still in charge.

IndyMac was a spin-off of Countrywide Financial, initially headed by Countrywide's founder and long-time CEO Angelo Mozilo. Until the collapse of the housing bubble, it raked in profits and gave investors high returns by marketing so-called "Alt-A" home loans, otherwise known as "liar loans" because they required no documentation of the borrower's income or assets.

Last December, the Treasury Department's inspector general, Eric Thorson, sent a letter to members of Congress summing up his findings on Dochow's role in the IndyMac failure. He explained that in a telephone conference call in May of 2008, Dochow approved IndyMac's request to backdate a just-received cash infusion of $18 million from its parent company to the end of March. The purpose of this bit of accounting fraud was to enable the bank to file a first-quarter report with regulators that would show the bank having, as of March 31, sufficient reserve capital to obtain a "well-capitalized" rating.

Without such a rating, the bank would be prohibited from gathering deposits through brokers who funnel money from investors around the country. IndyMac was heavily reliant on such funds, and without them it faced imminent collapse. With Dochow's blessing, IndyMac filed a false first-quarter report and retained its "well-capitalized" rating.

It is a crime to knowingly make false statements in the financial records of a public company.

The *Washington Post* reported December 23 in an article on Thorson's letter to Congress that Dochow's machinations with IndyMac went further. "At another point last spring," wrote the *Post*, "Dochow limited the scope of a review by OTS regulators of IndyMac's portfolio of loans and other assets, overruling the advice of others in the agency, according to a source with knowledge of the incident."

In its March 5 report on Dochow's retirement, ABC News said: "In at least one instance, investigators say, banking regulators actually approached [IndyMac] with the suggestion of falsifying deposit dates to satisfy banking rules—even if it disguised the bank's health to the public."

In his letter, Thorson said the Office of Thrift Supervision—which is financed from fees paid by the institutions it supervises—allowed other banks besides IndyMac to make similar revisions to financial statements, although the letter gave no details of other examples. The *Washington Post* article from December reported that when asked at a briefing with members of Congress "whether he would describe the problem as ‘systemic,' Thorson responded, ‘Yes,' according to a congressional aide who attended the briefing."

Certain questions immediately arise from this litany of official corruption and criminality. How was it possible that an individual compromised in the Lincoln Savings & Loan scandal could reemerge in a top regulatory position? Why have Dochow's machinations been given so little media attention? Why are Congress and the Obama administration refusing to sound the alarm and conduct serious public investigations and criminal prosecutions of those involved in "systemic" fraud?

The basic answer is that Dochow is not an aberration, but rather one example of financial fraud and government collusion that are pervasive in the US economic and political system. Three decades of banking deregulation, carried out by both Democratic and Republican administrations in order to facilitate a growth of financial parasitism and the enrichment of a financial aristocracy, have transformed government regulatory agencies into facilitators of criminal activity.

The real role of agencies such as the Office of Thrift Supervision and the Securities and Exchange Commission (SEC), whatever their official mandates, is to aid and abet the redistribution of wealth from the bottom to the top of society and run interference for the big banks and financial interests. Their leading personnel are selected accordingly. Dochow was promoted to oversee banks on the West Coast because his record proved his suitability for this job.

There is, moreover, a well-established revolving door between bank regulatory agencies and Wall Street, with regulators using their government positions as a stepping stone to landing plum jobs in the private sector with seven-figure compensation packages.

Other recent cases of financial fraud on a gigantic scale exemplify the same corrupt relationships. Billionaire Texas businessman Robert Allen Stanford, charged by the SEC last month with operating a $9 billion Ponzi scheme, was able to operate with impunity for years because he enjoyed the support of top politicians from both parties, to whose campaign coffers he contributed $1 million—78 percent of it going to Democrats. The *Washington Post* last month quoted an SEC official in Fort Worth, Texas who reported that after beginning an earlier investigation into Stanford's suspicious investment schemes, "the SEC ‘stood down' at the request of another federal agency."

Bernard Madoff, a Wall Street "legend" and former head of the Nasdaq Stock Market, who is expected to plead guilty today of running a Ponzi scheme that collapsed last December, with losses estimated by the government at $65 billion, was shielded for years by the SEC and other regulators. Since 2000, he has given at least $100,000 to the Democratic Senatorial Campaign Committee and more than $23,000 to the party's candidates, including New York Senator Charles Schumer, the chairman of the Joint Economic Committee of Congress.

Beginning in 1999, Harry Markopolos, an executive in the securities industry, repeatedly urged the SEC to investigate Madoff. "Madoff Securities is the world's largest Ponzi scheme," he wrote in one letter to the SEC. Other investment firms steered their clients away from Madoff.

The SEC, which had investigated and cleared Madoff in 1992, refused to intervene. On the contrary, Madoff was appointed to a committee of academics, regulators and executives formed in 2000 by then-SEC Chairman Arthur Levitt to advise the agency on new stock market rules in response to the growth of electronic trading.

The immense power of financial moguls like Madoff was underscored in congressional testimony by Markopolos last month. The whistleblower said he feared for his safety during the years he sought unsuccessfully to convince regulators to investigate Madoff's operations. "We knew that he was one of the most powerful men on Wall Street," he said, "and in a position to easily end our careers, or worse."

At a business roundtable meeting in 2007, Madoff boasted of his "very close" relationship with regulators, chuckling as he added, "In fact, my niece even married one."