US: Watchdog says Treasury misled public about cost of bank bailout

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Neil Barofsky, a top overseer of the US bank bailout program, published an audit Monday in which he asserted that Bush administration Treasury officials misled the public about the financial condition of firms receiving bailout funds. The revelations amount to an admission by an agency of the federal government that top government officials lied to the public about potential losses in order to push through the bailout program.

Barofsky, the special inspector general for the Troubled Asset Relief Program (TARP), noted that in selling the bailout to the American people, Bush administration officials repeatedly insisted that the banking system was sound and claimed that the public stood to retrieve the $700 billion in taxpayer money allocated under TARP, perhaps with a profit.

Barofsky's report cited Treasury Secretary Henry Paulson, who stated on October 14, 2008, "These are healthy institutions, and they have taken this step for the good of the US economy." The same day, the Treasury Department, the Federal Reserve and the Federal Deposit Insurance Corporation said in a joint statement that "these healthy institutions are taking these steps to strengthen their own positions and to enhance the overall performance of the US economy."

These statements came the day after Paulson met privately with the heads of the nine largest US banks and obtained their agreement to accept a combined total of $125 billion in public funds, at interest rates highly favorable to the banks.

According to Barofsky, however, "Contemporaneous reports and officials' statements to SIGTARP (Special Inspector General for TARP) during this audit indicate that there were concerns about the health of several of the nine institutions at that time."

Barofsky took care to couch his exposure in non-accusatory terms. The conclusion he drew was not that Paulson and other top Bush officials should be indicted and prosecuted for fraud and conspiracy. Rather, he advised that "federal officials should take more care in publicly characterizing the nature and objectives of their initiatives," so as to maintain the credibility of their program to bail out Wall Street.

Nevertheless, his report sheds light on the existence of a conspiracy between the major banks, the Bush administration and the Democratic-controlled Congress to carry out the greatest diversion of public resources to the financial aristocracy in history—a process that has been accelerated by the Obama administration.

Barofsky was somewhat less reserved in an interview Monday on CNN, in which he said, "Secretary of Treasury Hank Paulson came out to repeatedly emphasize how healthy these institutions were, and as a result, that this infusion of capital would get them lending again, and as we disclose in our audit, this just wasn't an accurate statement." He added, "The Treasury and the Federal Reserve had serious concerns about the health of these institutions."

Asked about the likelihood that the US government would recoup the money it spent bailing out the banks, Barofsky said, "I think it's extremely unlikely that we're going to have a dollar-for-dollar return, and I don't think the program is designed to have a dollar-for-dollar return."

Barofsky's audit goes into some detail regarding last year's takeover of Merrill Lynch by Bank of America. The report notes that while rivals Citigroup and JPMorgan Chase each received $25 billion in bailout money, Bank of America received not only its allocated $25 billion, but also the $10 billion slated for Merrill Lynch.

Bank of America later received an additional $20 billion in emergency funds, as well as guarantees on hundreds of billions of dollars worth of assets, after Merrill revealed disastrous fourth-quarter losses amounting to $15.3 billion.

There is considerable evidence suggesting that Bank of America, under pressure from Paulson and Federal Reserve Chairman Ben Bernanke, concealed the real state of Merrill, as well as Merrill's plans to award its executives millions of dollars in bonuses, from both Bank of America shareholders and the public in order to complete its takeover of the investment bank. Congressional hearings have been held on the deal and New York Attorney General Andrew Cuomo is reportedly considering issuing indictments in connection with the takeover.

This is not the first time an oversight body has issued criticisms of the bailout program. On July 20, Barofsky chided the Obama administration Treasury Department for failing to demand that the banks disclose what they were doing with the taxpayer money they had received, and warned that the bailout could end up costing the government up to $23 trillion. Earlier that month, the Congressional Oversight Panel, another oversight body for the TARP, found that the government was receiving just 60 cents on the dollar on many obligations owed to it by the banks.

These revelations have been simply ignored. The TARP oversight bodies have no real power, and neither the Obama administration nor the Democratic-controlled Congress has any intention of responding to their disclosures or acting on their recommendations for greater "transparency."