How the government enables Wall Street parasites to cash in on the crisis

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As the Obama administration concludes a settlement with five major banks, quashing state investigations into rampant fraud related to home foreclosures, speculation in the mortgage-backed securities that caused the 2008 meltdown is once again picking up.

Saturday's *New York Times* reported that Greg Lippmann, a former Deutsche Bank trader who made millions of dollars personally and $1.5 billion for Deutsche Bank by betting against mortgage-backed securities, at the same time his bank was selling them to clients, is back in business buying and selling these toxic assets.

The article noted that others resuming trading in these assets include American International Group (AIG), the insurance giant that was bailed out by the government to the tune of $100 billion, and a former mortgage team from Lehman Brothers, the Wall Street investment bank whose collapse triggered the global financial panic on September 15, 2008.

Lippmann, who was the head collateralized debt obligation (CDO) trader at Deutsche Bank during the housing bubble and its implosion, has now started his own hedge fund, LibreMax Capital, and succeeded in raising over a billion dollars to speculate in mortgage-backed securities. (CDOs are complex securities comprised of mortgage-backed securities, which are themselves assembled from pools of home loans).

Thus, three-and-a half years after the financial crash that triggered the worst economic crisis since the Great Depression, the same speculators whose swindling caused the banking meltdown have not only been bailed out by the government, they have been put in a position to make a new financial killing by the government's policy of cheap credit and its refusal to carry out serious bank reform or pursue criminal prosecutions.

Lippmann's activities during the meltdown were described in a 600-plus page report on the Wall Street crash released last April by the Senate Permanent Subcommittee on Investigations. That report, which detailed fraudulent and illegal actions by Deutsche Bank, Goldman Sachs and Washington Mutual and the complicity of the ratings agencies and federal bank regulators, was quickly buried by the media and has remained a dead letter.

It noted that Lippmann referred to mortgage-backed securities like the ones Deutsche Bank was selling at the time as "crap," and predicted that they would plummet in value. It stated: "At one point, Mr. Lippmann was asked to buy a specific CDO security and responded that it 'rarely trades,' but he 'would take it and try to dupe someone' into buying it. He also at times referred to the industry's ongoing CDO marketing efforts as a 'CDO machine' or 'Ponzi scheme.' "

Deutsche Bank, according to the Senate report, went on to sell toxic mortgage-backed securities "without disclosing to potential investors that its global head trader of CDOs had extremely negative views" about the securities, or that, according to the bank's models, the assets had recently lost billions of dollars in value.

Despite earning millions through his documented involvement in what he himself called a "Ponzi scheme," Lippmann is neither doing time in prison nor fending off federal investigations. Rather, he is back to his old business of placing bets on toxic assets.

And business is booming. The *New York Times* article observes that there has recently been renewed interest by banks and hedge funds in the very mortgage-backed securities that were instrumental in the sub-prime mortgage meltdown, as these assets, despite falling in value, were never decommissioned and continue to trade.

The revived interest is partly attributable to low prices, which, amid a housing market that shows little sign of recovery, have continued to plunge. At the current prices, the article notes, people like Lippmann stand to make lucrative profits on the securities even if home values continue to fall.

Among the factors the *Times* cites as creating a favorable environment for renewed mortgage speculation is the settlement with the major banks on foreclosure violations announced February 9 by the administration. President Obama hailed the agreement as a boon to homeowners and a sharp rebuke to the banks.

It was nothing of the kind. It was a windfall for the banks—JPMorgan Chase, Bank of America, Citigroup, Wells Fargo and Ally Financial—relieving them of the prospect of untold billions in fines and damages related to the state probes that were closed down. In return, they were required to make a wrist-slap cash payment of $5.9 billion and pledge another $25 billion in supposed home loan principal write-downs and other forms of relief for distressed homeowners.

And as the *Financial Times* reported last week, the bulk of the cost of the settlement will be covered by taxpayer funds. At the insistence of the Obama administration, the banks will be allowed to make use of an existing federal program, the Home Affordable Modification Program (HAMP), which provides public funds to banks that agree to reduce the principal on troubled home loans. Nearly two-thirds of the value of any write-downs the five banks make will be recompensed with funds from this program.

In effect, the value of mortgage-backed securities will be underwritten by government subsidies, opening up a wide vista for profiteering by Lippmann and his cohorts.

The case of Lippmann exemplifies how the policies of the Bush and Obama administrations have enabled the financial elite to cash in on the crisis amid the social ruins left by its criminal activities. While millions of people have lost their homes, either through fraudulent foreclosures or as a result of predatory mortgage practices, the financial parasites continue to rake in millions.

These developments expose, first, the boundless cynicism and dishonesty of Obama, who seeks to present right-wing, anti-working-class and pro-Wall Street policies as “populist” measures designed to lower unemployment and help families stay in their homes.

More fundamentally, they demonstrate that the entire political establishment and both parties, the Democrats as well as Republicans, are instruments of a financial aristocracy that is steeped in criminality and antithetical to the most basic needs of the people.

The political system cannot be reformed. It must be replaced by a government of, by and for the working class committed to ending unemployment and poverty and establishing social equality. A mass socialist movement must be built to close down the Wall Street casino, expropriate the ill-gotten wealth of the speculators, and place the major levers of economic life under public ownership and democratic control.

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