Banks cut cosy deals with each other while You get shafted

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Youy're not welcome in the Club

> Statistics are boring, but it’s important to wrap your head around this latest one from the Federal Reserve as the definitive epitaph for the American dream. Wall Street’s financial shenanigans, the banking games that made some fat cats outrageously wealthy as they turned home mortgages into toxic securities, wiped out 20 years of growth in American families’ net worth.

“Americans saw wealth plummet 40% from 2007 to 2010, Federal Reserve says,” is how The Washington Post headlined the startling news that all of the economic gain of the past two decades had been destroyed by the banking meltdown. And with housing values—the bulk of middle-class savings—indefinitely moribund, the situation will not get better anytime soon.

“The recession caused the greatest upheaval among the middle class,” the Post noted. “… Their median net worth … suffered the biggest drops. By contrast, the wealthiest families’ median net worth rose slightly.”

That outcome, disastrous to the American ideal of a nation of mostly middle-class stakeholders competing on a relatively equal economic playing field, was preordained. When tens of millions lost their jobs and homes as a result of financial swindles that the Federal Reserve failed to prevent, this ostensibly public agency, with strong bipartisan support in the White House and Congress, adroitly directed the flow of public funds to save the bankers while abandoning their victims.

On Tuesday, Sen. Bernie Sanders, acting under authority of the Dodd-Frank financial regulations, released the conclusions of a Government Accountability Office report showing that ” … during the financial crisis, at least 18 former and current directors from Federal Reserve Banks worked in banks and corporations that collectively received over $4 trillion in low-interest loans from the Federal Reserve.”

One of those Fed directors, Jamie Dimon, chairman and CEO of JPMorgan Chase, who has been on the New York Fed board since 2007, testified before Congress on Wednesday that he was sorry his company lost billions in risky trading even after all of the warnings concerning too-big-to-fail banks.

Dimon—whose company last year paid him $24 million, compared to the $45,800 median U.S. family income—testified that the bank could manage its own affairs. But that is hardly reassuring given that the Fed provided JPMorgan Chase $391 billion in total assistance as well as paying the bank to administer the government's emergency lending program. It was the Fed that back in March of 2008 made $29 billion available to Dimon's bank so it could acquire beleaguered Bear Stearns; the Fed also agreed to purchase Bear Stearns' most toxic assets before the merger.

Such sweetheart deals are the norm, and they are further illustrated by the case of Stephen Friedman, chairman of the New York Fed board, on which Dimon serves. Friedman simultaneously was a director at Goldman Sachs when the N.Y. Fed allowed Goldman to become a bank holding company and thereby become eligible for cheap Fed loans. Thanks to a plea by then-New York Fed President Timothy Geithner that Friedman be granted a waiver from conflict-of-interest rules, he continued to own and buy additional Goldman stock. Friedman ended up with $13 million in stock whose value was bolstered by Fed assistance to Goldman totaling $814 billion. And Geithner ended up becoming President Barack Obama's treasury secretary.

The Fed backed the bailout of Citigroup, the result of deals dreamed up by Dimon, who before his JPMorgan days had teamed with Sanford Weill to merge privately held investment firms with government-insured commercial banks, which would have been illegal under the Glass-Steagall law. Weill succeeded in getting President Bill Clinton to back the reversal of Glass-Steagall, and as a consequence Citigroup soon became too big to fail. Weill was on the Fed board on the eve of a crisis that would lead to Citigroup receiving more than $2.5 trillion in Fed financial assistance.

The GAO list includes Jeffrey Immelt, the CEO of General Electric, who was on the N.Y. Fed board from 2006 to 2011, a period during which the Fed refused to even consider a moratorium on mortgage foreclosures or any other serious effort to help homeowners survive the mortgage crisis the banks had created.

One of those banks is GE Capital, which was started by GE and was a major contributor to the banking disaster. The government came to GE's assistance by purchasing GE Capital and giving GE an additional $16 billion in low-cost financing. Immelt, whose company now has shipped two out of three of its jobs abroad, is the head of the President's Council on Jobs and Competitiveness.

Geithner's stewardship of the bailout of AIG is perhaps the most egregious example of the Fed's preoccupation with the welfare of the banks as opposed to the well-being of the ordinary folk the Federal Reserve was created to protect.

The Fed has been run like an elite club, handsomely rewarding its banker directors while sacrificing the homeowners and families who most need safeguarding.

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