

# Obama Administration Drops Criminal Investigation of Goldman Sachs

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*The US Justice Department announced Thursday evening it was ending a one-year criminal investigation and would not file charges against the giant Wall Street investment bank Goldman Sachs or any of its employees.*

In April 2011, the Senate Permanent Subcommittee on Investigations released a voluminous report on the role of major banks, federal regulators and credit rating firms in the collapse of the subprime mortgage market and ensuing financial crash of September 2008.

Of the report's 640 pages, 240 pages, or 40 percent, were devoted to a detailed examination of Goldman Sachs's deceptive practices in marketing mortgage-backed securities and collateralized debt obligations. The report alleged that Goldman bilked clients by selling them mortgage-backed securities without informing them that the bank itself was betting the investments would fail.

The Senate report concluded by listing federal securities laws the committee believed had likely been violated by Goldman and other banks. The committee referred its findings to the Justice Department and federal prosecutors for a criminal investigation of Goldman and its executives. It also called for an investigation into whether Goldman CEO Lloyd Blankfein had perjured himself in his public testimony before the panel.

In releasing the report, the chairman of the committee, Senator Carl Levin of Michigan, said the panel's two-year probe had found "a financial snake pit rife with greed, conflicts of interest and wrongdoing." He recommended that charges be brought and said, "In my judgment, Goldman clearly misled their clients and they misled Congress."

In its statement released Thursday, the Justice Department said it had conducted "an exhaustive review of the report," but concluded that "based on the law and evidence as they exist at this time, there is not a viable basis to bring a criminal prosecution with respect to Goldman Sachs or its employees in regard to the allegations set forth in the report."

There is not a shred of credibility in this assertion. In the course of its investigation, the Senate Permanent Subcommittee on Investigations amassed 56 million pages of memos, documents, prospectuses and emails. The section of its report on Goldman Sachs gave chapter and verse, provided dates and named names, to meticulously document how the bank defrauded its clients by selling them mortgage securities while betting against the same investments, without telling them it was doing so.

"We are pleased that this matter is behind us," a bank spokesman said Thursday of the

Justice Department decision.

Also on Thursday, Goldman revealed in a regulatory filing that the Securities and Exchange Commission (SEC) had informed the bank it had ended a separate probe of a \$1.3 billion subprime mortgage deal stemming from 2006, and had decided to take no action. This was an about-face by the SEC, which had notified the bank last February that it planned to pursue a civil action in relation to the Goldman security.

The SEC decision to drop the investigation comes as regulators are approaching a statute of limitations deadline for mortgage securities issued before 2007.

These two actions are part of an ongoing government cover-up of financial fraud and criminality on a massive scale, both before and after the 2008 crash. They underscore the duplicity behind President Barack Obama's announcement last January of the formation of a Justice Department task force to investigate banking practices in the mortgage industry.

The Obama administration, like its Republican predecessor, is at the center of a corrupt nexus between Wall Street and all of the branches of the government—the presidency, Congress and the courts. The financial oligarchy operates with impunity, standing above the law as it manipulates and swindles to capture an ever greater share of the social wealth. Every government agency, from the White House on down, is directly or indirectly on the bankers' payroll.

Four years after the collapse of Lehman Brothers, not a single major bank or top bank executive has been prosecuted, even though their crimes have been amply documented and new bank scandals continue to break out on a weekly basis.

Just last month, Neil Barofsky, the former special inspector general for the \$700 billion Troubled Asset Relief Program (TARP), gave an interview on the occasion of the publication of his new book on the bank bailout in which he complained of the failure to hold to account any of the bankers responsible for the financial disaster. "It was shocking how much control the big banks had over their own bailout," he said.

He went on to accuse Obama's treasury secretary, Timothy Geithner, of a cover-up while president of the New York Federal Reserve of the banks' manipulation of Libor, the most important global benchmark interest rate. "Geithner and other regulators should be held accountable," he said. "They should be fired across the board... I hope to see people in handcuffs."

Last March, Greg Smith, an executive director at Goldman, announced his resignation in an op-ed piece in the *New York Times*, in which he denounced the bank's "toxic" culture of avarice and fraud. "It makes me ill how callously people talk about ripping their clients off," he wrote.

Goldman Sachs was at the center of a scandal that erupted in late 2009 over the collusion of top federal officials in secretly using public funds as part of the 2008 bailout of American International Group (AIG) to cover billions of dollars in mortgage securities held by the banks and insured by the bankrupt insurance firm. Then-Treasury Secretary (and former Goldman CEO) Henry Paulson, then-New York Federal Reserve President Geithner and Federal Reserve Chairman Ben Bernanke funneled \$62 billion to the big Wall Street firms, with Goldman getting the biggest share—\$12.9 billion.

Part of the incestuous relationship between Wall Street and the government is the revolving door between Washington and Wall Street. Bank regulators build up their résumés for advancement to seven-figure-salary posts at financial firms by running interference for the banks.

This was exemplified last June in JPMorgan CEO Jamie Dimon’s appearance before the House and Senate banking committees. Dimon was summoned to explain the bank’s sudden announcement the previous month of a multi-billion-dollar trading loss, which the bank failed to report in its first quarter financial disclosure.

The *Wall Street Journal* noted in passing, evidently not considering it worth further comment, that sitting directly behind Dimon was JPMorgan’s general counsel, Stephen Cutler, who had joined the firm after serving as the enforcement chief of the SEC.

In April of 2010, the SEC brought a civil suit against Goldman for fraudulently marketing a subprime mortgage-based collateralized debt obligation (CDO) in 2007 called Abacus. Goldman sold the security without telling its clients that hedge fund billionaire John Paulson had asked the bank to set up the investment so that he could make a killing by betting the underlying mortgages would go bad and the security would lose money. The bank concealed the fact that Paulson had selected the mortgages and was “shorting” the CDO.

Rather than bring the case to trial, the SEC settled with the bank in July 2010, agreeing to a sweetheart deal in which the bank admitted no wrongdoing and paid a relatively minor fine of \$550 million. The SEC has similarly settled cases with Countrywide Financial, the subprime giant that was saved from collapse by being sold to Bank of America, and major banks such as JPMorgan Chase, Bank of America and Citigroup.

The Obama administration and federal regulators have avoided public trials of the banks because the ruling class senses they would rapidly expose the criminality of the entire system. It would mean putting the capitalist system itself on trial.

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