Financial Fraud and The Bank Bailouts: The Government's Entire Strategy Was to Cover Up the Truth

The Government Lied When It Said It Only Bailed Out Healthy Banks … 12 of the 13 Big Banks Were Going Bust

By Washington's Blog
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We noted in 2011 that the Geithner, Bernanke and Paulson lied about the health of the big banks in pitching bailouts to Congress and the American people:

> The big banks were all insolvent during the 1980s.
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> And they all became insolvent again in 2008. See this and this.
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> The bailouts were certainly rammed down our throats under false pretenses.
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> But here's the more important point. Paulson and Bernanke falsely stated that the big banks receiving Tarp money were healthy, when they were not. They were insolvent.
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> Tim Geithner falsely stated that the banks passed some time of an objective stress test but they did not. They were insolvent.

We explained:

> [All of the big banks were] insolvent in the 1980s, but the government made a**concerted decision to cover that up**.
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> Financial writers such as Mish and Reggie Middleton pointed out in late 2007 and early 2008 that B of A was again insolvent.
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> Nouriel Roubini noted in January 2009 that the entire U.S. banking system is "bankrupt" and "effectively insolvent":
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>> "I've found that credit losses could peak at a level of $3.6 trillion for U.S. institutions, half of them by banks and broker dealers," Roubini said at a conference in Dubai today. "If that's true, it means **the U.S. banking system is effectively insolvent** because it starts with a capital of $1.4 trillion."
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>> "The problems of Citi, Bank of America and others suggest **the**

> **system isbankrupt,**" Roubini said. "**In Europe, it's the same thing**."

We noted earlier this year:

> The American government's zero interest rate policy is very much like the British Libor manipulation scandal … it's nothing but an attempt to breathe life back into the insolvent banks, at the expense of the taxpayer. And see this.
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> And the "financial reform" laws passed in the wake of the crisis have, in some ways, actually weakened regulations of the financial markets, allowed the big banks to get a lot bigger, and have intentionally allowed fraudulent accounting (and see this).
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> Likewise, the "stress tests" in both Europe and America have been a total scam … a naked attempt to put lipstick on a pig to cover up the fact that the big banks are insolvent.

Matt Taibbi adds details to the bailout scam:

> The main reason banks didn't lend out bailout funds is actually pretty simple: Many of them needed the money just to survive. Which leads to another of the bailout's broken promises – that taxpayer money would only be handed out to "viable" banks.
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> Soon after TARP passed, Paulson and other officials announced the guidelines for their unilaterally changed bailout plan. Congress had approved $700 billion to buy up toxic mortgages, but $250 billion of the money was now shifted to direct capital injections for banks. (Although Paulson claimed at the time that handing money directly to the banks was a faster way to restore market confidence than lending it to homeowners, he later confessed that he had been contemplating the direct-cash-injection plan even before the vote.) This new let's-just-fork-over-cash portion of the bailout was called the Capital Purchase Program. Under the CPP, nine of America's largest banks – including Citi, Wells Fargo, Goldman, Morgan Stanley, Bank of America, State Street and Bank of New York Mellon – received $125 billion, or half of the funds being doled out. Since those nine firms accounted for 75 percent of all assets held in America's banks – $11 trillion – it made sense they would get the lion's share of the money. But in announcing the CPP, Paulson and Co. promised that they would only be stuffing cash into "healthy and viable" banks. This, at the core, was the entire justification for the bailout: That the huge infusion of taxpayer cash would not be used to rescue individual banks, but to kick-start the economy as a whole by helping healthy banks start lending again.
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> This announcement marked the beginning of the legend that certain Wall Street banks only took the bailout money because they were forced to – they didn't need all those billions, you understand, they just did it for the good of the country. "We did not, at that point, need TARP," Chase chief Jamie Dimon later claimed, insisting that he only took the money "because we were asked to by the secretary of Treasury." Goldman chief Lloyd Blankfein similarly claimed that his bank never needed the money, and that he wouldn't have taken it if he'd known it was "this pregnant with potential for backlash." A joint statement by Paulson, Bernanke and FDIC chief Sheila Bair praised the nine leading banks as "healthy institutions" that were taking the cash only to "enhance the overall performance of the U.S. economy."
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> But right after the bailouts began, **soon-to-be Treasury Secretary Tim**

> **Geithner admitted to Barofsky, the inspector general, that he and his cohorts had picked the first nine bailout recipients because of their size, without bothering to assess their health and viability. Paulson, meanwhile, later admitted that he had serious concerns about at least one of the nine firms he had publicly pronounced healthy. And in November 2009, Bernanke gave a closed-door interview to the Financial Crisis Inquiry Commission, the body charged with investigating the causes of the economic meltdown, in which he admitted that 12 of the 13 most prominent financial companies inAmerica were on the brink of failure during the time of the initial bailouts**.
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> On the inside, at least, almost everyone connected with the bailout knew that the top banks were in deep trouble. **"It became obvious pretty much as soon as I took the job that these companies weren't really healthy and viable," says Barofsky**, who stepped down as TARP inspector in 2011.
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> A month or so after the bailout team called the top nine banks "healthy," it became clear that **the biggest recipient, Citigroup, had actually flat-lined on the ER table**. Only weeks after Paulson and Co. gave the firm $25 billion in TARP funds, Citi – which was in the midst of posting a quarterly loss of more than $17 billion – came back begging for more. In November 2008, Citi received another $20 billion in cash and more than $300 billion in guarantees.

We've repeatedly noted that the government's whole strategy in dealing with the financial crisis is to cover up the fraud, and Taibbi notes:

> Now, instead of using the bailouts as a clear-the-air moment, the government decided to **double down on such fraud**, awarding healthy ratings to these failing banks and even twisting its numerical audits and assessments to fit the cooked-up narrative.
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> **A key feature of the bailout: the government's decision to use lies as a form of monetary aid**. State hands over taxpayer money to functionally insolvent bank; state gives regulatory thumbs up to said bank; bank uses that thumbs up to sell stock; bank pays cash back to state. What's critical here is not that investors actually buy the Fed's bullshit accounting – all they have to do is believe the government will backstop Regions [bank, as one example] either way, healthy or not. "Clearly, the Fed wanted it to attract new investors," observed Bloomberg, "and those who put fresh capital into Regions this week believe the government won't let it die."
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> Through behavior like this, **the government has turned the entire financial system into a kind of vast confidence game – a Ponzi-like scam in which the value of just about everything in the system is inflated because of the widespread belief that the government will step in to prevent losses**. [Exactly.] Clearly, a government that's already in debt over its eyes for the next million years does not have enough capital on hand to rescue every Citigroup or Regions Bank in the land should they all go bust tomorrow. But the market is behaving as if Daddy will step in to once again pay the rent the next time any or all of these kids sets the couch on fire and skips out on his security deposit. Just like an actual Ponzi scheme, **it works only as long as they don't have to make good on all the promises they've made**. They're building an economy based not on real

> accounting and real numbers, but onbelief.

And see this.

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