

# HOW COVER-UPS GET PAID FOR

## Billions in damage, but no charges: How U.S. banks pay for protection

A series of banking scandals have wreaked financial havoc since 2008, without any criminal charges to big bank executives. Why? Follow the money.



(ANDREW CABALLERO-REYNOLDS / AFP/GETTY IMAGES)

By Declan HillSpecial to the Star

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The list is long and shameful.

The Wachovia Bank helped launder hundreds of millions for Mexican drug cartels.

Wells Fargo illegally created nearly two million fake accounts and then [charged customers service fees for them](#).

Barclay's Bank executives [manipulated and fixed international interest rates](#) for its own profits.

The U.S. operations of Deutsche Bank created over one billion dollars in fake mortgages.

HSBC was, according to the U.S. Department of Justice, the “preferred financial institution for drug cartels and money launderers” for international terrorist groups. It also implemented a sophisticated scheme that helped end-run sanctions on Iran, Sudan and North Korea.

Countrywide Mortgage helped create a widespread system of junk mortgages.

Citigroup misrepresented billions in toxic loans and mortgages to customers and the U.S. government.

Those last two led to the Great Recession of 2008 that caused, according to the U.S. Treasury Department, \$19.2 trillion (U.S.) in damage to the American economy.

All these activities have been admitted to. Some banks have paid billions in fines. Yet [not a single big bank executive has been charged, arrested or convicted of any crime.](#)

In fact, many are either still in charge or have retired with millions in golden parachutes packages. Two — Robert Rubin of Citigroup and [John Stumpf of Wells Fargo](#) — left with payouts of more than \$120 million.

Everett Stern, a former HSBC employee turned whistleblower, thinks he knows why.

“The banking and financial industry is the leading financial contributor in this election. Hands down. Banking has the most to lose,” said Stern in an interview. “So they are trying to buy as many politicians as possible. The banks are very smart. They know that if they get their voices heard in Washington and they buy the politicians they’ll be OK.”

Stern, who is running for the Senate in Pennsylvania as an independent, is backed by data gathered by Washington-based group OpenSecrets.org which tracks political donations. Their figures show that the financial industry contributed more than \$912 million to candidates in the last five years, making it the No. 1 contributor to political campaigns in the United States.

Stern thinks the real problem is who gets the money:

“The people on the Senate bank financing committee are the main targets of the banks — because they’re the ones who have the powers to make the decisions to be able to influence the regulatory environment. They are the ones who determine that the bankers will go to jail if they do something wrong.”

Lawrence Lessig, a Harvard professor who specializes in the study of corruption and had a quixotic run for the 2016 Democratic presidential candidacy, said in an interview with the Star, “This is business as usual. It is deeply corrupt, but it’s not criminal. This is why the system needs to change.”

The regulation of the American financial system is a series of shifting parts that includes the Federal Reserve, Treasury and several other agencies. The Senate is supposed to oversee this complicated machinery through the 22-member banking committee.

“The American system is made deliberately to have a number of overlapping veto points,” Lessig said. “So all (the banks) have to do is capture one of those veto points and they can make sure that nothing

gets into legislation. In fact, control over a veto point gives tremendous power over questions of staffing and personnel as well.”

Senator Patrick Toomey, the Republican Senator for Pennsylvania and one of Stern’s opponents this election, disagrees. He describes Wall Street regulation “as a disaster.”

Toomey, a former banker, has fought hard to dismantle the Consumer Financial Protection Bureau (CFPB), the agency that discovered the fraudulent practices at Wells Fargo. Toomey calls the CFDB an “ill-conceived and badly governed entity that is not accountable to anyone.”

Toomey, a member of the banking committee, has received \$4.8 million from the banks that the committee oversees. They are his largest campaign contributors.



(Matt Rourke / The Associated Press)

Toomey needs all the money he can get. The race in Pennsylvania against the Democratic challenger Katie McGinty is the most expensive Senate election in American history — Toomey’s seat and possible Republican control of the Senate is at risk — as more than \$140 million has been poured into the contest.

When Stern discovered that Toomey was accepting money from HSBC, he decided to run against him. Stern doesn’t think he has a chance, his polling numbers are about 2 per cent, but he is undaunted.

“I am running to make a significant difference and to send a message that we are not going to be sold out any more . . . It is absolutely crazy that Senator Toomey can sit on the Senate Bank Finance Committee and take money from a bank that is under investigation. That is not justice.”

Stern’s conversion started when he joined the compliance department of HSBC.

“This was one of the richest banks in the world but their compliance department — supposed to ensure all the transactions were legal — was at the back of a strip mall in Delaware,” Stern said in an interview. “The boss used to stand up on the desk and scream that if we could not ‘clear’ 72 suspicious transactions a week there were problems.”

Within weeks, Stern discovered sections of HSBC were allowing terrorist groups to launder cash through their international banking arm. Stern took his discovery to the CIA. They vindicated his findings. HSBC admitted wrong.

“I was forced to leave HSBC,” Stern said. “Things were tough. My father was battling cancer and I was so short of money I was working as a waiter in a Chinese restaurant.”

He has since set up a research company that he describes as providing intelligence — “like a private CIA.” He points out that it is not only Republicans who accept contributions from banks.

“This is basically banks trying to buy Washington, they don’t care if they are Republican or Democrat so long as they are buying them. (The politicians) are like real estate, they are up for sale.”

McGinty, meanwhile, is doing what Stern cannot do and mounting a tough challenge to Toomey. Polls late last week had her leading. She has brought in stars such as Cyndi Lauper and Debra Messing, and Katy Perry is even giving a free concert. Yet her most successful tactic has been to adopt Stern’s cause. Some of the Democrat’s ads attack her rival as a “water-carrier for the financial industry.”



(Matt Rourke / The Associated Press)

“Pat Toomey has spent the last six years doing everything he can to dismantle the CFDB and if he had his way Wells Fargo would likely still be scamming its own customers,” she also wrote in a statement.

The attack resonated so well that in September, Toomey and the banking committee issued a rare invitation to a CEO of a major bank.

Toomey brandished a dictionary at John Stumpf of Wells Fargo and asked:

“Most people understand the definition of fraud . . . How does falsely signing a customer up for an account they don’t want, how does it not meet that definition?”

But as he campaigns, Toomey is careful to point out that Democrats also receive money from the banks — including his opponent. According to OpenSecrets.org data, while Toomey has received millions from the financial industry, McGinity has accepted \$650,000.

Stern is one of a baseball team-sized group of former U.S. bank employees turned whistleblowers. They have formed an alliance called Bank Whistleblowers United. Richard Bowen is one of the leaders. He was a senior regional Citibank executive when he told the then-Citigroup CEO Rubin that his bank was misrepresenting billions of dollars in loans. Bowen was fired two years later.

Bowen said that things used to be different.

“In the savings and loan crisis of the 1980s . . . over 800 senior bankers were sent to jail . . . There used to be well-defined criminal referral processes that were in place such that everyone was trained . . . That was dismantled. It was taken apart . . . And it was deliberate, because this was during the age of deregulation (in the 1990s).”

Bowen and other whistleblowers are stunned by the influence that banks have had on successive administrations since then.

“The thing that has shocked me is the story emerging from the hacked e-mails at WikiLeaks. When I left Citigroup in 2008, it was functionally bankrupt. We took two bailouts totalling \$45 billion from the U.S. government and loan guarantees for another \$300 billion. Yet at the same time, the Citigroup executives were shaping soon-to-be President Obama’s staff and cabinet.”

Bowen is referring to emails to Hillary Clinton’s campaign chief John Podesta and released by WikiLeaks over the past month. The emails, from October 2008, show Citigroup executives giving the Obama transition team a list of those who should be considered for Obama’s cabinet and senior staff. At the time, Citigroup was receiving billions in government relief. Most of their suggestions were accepted including the important position of secretary of the Treasury.

Many Citigroup senior executives were former Clinton staffers. For example, Rubin, the CEO, had been treasury secretary in the Bill Clinton administration of the 1990s that abolished many U.S. banking regulations. Rubin’s son was a senior member of Obama’s transition team.

This overlapping of government or administration staff — whatever the party — and the banks is no surprise to Stern. He thinks that this revolving door is another reason why bank executives do not get prosecuted.

“In the HSBC case that resulted in a \$9-billion fine but no criminal prosecutions, the lead prosecutor quit the government and went to take a job in private practice. Now she is head of compliance for HSBC.”

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