Obama administration moves to quash state investigations of Wall Street banks

Andre Damon, Barry Grey
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The Obama administration has intervened to support a settlement by banks charged with fraudulent practices in the processing of home foreclosures that would prevent state governments, New York in particular, from carrying out their own investigations of major Wall Street firms.

The *New York Times* reported Monday that Shaun Donovan, the US secretary of housing and urban development, together with high-ranking Justice Department personnel, has been "waging an intensifying campaign" to persuade Eric T. Schneiderman, the New York attorney general, to drop his opposition to a settlement of the home foreclosure charges.

Under the proposed settlement, major banks including JP Morgan Chase, Wells Fargo, Citigroup and Bank of America, would pay a combined total of $20 billion, which would supposedly go toward home loan modifications and homeowner counseling. In return, bank executives would be shielded from possible civil suits or criminal prosecutions arising from state probes into their role in fueling the sub-prime mortgage bubble, whose collapse triggered the financial meltdown of September 2008.

Schneiderman's office has opened several inquiries into banking practices during the mortgage boom of the mid-2000s.

Last year it emerged that banks and mortgage companies forged documents and paid employees with no knowledge of the homes in question to sign legal documents that were then used to process foreclosures.

The amount of the settlement of charges arising from these practices—$20 billion—represents a financial wrist-slap for banks that made multiples of this figure from the creation and sale of securities linked to toxic home loans. These banks have continued to reap huge profits from speculative bets in the midst of a global economic crisis of their own making that has destroyed the jobs and living standards of countless millions in the US and around the world. Nevertheless, the banks have resisted paying even this token sum.

$20 billion will barely make a dent in a foreclosure crisis that has already thrown millions of Americans out of their homes. US homeowners collectively owe the banks $753 billion more than the market value of their homes.

Schneiderman has based his opposition to the deal on provisions barring future litigation against the banks. The *Times* quoted Danny Kanner, a spokesman for Schneiderman, as saying, "The attorney general remains concerned by any attempt at a global settlement that would shut down ongoing investigations of wrongdoing related to the mortgage crisis."

Schneiderman is only the most prominent of several state attorneys general, including Catherine Cortez Masto of Nevada and Beau Biden of Delaware, who have refused to support the proposed settlement.

In pressuring Schneiderman to drop his opposition to the deal, the Obama administration claims to be motivated by a desire for a quick resolution that would funnel $20 billion in aid to hard-pressed homeowners. "Our view is we have the immediate opportunity to help a huge number of borrowers to stay in their homes, to help their neighborhoods and the housing market," Donovan told the *Times*.

A spokeswoman for the Justice Department echoed this line, telling the newspaper, "The Justice Department, along with our federal agency partners and state attorneys general, are committed to... bring relief swiftly because homeowners continue to suffer more each day that these issues are not resolved."

This pretense of humanitarian concern for the plight of distressed homeowners is utterly cynical and dishonest. Since the mortgage crisis began more than four years ago, the government, first under Bush and then under Obama, has done virtually nothing to help homeowners stay in their homes.

Under Obama, the major cause of mortgage delinquencies and defaults has shifted from predatory loan practices to the impact of prolonged unemployment. But the administration has refused to take any serious steps to halt foreclosures in deference to the banks, which fiercely oppose any measures that would negatively impact their balance sheets or profits.

The White House would have the public believe it a mere coincidence that its newfound urgency in regard to the foreclosure crisis coincides with a campaign by the banks to block legal action against them.

Executives of the major banks are meeting with law enforcement officials Thursday, the *Financial Times* reported, to continue negotiations over the settlement, which the newspaper said remains several weeks from completion. Representatives of Citigroup, JP Morgan Chase, Wells Fargo and Bank of America have remained in “frequent dialog” with state attorneys general and prosecutors, the newspaper said.

The *Times* article noted that Schneiderman has also come under criticism from the Obama administration for suing to block a separate deal reached earlier this year that would settle civil actions filed by 22 institutional investors against Bank of America. Investors, including the Federal Reserve Bank of New York, the giant asset managing firm BlackRock, and Pimco, the world’s largest bond fund, sued Bank of American over 530 mortgage-backed securities which the claimants say were sold on the basis of false information.

The deal, brokered by Bank of New York Mellon, would require Bank of America to pay $8.5 billion to the investors holding these securities. Schneiderman intervened to block the settlement on the grounds that the $8.5 billion represents a mere fraction of investors’ losses and that the deal was worked out behind the backs of many holders of the securities.

The *Times* article reports a recent public altercation between Schneiderman and Kathryn S. Wylde, the chief executive of the Partnership for New York City and a member of the board of the Federal Reserve Bank of New York, which supports the settlement. Speaking to the newspaper about her argument with the attorney general, Wylde gives voice to the attitude of subservience to Wall Street that characterizes the Obama administration and the political establishment as a whole.

“Wall Street is our Main Street—love ‘em or hate ‘em,” she tells the *Times*. “They are important and we have to make sure we are doing everything we can to support them unless they are doing something indefensible.”

Evidently, the threshold in official circles for what is “indefensible” is infinitely high when it comes to Wall Street. Under Obama, the federal government has failed to file a single criminal charge against a high-level banker or even bring a civil case to trial in connection with the fraud and lawlessness that pervaded the dealings of the banks during the sub-prime mortgage boom and its catastrophic aftermath.

This is not for lack of evidence. Last April, the Senate Permanent Subcommittee on Investigations released a 650-page report on the financial crisis that provided a detailed factual account of banking fraud as well as the collusion of federal regulatory agencies and the credit rating firms. The report concluded with a list of federal securities statutes that it suggested had been violated by major Wall Street firms.

The Obama administration has ignored this report as part of its efforts to shield the financial elite from being held to account for its actions.

Now, having blocked any federal prosecution of senior bank officials, the administration is intervening to quash investigations at the state level. Nothing could more clearly demonstrate its role as a tool of the US financial oligarchy.