Recordings show Federal Reserve covered up Wall Street crimes

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1 October 2014

On Friday, ProPublica and the public radio show This American Life (TAL) published audio recordings of internal meetings compiled by Carmen Segarra, a former Federal Reserve banking regulator who was fired after she raised questions about Goldman Sachs' violation of Federal Reserve rules.

Segarra said she was fired because she refused to alter evidence that showed illegal activity by Goldman. "They wanted me to falsify my findings," Segarra told ProPublica, "and when I wouldn't, they fired me."

Segarra said that Federal Reserve officials had their employees distort the written record of remarks by executives at Goldman Sachs, and likely other banks, in order to cover up the bank's crimes and questionable behavior.

The incident expresses the incestuous relationship between the banks and their supposed regulators. Instead of serving to restrain the banks and punish their wrongdoing, the regulators serve instead to facilitate Wall Street's criminality and cover up their crimes.

Segarra claims that she was asked by a Fed official to rewrite the minutes from a "key" meeting with Goldman Sachs executives in 2012. After refusing to distort what the bankers had said in the meeting, she was called in by the highest-ranking Fed agent at Goldman, Mike Silva. Silva encouraged her to change her attitude, and said that "perceptions" mattered more than "reality" at the Fed.

Today, two years later, the unnamed government official who asked her to alter her official record of the meeting works directly for Goldman Sachs. Silva is now the Chief Regulatory Officer and Compliance Leader of GE Capital.

In the tapes, the Federal Reserve as an institution is seen actively preventing any serious exposure of illegal activity by the banks. As Segarra says, at the Fed, "information is discussed, and then it just ends up in like a vacuum floating in air, not acted upon."

In early 2012, Banco Santander, a Spanish bank, was working out a deal with Goldman in which Santander would hide some of its assets in Goldman, allowing Santander to avoid regulatory requirements in Spain. Though these deals occurred all the time, this time Segarra and her team happened to get an email from Goldman with specifics of the deal.

Earlier in 2011, in one of Segarra's first meetings, "a senior executive from Goldman was talking about all sorts of things, and mentioned that Goldman's view was, that once clients were wealthy enough, certain consumer laws didn't apply to them." After the meeting, Segarra told her team they needed to follow up on this remark. One of her colleagues then turned to her and said, "Oh that point? Oh you didn't hear that."

Instances like this, as well as being told to rewrite minutes and being summoned to her boss's office for not doing so, prompted her to begin recording her work conversations.

During 2012, her team found that Goldman's contract with the Spanish bank required that the Fed state it had no objection before proceeding with the deal, something the bank had ignored. Accordingly, Segarra's team organized a meeting with Goldman to ask why the bank had not asked the Fed for approval. Silva, Segarra's supervisor, can be heard on her tape getting excited about the meeting. In the tape he asks if he can be the one to fire "a big shot across [Goldman's] bow."

Once in the meeting Silva ended up ignoring this central point for over an hour. Finally, in the audio recording, we hear Silva state in a deferential and unsure tone of voice, "Just to button up one point. I know the term sheet called for a notice to your regulator. The original term sheet also called for expression of non-objection, sounds like that dropped out at some point, or..?"

After the meeting there is no discussion of the disconnection between the plan to grill Goldman and the team's skirting of the issue. In a statement recorded by Segarra, one of her team members states, "I would just say that from a process perspective, I think there's a lot to be said for the thoroughness of the process that [Goldman Sachs is] engaged in."

It was as if her colleagues never had any serious intention of engaging in any kind of investigation that would harm the bank. Perhaps this is because no less than seven former Fed examiners now work at Goldman Sachs. Segarra explained the culture she observed to TAL: "What I was sort of seeing and experiencing was this level of deference to the banks. This level of fear."

Jake Bernstein, the lead reporter behind TAL and ProPublica's piece, said he "spoke with one former Fed examiner who said he and his co-workers used to joke about one of their Fed colleagues deserving an employee of the month award… not from the Fed, but from the bank they regulated."

Segarra remarks that her colleagues were "confused" about who they were working for.

Who are they working for? According to Segarra's account, leading Federal Reserve officials directly asked her to distort and forget the proceedings of the bankers at Goldman Sachs. That is, a top government official, working for the leading regulatory body of the bank, asked an employee to lie about the bank's activity.

As a reward, these Fed officials take top jobs advising corporations on getting around regulations. It would not be hyperbole to call this a conspiracy. Government officials ignore and safeguard the crimes of banks. In exchange, they are hired by banks, likely for large sums of money, so the banks can avoid being caught violating regulations.

Segarra was fired for standing by her analysis that Goldman Sachs had no substantive conflict of interest policy, in violation of government regulations. This discovery came as Kinder Morgan, a company which Goldman has a $4 billion stake in, was being bought by El Paso, a company that was hiring Goldman for advice.

Segarra spent weeks collecting evidence to substantiate her assessment. Before filing an official document on the matter, her supervisor (Silva) wrote her a sharp email warning her not to proceed. He stated that he was shocked after meeting with officials at Goldman, who told him they did in fact have such a policy.

Segarra had, of course, seen this "policy." In the words of TAL , "It is just a few paragraphs long and very general… We showed it to two experts: former Fed examiners familiar with the Fed's guidance on this issue. They both said it wouldn't qualify as a policy."

Because Segarra did not back down, Silva summoned her. In one of the final recordings he can be heard asking her repeatedly, at least seven times, to change her opinion. The recording is reminiscent of an interrogator trying to elicit a false confession through coercion. Segarra was fired a week later.

This American Life's radio segment suggests that the Fed's widespread culture of "deference to the banks and lack of inquisitiveness and mismanagement" comes directly from the top of the organization.

All of this took place well after the 2008 financial crisis, caused by massive speculation and criminal activity on the part of Wall Street. In the wake of this crisis, first the Bush and then the Obama administrations responded by handing trillions of dollars over to the banks while refusing to hold anyone accountable for the economic catastrophe they created.

In response to Segarra's recordings, sections of the political establishment have scrambled to do damage control. Senator Elizabeth Warren and fellow Democrat Sherrod Brown have called for a "full and thorough investigation" to "make sure our financial regulators are doing their jobs." These hearings, like all the hearings and investigations that preceded them, will do nothing to change the corrupt and incestuous relations between the banks and their nominal regulators.