Prominent Wall Street Whistleblowers Announce New Initiative

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Proceedings of the First Annual
Bank Whistleblowers Press Conference
February 25, 2016   Washington D.C.

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Bank Whistleblowers United

Press Conference, Washington DC
Thursday 2/25/2016

Introduction by Richard Bowen

Founding members of Bank Whistleblowers United Richard Bowen and William Black in Washington, D.C., at the first press conference for the organization.

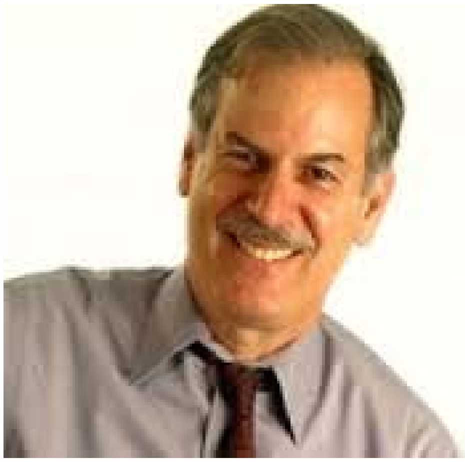
They called upon presidential candidates to refuse money from the Too Big to Fail banks and pledge to end Wall Street corruption.

In spite of the stormy weather in D.C. last week Thursday, our **Bank Whistleblowers United** press conference got off to a rousing start. William Black and I were able to make it to D.C.; Michael Winston, stranded *en route*, called in on his cell, and Gary Aguirre joined us by Skype.

Hosted by Campaign for America's Future, Co-Director Robert Borosage kicked it off by pulling no punches: "Millions of Americans were devastated by this financial crisis and the Great Recession. They then watched the banks get bailed out even as homeowners were left to sink. The banks ended up bigger and more concentrated than ever while most Americans still have not recovered from the ground lost in that recession."

Richard Bowen

introduced by Robert Borosage



Robert Borosage

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Robert Borosage: Good morning, my name is Robert Borosage. I am the co-director of the Campaign for America's Future and we are delighted this morning to join with William Black and his colleagues in launching Bank Whistleblowers United. We are delighted to be part of this effort.

Out of that, we created the Financial Crisis Investigative Commission. We were founding members of Americans for Financial Reform and today we are enormously proud to be a part of watching Bank Whistleblowers United.

This morning we'll hear from the principals of this new initiative, including the courageous people who risked their careers to blow the whistle on what the FBI termed was "an epidemic of fraud" on Wall Street..

As you will hear, they began by alerting their superiors. The spoke truth to power and then they learned that the power already knew the truth and was part of the scam. So each then began a long and generally futile effort to bring what was going on to the attention of regulators and legislators to get the Justice Department to act and finally, to warn citizens about what was going on.

It's only after Wall Street blew up the economy that we discovered how extensive the illegal activity was. Senator Bernie Sanders says that the business model of Wall Street is fraud. When you look at the lists of crimes that the bank has paid fines for without admitting to guilt, it is truly staggering.

So we've seen conspired massive defrauding of homeowners on mortgages, conspiracies to evade sanctions, and elsewhere conspiracies to launder the drug money of cartels, conspiracies to fix currency markets, and much more. In virtually every case where bank officials have negotiated settlements, bank stockholders have paid fines big and small. No bank official has paid out of his pocket or her pocket and no major official has been indicted, prosecuted, or held accountable. Too often, as you'll hear today, the people who told the truth – blew the whistle – have paid far greater costs in their careers and in their personal lives than those who did the crimes.

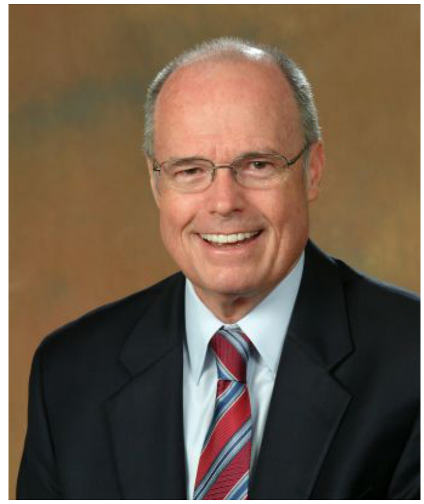
That's why Bank Whistleblowers is so important and that's why we are proud to join it. To describe the Bank Whistleblowers and its plans, let me first introduce Richard Bowen. As many of you know, Richard was the Citigroup Executive Business Chief Underwriter for its consumer lending group with 35 years in banking, who repeatedly tried to warn Citi's executive management, including the likes of Robert Ruben, about the shaking business practices and the huge risks that had potential losses that were being wrapped up in mortgage lending.

His worries were ignored. As Citi Bank President Chuck Prince famously said, “As long as the music’s playing you’ve got to get up and keep dancing, and we’re still dancing.”

That dancing led to the most costly bail-out of a single financial institution in the history of the world. Mr. Bowen then took his case to the SEC, to the Financial Crisis and Query Commission, to the Congress, and to Americans in “60 Minutes” and elsewhere, calling for accountability.

He is now helping to lead and a founding member of Bank Whistleblowers United. He serves now as a professor of accounting at the University of Texas. He’s a CPA, and I was delighted to see in 2012 that he was named the leading CPA in Dallas. He has many careers and talents.

Mr. Bowen …



Richard Bowen

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Richard Bowen: Thank you Robert, thank you very much.

We are Introducing our initiative and the proposal we’ve presented to the presidential candidates.

There is no question. that we’re talking about accountability. We’re talking about the need to reinstate the rule of law in banking. We need accountability. At one time we had this accountability. At one time we had a rule of law. At one time we had the processes in place such that the government would hold those accountable who need to be accountable … and all of us on the Bank Whistleblowers United front, all of us are very concerned about this country and its future. And we are very concerned about the decline of the corporate culture.

Gentlemen, I’ve got 35 years of banking experience. I have held senior positions primarily in risk, credit, underwriting. I know how critical underwriting is to the future of banking. I grew up in that arena. So in early 2006 I was named Business Chief

Underwriter and given responsibility to ensure that the 90 billion dollars a year that we were purchasing at Citigroup from third party mortgage originators – I was responsible to insure that these mortgages met our policy guidelines. They are very strict policy guidelines. The sellers of those mortgages guaranteed to us, they gave us their representations and warranties that those mortgages met our policy guidelines. As I started getting my arms around my new responsibilities, I determined that over 60 percent of these mortgages were *not* in accordance with our policy. They were, by definition, defective. And silly me, I started issuing warnings.

However, then we had the bail-outs. The SEC has never taken any action and they have refused … continuously refused, to release any of the pages of the thousand pages of documents that I gave to them.

I then testified before the Financial Crisis Inquiry Commission. They had sent their investigators over to the SEC so they were actually very excited about this also. They wound up actually asking me to change my written testimony. Then, my testimony was sealed. Most of the other witnesses that testified did not have their testimonies sealed. Mine was sealed and sent to the National Archives.

Gentlemen, we're talking about accountability. We're talking about the need to reinstate the rule of law in banking. We need accountability. At one time we had accountability. At one time we had a rule of law. At one time we had the processes in place such that the government would hold those accountable that needed to be held accountable. We have not seen that here. All of us on the Bank Whistleblowers United front, all of us, are very concerned about this country and its future.

History tells us that the collapse of every great civilization began with the erosion of core values. Folks, we're on that slippery slope. That is: ethics, ethics and accountability. We are very concerned about the decline of the corporate culture.

Thank you very much.

I was shocked, first of all, to learn that the goal of Countrywide was to fund every mortgage that ever comes to them in an application and things of that nature. I don't want to steal Richard's thunder. But to say that he was met with a culture that was pretty amazing for him to see … it was probably the exact opposite of what he had to offer.

He blew the whistle on the Countrywide model. He blew the whistle on a sick building syndrome at the headquarters. He blew the whistle on misleading information that the company was supplying to Moody's in order to get the ratings – which essentially tanked the economy. He stood up. And he was fired.

Over several years of litigation, he won a jury verdict in Los Angeles where he received, I believe, a 4.3 million dollar reward. Then he had it snatched away by an appeals court that decided that it would supplant the jury and look at the evidence and decide differently. It was a fairly unique type of appeal that has people scratching their heads today.

Now he has been on the campaign to see that his vision of excellence is reincorporated into the corporate world that he's now facing. I also want to plug his book because he probably won't: "World Class Performance" which you can receive I believe on Amazon.

So with that, I'd like to turn over to Michael Winston, who I think we'll hear by audio. I'm not sure that Skype …

Here's **Michael Winston …**

Michael Winston

Go to Appendix for biographic notes

Michael Winston: I'm here and I hear every word.

Louis, thank you so much for the introduction. Dick as always, it's wonderful to hear you speak. Robert, thank you for hosting us. I want to amplify much that has been said thus far. Bernie Sanders, I love your conclusion that the business model of the Financial Services Institution is fraud. There are a number of people here, myself included, who saw that up close.

Louis was correct and GAP is a wonderful organization. I'm not a banker and unlike Dick, I do not have thirty-five years of banking experience. I spent my thirty-five years in corporate America as the global Head of Strategy: business strategy, organization strategy, leadership strategy.

I had a decade in aerospace. I worked for the presidents of two wonderful companies, Lockheed Corporation, and McDonnell Douglas. I then went to Motorola where I reported to the president of a sector and then had a dotted line to the president of the corporation. I was responsible for leadership, organization, integration, succession and business continuity, and all of the strategic elements for, ultimately, strategy and policy for the corporation, but principally the communication segment.

If you know Motorola, you know cell phones, you know two-way radios, you know pagers. Anything like that was assumed underneath my responsibilities: almost a hundred thousand people.

I then spent some interesting years at Merrill Lynch, which I thought was a phenomenal and highly reputable company. The last position which I was supposed to have until retirement was at Countrywide.

The only way to amplify what has been suggested here is just to tell a couple of stories and to tell them briefly. The first you may have heard. I was recruited for five years to come to Countrywide. They got me by saying they wanted to build a broadly diversified financial services company and not just a mortgage originator. I had helped build a broadly diversified financial services company at Merrill Lynch and quite frankly they said, I was to help them make a Goldman Sachs on the Pacific.

I had been recruited by Goldman Sachs. I knew the management there. It was great times at Goldman but I was loyal to Merrill Lynch. I declined their offer. And quite frankly they also recruited me once more – I was sitting in the back of a car being driven up to 575 Park Avenue after 9/11 when we were all dislocated and relocated. They got me on a cold November or December morning by telling me it was 72 degrees and sunny where they were in Southern California, and what was the temperature where I was? Quite frankly, it was like two or some single digit temperature, and boy did California sound attractive.

But shortly after I started at Countrywide I started worrying about their business strategy. Because it seemed as though having come from a company that celebrated quality, that being Motorola, which was the pioneer of Six Sigma. Instead, this was a company that just wanted quantity, not quality.

In late 2005 – I joined in mid-2005 – I do still recall like yesterday an episode that raised a red flag for me.

I was parked in the Countrywide lot next to a guy whose car had vanity license plates that read "FUNDEM" and I said, "What does that mean? I don't get it. I'm not familiar with that expression."

And the guy said, "It refers to Angelo Mozilo's growth strategy for 2006 to fund all loans." And I said, "Hold on a second, you're going to fund *all* the loans?" I was brand new, I didn't know what you could say or what you couldn't say. So I continued to say, "Well what if the person doesn't have a job?" And the guy kind of smiled smugly and said, "Fund 'em." Well, how about if he has no assets or she has no assets? Again, "Fund 'em."

I finally said, "I don't get it. What criteria do you use" – because at Motorola we were always criteria based – "what criteria do you use to make the decisions about funding a loan?" The guy said to me and looked down at me very sort of curiously, like "oh my God this guy has not gotten the memo." And he said, "If they can fog a mirror, we'll give them a loan."

"Folks, we're on that slippery slope."

Man was I scared. You're going to give a loan to everybody irrespective of creditworthiness? So I immediately relayed my fears about what I saw as an anything-goes strategy to Drew Gissinger, who at the time was the President of Countrywide Home Loan. He had sixty-thousand Countrywide, seventy-five thousand people, and I spoke to him about: "it seems like you're focusing on quantity, you need to focus on quality, so you can generate returns for your investors, you can be a good partner to whomever you get these loans off to, and you consider the customers and establish great customer service."

Things went okay. They didn't go great, they went okay. They went fine for me personally. I was promoted three times in the first 14 or 15 months but there was an undercurrent that told me that there was something wrong. Then a couple of months later I read a report from Moody's which was about to downgrade Countrywide on a number of areas including government. I had done this for Motorola, I had done it in part for McDonald Douglas, I had done it for Merrill Lynch. They were government issues having to do with succession and continuity planning that were unsatisfactory.

I attended a meeting with the top staff. First of all, this was a very classified report, very few people got to see it. It was all very hush-hush. I was ushered into an office and greeted quickly. In this meeting, which included Angelo Mozilo, Dave Samol, President of Countrywide, Drew Gibson, Chair President of Countrywide Home Loan. I was told that Moody's could shut us down if it gave Countrywide an unfavorable credit rating.

The company relied heavily on its credit scores. The timing of this event was before Mozilo cashed out on maybe 150 million dollars of his Countrywide stock and before Countrywide stock crumbled. When I learned that they wanted me to lie to the top management at Moody's about government, organization, strategy, succession planning, I just basically said, "Look, I know what you're asking of me, I know why you're asking it of me, given my background. But I'm not going to do it. I'm not your man."

The media in the past has had me sort of nastily say it. I said it in a very calm, quiet tone and I said, "Look you have a lot of people who'll say that stuff for you. They will say anything you want them to say, but it's not me. So you've got to go somewhere else."

A couple of days later, I later learned that Angelo Mozilo said, "If he won't play ball with us I want him fired immediately." Well, they didn't fire me immediately but they sure retaliated against me in every way imaginable and let me tell you, in many ways unimaginable. I mean it would take ten movies to describe, probably in aggregate, what was done to Gary, what was done to Bill, what was done to Dick, what was done to me, and what may have been done to people in this audience.

I'll tell you the common denominator between all of us is… I mean you can read: yes we were all right, we all spoke truth to power… but the common denominator was the willingness to say no. Two letters, no, N-O, the word that transcends every language, simple to annunciate but hard to say. Because most people like people who are agreeable and agree with everything. But sometimes you're asked to do that which your value systems and conscience tell you is wrong.

So what did we do? We said no. I said no to systemic fraud. I'm not going to play. No to market manipulation, I'm not going to play. No to insider trading, I'm not going to play. My reward for doing the right thing was for the first time in a 35-year career I was unemployed, ostracized, blackballed, retaliated against and it didn't even matter to all of us that we were right. That we had seen the problem early and before it was at epidemic levels. Had they heard us, the recession that we all suffered from might have been substantially lessened and much less painful.

I think all of us, if we were in the same circumstance again, however much we were punished, we probably haven't regretted it. I haven't. and we probably would be compelled to do it again because it was the right thing and it was our job.

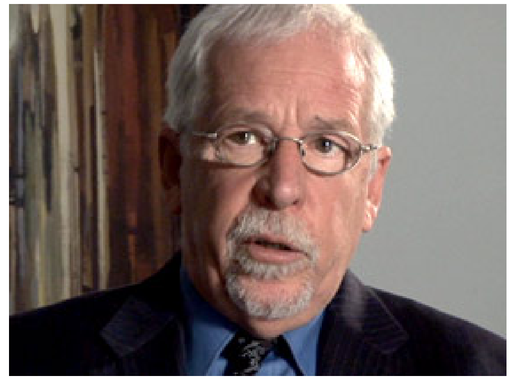
Thank you very much, that's my story. If I can I'll leave you with three things that I've learned. Number one, pay attention to your instincts. If something doesn't feel right, it might not be right. Stop, sit back and reevaluate the situation. Number two, above being loyal to my bosses I will always be loyal to my principles. I've learned not to assume that what my superiors are telling me is right merely because they're in positions of authority. Last, what I have learned, and what all four of us have learned, was boy it's a scary thing that we did. You have to be courageous. Courageous does not mean not without fear. I was scared to death of what would happen and they exceeded my worst expectations. But you sometimes have to act in the face of fear and all four of us did, and we believed that unless we march for support, nobody will. We need more people to say "No, I will not defraud taxpayers, investors. I will not defraud employees, and I will not defraud my customers."

Unless we do that, we will go down that slippery slope that Dick told us of ten minutes ago.

Thank you very much. Thanks for having me.

Gary Aguirre

introduced by Louis Clark



Louis Clark

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Louis Clark: The next person I'd like to introduce is Gary Aguirre. Gary Aguirre was a trial attorney litigator for 27 years. He then decided to embark on a new career. He attended and received a master's degree from Georgetown Law School in the area of International Finance and SEC. While there, he wrote he wrote a paper that SEC selected as the second best paper written about the SEC and securities. Then he was hired by SEC. He was put in charge of an investigation at Pequot Capital Management, which at that time was the largest hedge fund on Wall Street.

He then discovered, or evidence came in, of potential insider trading. He was pursuing an investigation, somewhat routine. And then he determined that he needed to talk to a pillar of Wall Street who was potentially engaged and had evidence that was necessary for his investigation.

At that time, everything came to a screeching halt. All of a sudden his investigation was taken away from him and he was fired and forced out.

Over several years, the Senate Banking and the Senate Judiciary Committee conducted a thorough investigation of his experience. They found in his favor absolutely across the board, in terms of how he had operated and acted according to his oath, and that his termination was arbitrary and unfair. He won the day.

In addition to that, he then pursued the evidence through the Freedom of Information Act. He won a federal case on FOIA, received many of the documents that then proved that what he was engaged in and what he was seeing needed to be investigated thoroughly. He was right about his determination of what needed to happen in that investigation.

He now is an attorney for Whistleblowers. He is an expert, obviously, on the SEC. It is my pleasure to introduce him by Skype. Let's hear what he has to say.

Gary Aguirre …

Gary Aguirre

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Gary Aguirre: Louis, thank you so much for the introduction. And thank you, Robert, for sponsoring our coming here today.

As I see it, each of us has shared a similar moment. In that moment, we were asked to either participate in unlawful conduct or to choose a different path. It boils down to that. None of us ever wanted to be a whistleblower. I'm still not crazy about the name.

There was a moment that I was asked, or instructed, to back off of an investigation of one of Wall Street's elite. Because he was powerful. Because he had prominent contacts. Because he was politically influential. That was a challenging moment because nothing prepared me to deal with that. The idea of giving preferential treatment, of taking the blindfold off of Lady Justice so she can look at a privileged individual and bow to him, was obnoxious.

The rule of law is something that we have subscribed to since we walked out of the jungle and began to form tribes. The

Sumerians, the Babylonians, the Greeks, the Romans, have all had criminal codes. You break the law, you're punished for it. It's crime. The penalties were severe. In common law England, people were faced with capital punishment for what we now consider trivial crimes. It's part of the social contract that we described.

When we join a society, we give up the ability to ignore the law. We subscribe to the law, and it brings order to our lives rather than chaos. Very few are exempted from this principle of law, from the criminal law. When I was a lawyer and in law school I had learned that some of us with middling flaws may be exempted because we didn't understand we are breaking the law.

Then there are children, whose brains aren't fully matured yet. They're exempted from the law. The most brilliant people, the wealthiest people, the most powerful people, the most influential people … and I'm talking about the CEO's of the Wall Street banks, the CEO's of Goldman Sachs, of Morgan Stanley, of Merrill Lynch… there's no exception for them built into the law. All of the regulations that govern the rule of law. The foremost foundations of the focus at the SEC is to direct staff attorneys to prosecute the wealthy just like they prosecute petty fraudsters.

And yet, there's a difference. There's a profound difference in the way the government treats Wall Street and it operates at every level of government. I've seen it because I've represented Whistleblowers inside of government. It exists in the Congressional Budget Office. It exists at the Securities and Exchange Commission. It exists at the US Attorney's Office for the Southern District of New York. It pervades our entire government.

Ferdinand Pecora, who headed the Wall Street investigation in 1933 and 1934 warned us that if we removed the law that contained Wall Street they would run amuck in a heartbeat. And that's what they did from 2005 to 2008.

My case at the SEC dealt with, when compared to the dynamics that brought the nation to its knees in 2008, was trivial. It was insider trading. Yes, it was insider trading from the largest hedge fund in the world. And yes, it involved a potential tipster who was an incoming CEO of a Wall Street bank.

Insider trading was not the cause of the financial crisis, but it gave me almost like an electronic microscope to look at the government DNA, how they felt about Wall Street.

When I got to the SEC I had finished two years at Georgetown, I had gone back to get retooled. I had decided at that point in my life – I was 61 – I wanted to do something in public service. I had admired the people in law, the judges, and the individuals who dedicated their life to public service within the law. So I went back. I retooled at Georgetown.

When in Georgetown, I wrote my thesis which focused on the 1929 crash, the depression that followed, and the formation of the 33 and 34 acts that formed the Securities and Exchange Commission and created the basic security laws.

So when I arrived at the SEC I knew its mission. I was intimately familiar with why it was created. I had read Ferdinand Pecora's cross-examination of Wall Street CEO's cover to cover. I had been through the Banking Committee's investigative files and court files. So I was in a case involving the world's largest hedge fund and I began to look into insider trading cases.

The first thing I looked to try and find, was where are the records whether this company has had prior investigations? Did they do this before?

I've been a public defender in my twenties, reported to the Securities and Exchange Commission by the various stock exchanges.

So I accumulated 23 different investigations that had been stopped. I narrowed it down to two. I went over and had a chat with the New York Stock Exchange, the market surveillance people. They told me point blank there are several major hedge funds that are engaged in insider trading and they're doing it with the big banks and nothing's happening about it. And they named those hedge funds: Pequot, GABI, and Sachs. Nothing was done about them.

It was years later that the SEC supposedly dug out evidence. The evidence was already there. All you had to do was go over and ask the New York Stock Exchange.

By the summer of 2005, we narrowed the cases down to two cases involving Pequot. Both involved the CEO, Art Samberg. On June 15th, I gave a review of the two cases to my supervisors. They were stoked. I met them the next day with a US Attorney for the Senate for the District of New York and the FBI. They opened criminal cases.

[inaudible]

A week later the Wall Street Journal ran an article. One of the people was being considered for the CEO of a major Wall Street firm. The investigation came to a stop. The investigation did not move forward. I went to see my supervisor and that's how I learned.

I wrote twelve pages of testimony to the CEO and his response was very simple. "I can't let you do that." Because he has powerful political connections. He has clout and he didn't need to take the call from the endorsement division. The names included: Mary Jo White, the corrupt Chairman of the SEC and the one thing that you learn as a public defender is that government keeps track of priors. Well the first thing I learned at the SEC is that they didn't. They didn't keep track of priors. So I rounded them up and I looked around and I found that this hedge fund had constant violations …

> ***Male**: We encountered some technical difficulties at the end here.*

Bill Black

introduced by Tom Frank

Tom Frank

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Tom Frank: I'm Tom Frank, journalist. I'm here to introduce Bill Black.

Bill Black: PhD in history. I actually do have a PhD.

Tom Frank: I wasn't going to mention that. You'll see why in a second.

Bill, I think, is the most famous former bank regulator in America. I often joke with him about that. Thanks to his deeds back in the savings and loan days, back in the 19… back in the what? Early 90s? He's also a professor of law and economics at the University of Missouri, Kansas City branch.

You're at the University of Minnesota now but I'm not quite clear on what your title is there so…

Bill Black: Distinguished Scholar in Residence for Financial Regulation.

Tom Frank: Oh. Anyway, how long do you want me to talk by the way?

Richard Bowen: About a minute and a half or less.

Tom Frank: All right. So Bill's signature idea … which I think will be remembered for a long time, is the concept of control fraud. It's been clearly spelled out for us today what control fraud is, what he means by the idea. It's basically what happens when the officers who control a firm use their power over their firm to enrich themselves while driving the firm itself to the boneyard. They loot the company using fraudulent revenue and executive bonuses. Am I getting that right, Bill?

[Bill nods head yes]

Control fraud is something, as we've seen today, that happens again, and again, and again in the real world. There are countless examples: S&L's in the 90's being very prominent, Enron, Housing Bubble. And yet, control fraud has still proven to be a very difficult concept for our country's leaders to understand.

In fact, one of the main prosecutors of mortgage fraud said that it made no sense to him that banks might defraud themselves. So therefore, there was no need to look into criminal behavior at banks.

Why is it that we resist this idea of control fraud? I mean there's tons of evidence that it's actually happening. It happens all the time. I think one of the reasons that we resist it is because if Bill is right about it, it would require us as a nation to radically change our political course.

If Bill is right, and he is, then the economic consensus that has prevailed in this country since the 1980's is basically wrong and Democrats as well as Republicans are implicated. Financialization and bank lack of regulation are consensus ideas shared by the leaders of both parties, and it has been a colossal mistake.

The idea of control fraud is also disturbing in a larger sense than this. In the sense that Bill has been emphasizing to me over the years that I've been trying to work into my own urgent reflections and my own writing, and it's this: control fraud represents the corruption of the professional class. As a class. Just look at the examples that we heard about today: real estate appraisers, accountants, federal bank regulators, consultants, lobbyists, lawyers, and everybody else right up to the CEO has been suborned and twisted by the insane incentives that are on the table these days. That are peeking out at you everywhere you walk in this town, from the other side of the revolving door.

Consider our President for a moment, Barack Obama. Like so many other members of his party, he's been a pious worshiper at the shrine of genius. He has Nobel Prize Laureates advising him, Nobel Laureates, Pulitzer Prize winners, hell, the former President of Harvard advising him. Just look at the roster of Ivy and Oxford certified scholars who sit in his cabinet today. They have to be the best because they're the smartest.

But when Bill tells us that Tim Geithner and people like him are in fact promoted because they failed, which is one of your most famous quotes I believe, he's contradicting the Obama doctrine in the most fundamental way. He's telling us that our modern system of checks and balances is a fake. That our whole proud façade of meritocracy and Ivy certified brains is not what it appears to be. That instead of an age of accountability, we live in an age of massive corruption.

This goes against, I think, everything that we liberals like to believe about ourselves and our own brilliance. I think it's an idea that our historians will be working with for generations to come.

And here he is. **Bill Black ….**

Bill Black

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Bill Black: I thank all of you for coming. We were very much touched by the support on incredibly short notice from the Campaign for America. This is a group that has worked for Americans for a long time. I've had some association and the opportunity to do some things in conjunction with the group. There will be a future rollout of Campaign for America that we won't spoil at this time. Please come back for that as well.

The second thing is, I'd like to bring together the stories you've just heard.

So first, fish rot from the head. Organizations rot from the head as well. You don't get pervasive fraud in an organization unless the people at the very top, at the absolute minimum are willing to turn a blind eye. And it's typically asked to go far further than simply turning a blind eye. It takes an active role, in particular when people blow the whistle.

Second, this is a subgroup of Whistleblowers. Whistleblowers come in all kinds of different strands. None of these folks, none of us – these founders – are remotely disaffected employees who were in trouble and therefore we knew we were going to get fired and we decided to gin up a story of how we become whistleblowers or something.

This is a group with track records cumulatively, we're really old, of over 130 plus years of experience. At really high levels, a whole steady progression of promotions, then getting it right. The things we're in trouble for are: getting it right. That's why I said about Geithner, it's the Geithner's of the world who are willing to get it wrong when the people in power want to get it wrong that are promoted these days to the ultimate positions.

To pick up what my colleagues have said, we didn't have to reach out to be Whistleblowers. Nobody ever had that goal. I assure you almost nobody in life has that goal of being a Whistleblower. You know that retaliation is certain in these circumstances and that your life is going to be made miserable.

Basically, you know when you go to the airport these days you see the sign, right: "If you see something, say something." Well we saw something, we said something. Then life got really interesting, where interesting is an interesting word. For it got really, really bad.

We have both Richard Bowen and Michael Winston from the inside in the current crisis at really senior levels. That's very unusual for Whistleblowers. Again, track records of success where they simply tried to do the right thing. And then they suddenly discovered they were in Alice in

Wonderland, where nothing made sense anymore.

For folks who'd grown up in banking, as Michael said he didn't grow up in banking the way Richard and I grew up in banking, this was a startling change. Because banks were old, fuddy-duddy, careful, lots of internal controls, literally a dozen plus levels at Citigroup and others of that size.

So all of those have to be stripped away because underwriting is the great "tell" in the poker sense. To be able to do these scams you have to gut your underwriting. That makes no sense for an honest bank. By the way, that's how we prosecuted them successfully back when we used to prosecute. That's why we got over a thousand felony convictions just in those cases designated as major. That's why we hyper-prioritize the cases of the top 100, 300 institutions, 600 individuals.

The best criminal defense lawyers in the world, they're representing the CEO. They get to use the organizations' money to defend themselves. So they spend money like water and still we had a 90 percent conviction rate. To do that we made over 30,000 criminal referrals.

In that entire crisis, long ago, we did not have a single Whistleblower who came remotely close to the level of my co-founders of this organization. Not remotely close. No one we could use as a major witness.

In the current crisis, at every one of the largest institutions, it has been not just a Whistleblower, but a Whistleblower of incredible qualities: of competence, of getting it right, and as Michael talked about, ultimately the integrity to say no to these things.

Now to put on the hats that Gary and I have, this is extraordinarily valuable if you're going to bring an enforcement case or if you're going to prosecute. The difficulty of course in these cases is in jargon, *mens rea*, the guilty mind. Well that's precisely what gets demonstrated by the cover-up. The cover-up is when someone blows the whistle and says 80 percent of the loans are fraudulent.

So let me cut through what Richard Bowen was saying.

When he says 80 percent are defective, what does that mean? It means when you looked in the files they didn't have the information on income, the borrower's income. You must know the borrower's income to know whether you're making a safe loan. The requirement was that it be there. But it was selectively removed by the people selling the loans to Citigroup.

Why do you selectively remove information? Because it's adverse. It wasn't unimportant information, it was the most critical information to a lender. What's the income of the borrower? What's the real appraisal value of the home? All of these things, in other words, they got up to a fraud rate of 80 percent at one of the three largest financial institutions in America.

Think of that. If Amazon cheated you 80 percent of the time, would you continue to buy things from Amazon? Jurors understand this. Administrative law judges, regular Federal District judges, state judges understand this. This is how you actually make a case.

When Richard and when Michael blew the whistle, they made it possible for people like Gary… and if I were still employable in the federal government, which I'm clearly not… people like Bill Black, they gave us cases on a platinum platter, and we have zero prosecutions. As Robert said in the introduction, we have zero prosecutions of the people that actually led to the three great fraud epidemics.

The third thing, what do we propose doing about it? I will do this very briefly because we have detailed proposals. I will say as an overview, we carefully crafted them to require no new legislation and no new rule making.

The "no new rule making" is important in the modern era because the Courts of Appeal are so virulent in striking down rules that they don't like personally. There are no excuses. You can't say, "Well I'd like to do things but I don't control the Congress." Or, "I can't do it because the Court of Appeals for the DC Circuit struck down my rule."

This is a real gut check in other words. We asked Americans to go to your candidates, whoever your candidates are (as a group we are non-partisan), and say, "Will you support these proposals?"

If not, fine. You're on record that you don't agree with those things. But if you are, then you will have a proposal to actually restore the rule of law.

So that's the first thing we propose: restoring the rule of law. Now, that's going to require leadership changes … and by the way, while I've talked about candidates, the current President of the United States of America can do this. He can begin doing this tomorrow. We made this plan also for President Obama if he is willing to do that. We asked people to join in urging that he do so.

The restoring the rule of law, yes, it requires new leadership but it also requires restoration of a lot of mechanical things that have been eliminated. Like the criminal referral process. In the savings and loan debacle we made over 30,000 criminal referrals. In the current crisis the same agency, the Office of Supervision, made zero. It was the regulator of Countrywide, Washington Mutual, IndyMac, elements of Lehman Brothers, elements of AIG… in other words, it should have been making tens of thousands of criminal referrals.

We have eighteen specific steps, all but one of which can be done with no new legislation or regulation. The only exception would call for a dramatic increase in the size of the FBI white collar section and that would require budgetary authority. Everything else can be done. But again, we did it in the past with just as few FBI agents.

The second major path is to bring back the most powerful provisions of Glass-Steagall. Again, we would do this through authority that has existed for 25 years: the individual minimum capital requirement.

By definition these are systemically dangerous institutions, which people can't even get themselves to call by the right names because the euphemisms are so systemically important, like as in their gold star. But the definition is when, not if, when the next one fails it will cause a global systemic crisis. That's insane. We have roughly 25 of them, the rest of the world has roughly 25 of them. We are rolling the dice just in the United States about 25 times a day to see when the next one is going to blow up and take down the global economy. That's crazy.

If you set a capital requirement that actually reflected the risk of that institution, any institution that poses a global risk, it would be so large that it would have such a large capital requirement that they would be forced to sell. They would divest and they would shrink.

Similarly, our third substantive one has to do with bringing back the best provisions of Glass-Steagall and we would do the same thing: use the existing authority under individual minimal capital requirements and say, "Look at the failure rate of the entities that did large amounts of investment banking."

I think we had five big investment banks, and three of them died. That's a 60 percent failure rate. The other two had to be bailed out, so it's really closer to 100 percent failure rate. On top of that, people forget that as soon as we gutted the rules, which was done mostly by Allen Greenspan, people began to do investment banking activities. The first and biggest was this place called Bankers Trust. If people don't remember Bankers Trust it's because it instantly got into a series of scandals involving its sales of derivatives. The scandals and losses that resulted were so large that it had to sell. And it was one of the ten largest bank holding companies in the United States of America.

You also may not, unless you're from the northeast, recall FleetBoston, which was the seventh largest bank holding company and went heavily into securities and promptly got into scandal as well. Both of these places defrauded their clients, were sued, suffered massive losses, massive loss of reputation, couldn't raise capital and had to be sold.

So you add those in and then you add Citigroup in. Now we've been discussing a different part of Citigroup that was – alone – enough to sink it. That's the thing that Richard Bowen has talked about. But this too – the investment banking activities of Citigroup according to Financial Crisis Inquiry Commission – put them on death's door.

These are all enormous entities, all of them systemically dangerous. All of them failed doing these kinds of activities. Again, any risk-based system … and that's how it's supposed to be set, your capital, under this individual minimal capital requirement, would be so large that you'd have to sell.

So that's our third major initiative.

Our fourth, again, comes out of the savings and loan debacle. In the savings and loan debacle when we, the federal agency, brought the enforcement action and the Department of Justice brought the indictment, we actually spelled out in English language what had happened. The fraud mechanisms.

If you look at a modern statement of facts by the Department of Justice in coordination with any of these settlements, they are designed to be unreadable by normal human beings. They are designed explicitly to be useless in civil litigation for plaintiffs who'd been victimized. It is utterly outrageous. By never having a contested case they never have to make public the fraud mechanisms and the rock in the system. They simply cannot expose those.

All those things used to be exposed in our pleadings, in detail, in plain English, explaining the fraud mechanisms. Then they would be picked up with no fear of libel or slander by media because they would be reporting what the federal government had just charged.

At that juncture, invariably, the politicians who took political contributions from those institutions rushed to return the contributions or to donate them to charity. That never happens now.

As Robert and others have said, look at the number of institutions that, if you could parse the deliberately opaque statements of fact, have clearly admitted that they committed massive fraud. Hundreds of thousands of fraudulent transactions totaling in the tens of millions of dollars. These are the largest and most destructive financial frauds in history.

To my knowledge, not a single politician has returned the money or donated it to charity. We think you should change that. We asked candidates to pledge that they're no longer going to take money from the financial felons that have been identified in these statement of facts, where they've admitted to these frauds.

That, in a nutshell, is what our proposals are.

Again, we end with thank you very much and I thank my colleagues for all of their sacrifices.

So we can do questions now. Art, are you still okay on time?

Art: Yep. That's fine.

Bill Black: Okay, so if there are questions now we'll take them as a group of the founders.

Journalist: What could all of these people have done differently to go even higher to find someone to stand up to people like Mary Jo White or the Congressmen or Senators? Since it's all going on today if we don't get right back to this, all of the things you're proposing require leadership change. If we want leadership change who could we find that would stand up to these people?

Richard Bowen: Well I think there's two parts to that. Internally, obviously I was still trying to find someone with the moxy if you will, that would fix it. That was my job. I felt like I had to do that. That was what I was supposed to do to protect the shareholders and ultimately I went to Robert Rubin. In hindsight, obviously, I should have gone outside sooner. Not that it ultimately did anything because when I went outside nothing happened.

Journalist: I'm sorry, but that changes the question. How far, in any setting, how far outside do you have to go? Is that something that you guys are talking about behind the scenes?

Gary Aguirre: Yes. The answer to that question is the key. How far do we have to go? What about the President? Obama? Who is the principal donator to these funds when he had his inauguration ceremony? Wall Street. Where do we have to go? We have to go to the public.

The public has to demand a change. The difference between now and 1929 and 1933 and 1934, when the public demanded a change, was four years of excruciating pain suffered by the public. Then they demanded Congress make a change.

That change was made by Ferdinand Pecora who had tremendous public support. I think the public has to make a decision. I think that's why we are trying to tee this up for the candidates, so the public can speak to them. There's nobody higher.

I went from my assistant director, to my associate director, to my director, to the head of enforcement and I was crafting an email to the Chairman of the SEC when they fired me. That's why they told me to go on vacation. Then I was going to go from the SEC and up another notch.

But it was pointless because it was ingrained in the DNA, in the fiber of our Congress, of our government, to defer to Wall Street. Until we change that DNA it's going to stay the same and the only way the DNA is going to be changed is by pain. That is, the public's pain or by an awareness that we're trying to sponsor.

Bill Black: To tag on to what Gary said, Pecora was actually the third effort at investigation. The first two failed. Pecora was not an expert in finance. He was a judge and before that he had been a litigator.

Unlike the modern era where, whenever we create a commission we put politicians on it. The politicians are selected to be hyper-partisan in most cases and they do the questioning as opposed to the professionals. So they can always stall the questions. It's like in Congress, they get three minutes, you just give an answer and then take seven minutes and it works really well.

You couldn't do that with Pecora. He was doing the questioning. He would stay as long as he needed and he would hammer them and the facts would come out. The facts helped change things. That's what we're trying to do.

First, we want a modern Pecora commission. Second, it is the people from the inside like Richard, like Michael, like Gary. Again, Pecora really didn't have the advantage of this level of Whistleblowers. He had some, but now we have literally hundreds of Whistleblowers able to tell this story, if people have the political will to make it happen.

Richard Bowen: Let me follow on that for one second if I can. When I experienced what I experienced in being forced to change my testimony in the Financial Crisis Inquiry Commission, those were not just my allegations. This was thoroughly fact-checked by the New York Times before they exposed it in an op-ed in September of 2013.

I have gone to two congressional committees trying to get them to perform a congressional investigation: the Senate Banking Committee and the House Financial Services Committee. I have contacted the chairman and the ranking members of each one of those committees trying to get this accomplished with this demonstrated violation of law, from my standpoint as to what occurred at the Financial Crisis Inquiry Commission.

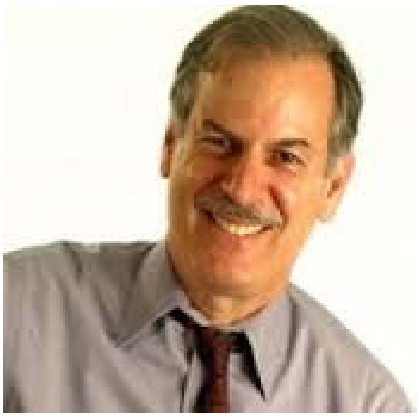
We have not been able to get anything done. Again, it doesn't look as if they wish to actually lift up the lid on this. So this is an attempt to go to that. There is an opportunity for a Pecora-like hearing to basically wake up the American public. If it's going to be given an opportunity to happen … I don't know.

# # #

APPENDIX: Bios of Introducers and Presenters

Robert Borosage

Introducing Richard Bowen



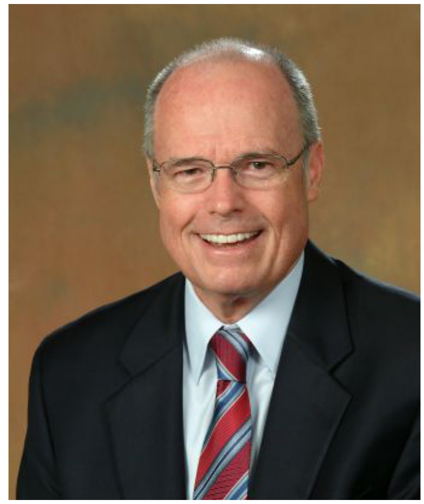
Return to Robert Borosage in conference text

Robert Borosage is a graduate of Yale Law School and holds a master's degree in international relations from George Washington University.

Borosage helped to found and now chairs the Progressive Majority Political Action Committee, developing a national base of small donors and skilled activists. Progressive Majority recruits, staffs, and funds progressive candidates for political office.

In 1979 Robert Borosage served on the steering committee of the Institute for Policy Studies and initiated the Conference on Alternative State and Local Public Policies. *[Wikipedia]*

Richard Bowen



Return to Richard Bowen in conference text

Richard M. Bowen III is an American banker who blew the whistle on mortgage fraud at Citigroup that helped trigger the sub-prime mortgage crisis.

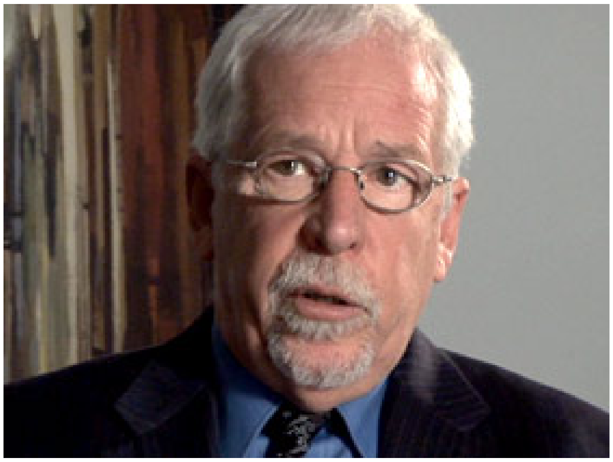
Beginning in June 2006, Bowen began warning the board of directors about the extreme risks being taken on by the mortgage operation.

Citigroup stripped Bowen of most of his responsibilities and informed him that his physical presence was no longer required at the bank.

The Financial Crisis Inquiry Commission asked him to testify about Citigroup's role in the mortgage crisis, and he did so, appearing as one of the first witnesses before the Commission in April 2010. www.richardmbowen.com

Louis Clark

Introducing Michael Winston



Return to Louis Clark in conference text

Louis Clark serves as both President and Corporate & Financial Accountability Director of GAP. Louis assumed the directorship of GAP in 1978, having first served as legal counsel for the organization.

As President, Louis serves as a spokesperson and public ambassador for GAP, and frequently negotiates with government and corporate officials about legal cases and social reform initiatives.

Louis often meets with international delegations from all over the world in order to describe GAP's methodology, the laws that are needed to protect employees who speak up about problems, and how to use information to promote progressive social change. In his role as Corporate & Financial Accountability Director, Louis oversees numerous cases involving widespread financial fraud.

LouisC@whistleblower.org
www.whistleblower.org/louis-clark

Michael Winston

Return to Michael Winston in conference text

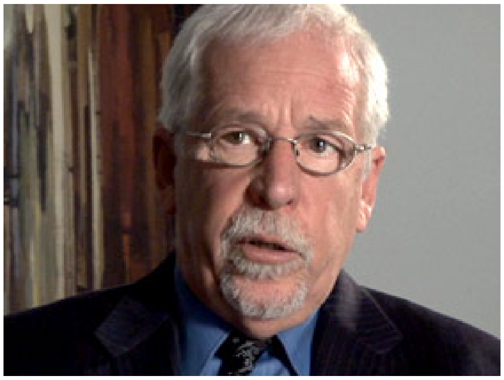
Michael Winston is a whistleblower who has both been celebrated as a hero for exposing fraud at Countrywide Financial and sued and penalized to an extraordinary degree.

One of America's ugliest secrets is that our own whistleblowers often don't do very well after the headlines fade and cameras recede. The ones who don't end up in jail like Manning, or in exile like Snowden, often still go through years of harassment and financial hardship. It's worth taking a look at how whistleblowers in America fared under the last regime. We venerate whistleblowers because they have the moral courage to stand up in the face of bureaucratic evil and do the right thing.

But such moral actors are also disloyal and even lawbreakers, leading them to be scorned and punished. Michael Winston had his life destroyed after first being venerated for being a hero.

Louis Clark

Introducing Gary Aguirre



Return to Louis Clark in conference text

See Clark biographic note for previous introduction.

Gary Aguirre

Return to Gary Aguirre in conference text

Gary J. Aguirre is an American lawyer, former investigator with the United States Securities and Exchange Commission and finally, a whistleblower. He took an extended break in 1995. In 2000, deciding to go into public service and going back to law school, focusing on international and securities law.

Mr. Aguirre was fired in 2005 for aggressively pursuing an investigation of suspected insider trading involving one of the nation's largest hedge funds, Pequot Capital Management. He was asked to submit testimony to the United States Senate Committee on the Judiciary pertaining to the Commission's lax enforcement of the nation's security laws.

In the matter of hedge funds that engage in insider trading, Aguirre rhetorically asked during his testimony how the SEC was doing. His answer: the SEC – aside from cases involving PIPEs (private investments in Public Equity Securities) – had brought only three cases against hedge funds for insider trading and recovered a total of only $110,000.

Tom Frank

Introducing Bill Black

Return to Tom Frank in conference text

Thomas Frank is an American political analyst, historian, journalist and columnist. He has written several books, most notably. *What's the Matter with Kansas,* which highlights the lives of people in Middle America small towns and suburbs where most people are middle class, Protestant, and white, and twice helped elect George W. Bush.

The book details how Kansas, once home to left-wing movements like the Populist Party, became socially conservative in the late twentieth century – incited by volatile social and religious issues such as abortion that induced them to vote against their own economic interest.

Frank analyzes trends in American electoral politics and propaganda, popular culture, mainstream journalism and economics. His writing topics include the rhetoric and impact of the culture wars in American political life and the relationship between politics, economics, and culture in the United States.

Bill Black

Return to Bill Black in conference text

Bill Black is a former bank regulator who played a central role in prosecuting the corruption responsible for the S&L crisis of the late 1980s. He laments that the US has descended into a type of crony capitalism that makes continued fraud a virtual certainty, while neutering the safeguards intended to prevent or punish such abuse.

Bill examines how financial fraud is the most damaging type of fraud and also the hardest to prosecute. He has maintained that during the 2008 credit crisis, just the household sector losses alone were over 70 times greater than those during the entire S&L debacle, yet that earlier crisis resulted in over 3,000 lawsuits. In contrast, the same agency, the Office of Thrift Supervision, made zero criminal referrals during the second crisis.

His central thesis is that “control fraud is when a seemingly legitimate entity is controlled by people who use it as a weapon to defraud its investors and the public. So in the financial sphere the weapon of choice is accounting and the losses from these kinds of control frauds exceed the financial losses from all other forms of property crime combined.”