

# New York settles fraud charges with ex-Auto Task Force head Steven Rattner

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On December 30, two days before assuming the governorship of New York, Attorney General Andrew Cuomo announced a settlement of fraud charges against the Wall Street financier and former head of President Obama's Auto Task Force, Steven Rattner.

The settlement involves no admission of wrongdoing. It requires Rattner to pay \$10 million—a fraction of the Wall Street dealmaker's wealth, estimated at between \$188 million and \$608 million—and bars him from appearing before a public pension fund within the state for five years.

The agreement represents a major climb-down by Cuomo. Just weeks ago, the then-attorney general and governor-elect was demanding that Rattner pay at least \$26 million and that he be banned from the New York securities industry for life. Cuomo also threatened to file criminal perjury charges against Rattner.

On November 18 of last year, Cuomo filed two civil suits claiming that Rattner, as head of the Quadrangle Group private equity fund, used bribes and kickbacks in 2004 and 2005 to obtain management over \$150 million of assets of the New York State Common Retirement Fund. Quadrangle netted \$5 million in fees from the deal.

Announcing the charges, Cuomo stated last November: "The investigation showed and the lawsuits allege that Rattner arranged for a series of kickbacks aimed at influencing the Office of the State Comptroller. These kickbacks included more than one million dollars in sham placement fees paid to Henry "Hank" Morris, the political adviser to then-State Comptroller Alan Hevesi."

Cuomo filed his charges on the same day that the Securities and Exchange Commission (SEC) announced a settlement with Rattner on similar federal charges. Under the SEC settlement, Rattner did not admit to any wrongdoing, but agreed to pay \$6.2 million in penalties and accept a two-year ban on "associating with any investment adviser or broker-dealer."

Both announcements coincided with the "new" General Motors' initial public stock offering, which netted over \$20 billion. Rattner praised the IPO as a vindication of his role in throwing GM and Chrysler into bankruptcy in 2009 and imposing sweeping cuts on auto workers' jobs, wages and benefits, including a 50 percent wage reduction for new-hires.

Cuomo's charges sparked a bitter and public feud between Rattner and the attorney general's office, with Rattner accusing Cuomo of "extortion" and bringing politically motivated charges, and Cuomo accusing Rattner of lying to his investigators to cover up illegal operations.

Alan Hevesi, the former comptroller general and trustee of the pension fund, pleaded guilty last October to a felony charge stemming from his role in the kickback scheme. Hevesi admitted knowing that a longtime political aide, Henry Morris, had been paid millions of dollars to win business from the fund for Rattner's Quadrangle Group and other investment firms. Morris and six others besides Hevesi have pleaded guilty to crimes in the case.

The New York state investigation, which has been ongoing for years, has uncovered pervasive corruption and criminality in relations between Wall Street and the pension fund. Nineteen firms and five individuals have settled civil charges for a total of \$170 million. Besides Quadrangle, the firms include the Carlyle Group and HM Capital.

What developed after Cuomo announced his charges against Rattner was something of a test of strength, with much of Wall Street—including New York's multibillionaire mayor, Michael Bloomberg—the media and the Democratic Party establishment lining up behind Rattner, who is not only a major player in the financial industry but also a key fundraiser and powerbroker in the Democratic Party.

Rattner embodies in his career, lifestyle and activities the financial aristocracy that has come to dominate every aspect of economic, social and political life in the United States. Typical of this parasitic element, he made his fortune not by expanding the productive infrastructure, but through financial manipulations and mergers that more often than not involve downsizing and the slashing of jobs.

According to *Fortune* magazine, Rattner lives in a "sprawling" Manhattan apartment, which "overlooks Central Park and the Metropolitan Museum of Art (where he is on the board)." The magazine continues: "He has a horse farm in North Salem, New York, in northern Westchester County, near his friend, New York City Mayor Mike Bloomberg, and is building a 15,575-square foot house on the water in Martha's Vineyard."

Among Rattner's professional pursuits is the management of the \$13 billion personal fortune of Mayor Bloomberg. In the midst of the New York state investigation that culminated in Cuomo's charges against Rattner, Bloomberg ostentatiously announced that his friend would continue to manage his money.

Rattner left a stint as a *New York Times* business reporter in the early 1980s to make serious money on Wall Street. He rose through the ranks at Lehman Brothers and Morgan Stanley before becoming the number two executive at investment firm Lazard Freres. There he made his name orchestrating mega-mergers in the media field, such as the sale of Paramount Communications to Viacom.

In 2000, Rattner co-founded Quadrangle Group LLC to extend his speculative activities in the media sector and other businesses. During his nine years at Quadrangle, Rattner earned upwards of \$190 million, according to a November 19, 2010 report in the *New York Times*.

In February 2009, he left Quadrangle to become co-chairman of Obama's Auto Task Force. He resigned from the Task Force in July, several months after the SEC announced it was investigating a "senior executive" at Quadrangle for corrupt relations with New York state pension fund officials.

Rattner's wife, Maureen White, is a powerful figure in the Democratic Party in her own right. She is the former finance chairwoman of the Democratic National Committee and was finance co-chair for the presidential campaign of Hillary Clinton. She recently returned from Afghanistan, where she served as an aide to Obama's now-deceased special envoy, Richard Holbrooke.

Rattner's lawyers in the pension kickback case include highly placed figures in the Democratic Party and the state, such as Jamie Gorelick, the deputy attorney general under Clinton and member of the 9/11 Commission, and Lewis Liman, the son of Arthur Liman, who was the chief counsel for the Senate investigation into the 1980s Iran-Contra affair.

An October 12, 2010 party at New York's Four Seasons restaurant, held to celebrate Rattner's release the previous month of his book on the GM-Chrysler bailout, entitled *Overhaul*, was attended by a virtual Who's Who of Wall Street, the Democratic establishment and the media. The affair was co-hosted by Mayor Bloomberg, *New York Times* publisher Arthur Sulzberger, Jr. and Comcast CEO Brian L. Roberts.

Among the attendees were JPMorgan Chase CEO Jamie Dimon, Goldman Sachs CEO Lloyd Blankfein, Henry Kravis of the private equity fund Kohlberg Kravis Roberts, Tony James of the Blackstone Group, former Wall Street banker and treasury secretary Robert Rubin, Clinton administration veterans Roger Altman and Vernon Jordan, and, from the media, Barbara Walters, Tina Brown, Ken Auletta and CNBC's David Faber.

These facts explain why Rattner has escaped with little more than a wrist-slap despite substantial incriminating evidence against him. In a lengthy article published December 7, 2010,

the *Times* laid out aspects of Cuomo's case, based on notes evidently leaked by his office.

The article revealed that Rattner's lawyers withheld potentially incriminating emails from the New York attorney general. These were released to Cuomo by Rattner's former partners at Quadrangle in April of last year, when the firm settled state charges of fraud for \$12 million and issued a statement saying, "We wholly disavow the conduct engaged in by Steve Rattner. That conduct was inappropriate, wrong and unethical."

Cuomo concluded from the emails that Rattner had lied when he was first interviewed in 2007, after which Cuomo had given him immunity from criminal prosecution in the pension case. The emails indicated that Rattner, through a company controlled by Quadrangle, engineered the distribution of a film made by the brother of the chief investment officer of the New York pension fund.

It has also been reported that Rattner donated \$50,000 to the election campaign of Hevesi.

Throughout the affair, Rattner has displayed an attitude of unconcealed contempt. The December 7 *Times* article notes that Cuomo accused Rattner's legal team of "acting thuggish" and threatened to turn them over to the bar association. The article cites a lawyer from Cuomo's office who claimed that one of Rattner's lawyers threatened him and his associates.

The entire affair illustrates certain fundamental realities about contemporary American social and political life. First, it highlights the social interests that dominate the political system and dictate the policies of the Obama administration. Second, it underscores the reemergence of the aristocratic principle, where certain individuals and social layers—those who monopolize the social wealth—are above and beyond the laws that apply to ordinary mortals.



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