INVESTIGATION-22 Part 5. The Stock Scam

Mon, 22 Jun 2015 17:00:00, newstips66, [category: energy-dept-slush-fund, category: hired-assassins, category: idea-theft, post_tag: investigation-22, post_tag: investigation-22-part-5, post_tag: investigation-22-part-5-the-stock-scam, category: senator-insider-trading, category: worldnews]

THE XYZ CASE: AN ORGANIZED CRIME INVESTIGATION
A PEER-TO-PEER LAW ENFORCEMENT PROJECT

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60 MIN.& MORE: THE CLEANTECH FELONY STOCK SCAMUsing federal funding to hype, pump, skim and dump public stocks and manipulate the stock market. Senators and some regulators implicated in running the cover-up? Big players grabbed billions of dollars up front, for their personal pockets, while workers at the Cleantech "bait companies" lost their jobs and their futures.HUNDREDS OF BILLIONS OF DOLLARS IN CRIMINAL STOCK MARKET AND FEDERAL FUNDING ABUSE BENEFITING MANY OF THE VERY PEOPLE THAT WERE SUPPOSED TO STOP IT FROM HAPPENING.
PART SIX:

HOT BREAKING NEWS STORIES:
FOR ARCHIVE OF OLDER NEWS STORIES, CLICK BELOW:

corruption_tales.pdf Download File

Banks face scrutiny over pricing of precious metals: WSJ
Tue Feb 24, 2015
(Reuters) - The U.S. Department of Justice (DoJ) and the Commodity Futures Trading Commission are investigating at least 10 major banks for possible rigging of precious-metals markets, the Wall Street Journal reported, citing people close to the inquiries.
DoJ prosecutors are scrutinizing the price-setting process for gold, silver, platinum and palladium in London, while the CFTC has opened a civil investigation, the newspaper said.
The banks are HSBC Holdings Plc, Bank of Nova Scotia, Barclays Plc, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc, JPMorgan Chase & Co, Societe Generale, Standard Bank Group Ltd and UBS Group AG, the Journal said.
Standard Bank spokesman Erik Larsen declined to comment on the report. The other banks, the DoJ and CFTC did not immediately respond to requests for comment. The CFTC issued a subpoena to HSBC Bank USA in January seeking documents related to the bank's precious metals trading operations, HSBC said on Monday.
The DoJ also issued a request to HSBC Holdings in November seeking documents related to a criminal antitrust investigation it is conducting in relation to precious metals, HSBC said.
Precious metal benchmarks have come under increased regulatory scrutiny since a scandal broke in 2012 over manipulation of Libor interest rates.
HSBC was one of several banks named in lawsuits filed in U.S. courts last year alleging a conspiracy to manipulate gold, silver, platinum and palladium prices, as well as precious metals derivatives, during the daily precious metals fixes. The century-old gold fix is a standard price for the metal that banks set twice a day over the phone. Some gold traders claim they were harmed by a scheme to manipulate the fix.
The banks operating the precious metals benchmarks, known as the fixes, said last year they would no longer administer that process. An electronic daily silver price benchmark is now administered by Thomson Reuters and CME Group, while the London Metal Exchange provides twice-daily benchmark platinum and palladium prices.
ICE Benchmark Administration will run an electronic gold price benchmark from March 20 to replace the London gold fix. Switzerland's financial watchdog said in November it had found a "clear attempt" to manipulate precious metals price benchmarks.
(Reporting by Supriya Kurane in Bengaluru; Editing by Anupama Dwivedi and Ted Kerr)

PART SEVEN:

PART EIGHT:

PART NINE: (STAY TUNED...)

GOLDMAN SACHS WAS THE "COORDINATING" LINK IN ALMOST EVERY DEAL UNDER INVESTIGATION:

An extensive number of recordings, by multiple whistle-blowers, and agencies, now exist:


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29 September 2014 Last updated at 11:52 ET

Secret tapes pull back curtain on Goldman Sachs

COMMENTS

By Anthony Zurcher
Editor, Echo Chambers

In 2009 the Federal Reserve Bank of New York set out to investigate why US government officials were so blind to the Wall Street crash of 2008. Why were they unable to forecast the oncoming financial crisis? Why did the economic contagion nearly topple the whole global financial system?

The fault, according to an independent review by Columbia University Prof David Beim, was that the government regulators were too deferential to the banks they were supposed to oversee. Within the New York Fed, employees were urged by their supervisors to look the other way when they found violations and to temper critical reports.

For many this isn't exactly news. What would be news, however, is evidence that shows that even after the financial collapse, and even after congressional attempts to institute more stringent oversight, nothing has changed. And there are secret recordings - made by a former New York Fed employee - that many are claiming provide first-hand evidence of continued government neglect.

These allegations are contained in an investigative report published on Friday by ProPublica in partnership with the radio programme This American Life. The author, Pulitzer Prize winner Jake Bernstein, spoke with former New York Fed employee Carmen Segarra, who was originally hired to boost oversight efforts following the 2008 collapse.

She was fired seven months later after clashes with her supervisors - but not before she secretly recorded more than 46 hours of meetings to support her claims that she was terminated because she wouldn't tone down her criticism of Goldman practices.

Related Stories

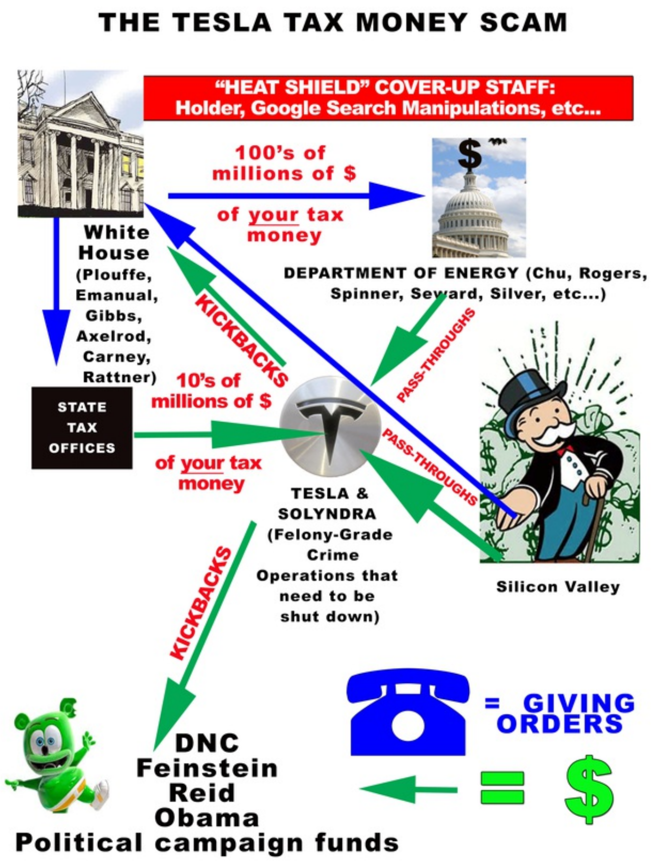
Is Wall Street rigged?

"Even the best set of rules is totally insufficient if paired with an enforcement system that applies them inconsistently or not at all"

Dylan Matthews

Vox

News media have speculated that the actual reason for "the CleanTech Crash" may have to do with a massive embezzlement scheme such as the concept shown in this published diagram:



FEDERAL AND INDUSTRY INVESTIGATORS DISCOVER *"PUMP AND DUMP*" AND "PUMP AND FLUFF" STOCK SCAMS IN THE CLEANTECH FUNDING PROGRAM:"The use of the media and the internet by a company, or it's investors, to pump that company's stocks is a felony. The use, by a company of armies of fake bloggers, paid for by that company to post false praise in order to raise that company's stocks is a felony.In the United States, this falls under market manipulation and is prohibited under Section 9(a)(2) of the Securities Exchange Act of 1934."
The CleanTech stocks that crash and then suddenly recover are getting instantly "pumped" with fake investor buys computer "flashed" to make them look like Day-traders."Pump and dumps are illegal because you are willfully attempting to manipulate the value of a security. And if you are doing this with other people as well, it's even worse because that implies it is more of a concentrated effort to do that. An example is if you and a few buddies are looking at a stock that only trades a few thousand shares a day. Between the group of you, you trade the stock so the volume is much, much higher than what it usually is. Others will notice this and think that the stock is going up by its own merits, clueless to the fact that you and your buddies are artificially driving up the price and volume. Others start buying and drive the price further based on the artificial demand you've created, and then you sell it off and the price probably tanks to where you started or less. In a sense and your buddies would be guilty of collusion and artificially manipulating the value of the security. That's why it's not fair, and understandably, that's why it's illegal. Furthermore, pump and dumps are also carried out by people that hack into others trading accounts, sell off their assets, and use the money to buy stocks involved in the pump and dump, which has the same effect of artificially driving up the price. Source: Licensed Stock Broker
http://www.sec.gov/answers/pumpdump.htm

Watch the movie Boiler Room
http://www.imdb.com/title/tt0181984/*"Nothing wrong with buying low and selling high. But willful manipulation of worthless stocks of synthetically created Cleantech facade companies, like Abound, Solyndra, Fisker, Tesla, etc... crosses the legal boundary. When lying hype drives the price of a stock rather than financial performance of the company, the activity becomes criminal. It's considered fraud because the pumper (AKA: The Tech CEO that just got free federal cash from a kick-back program) is artificially inflating the price of a stock through false and misleading statements."*

ENRON AGAIN: ENERGY INDUSTRY SCAMS - WIKIPEDIA

"**Pump and dump**" (P&D) is a form of microcap stock fraud that involves artificially inflating the price of an owned stockthrough false and misleading positive statements, in order to sell the cheaply purchased stock at a higher price. Once the operators of the scheme "dump" their overvalued shares, the price falls and investors lose their money. Stocks that are the subject of pump and dump schemes are sometimes called "chop stocks".[1]While fraudsters in the past relied on cold calls, the Internet now offers a cheaper and easier way of reaching large numbers of potential investors.[1]Contents [hide]

Pump and dump scenarios[edit]Pump and dump schemes may take place on the Internet using an e-mail spamcampaign, through media channels via a fake press release, or through telemarketing from "boiler room" brokerage houses (for example, see *Boiler Room*).[2] Often the stock promoter will claim to have "inside" information about impending news. Newsletters may purport to offer unbiased recommendations, then tout a company as a "hot" stock, for their own benefit. Promoters may also post messages in chat rooms or stock message boards urging readers to buy the stock quickly.[1]
If a promoter's campaign to "pump" a stock is successful, it will entice unwitting investors to purchase shares of the target company. The increased demand, price, and trading volume of the stock may convince more people to believe the hype, and to buy shares as well. When the promoters behind the scheme sell (dump) their shares and stop promoting the stock, the price plummets, and other investors are left holding stock that is worth significantly less than what they paid for it.
Fraudsters frequently use this ploy with small, thinly traded companies—known as "penny stocks," generally tradedover-the-counter (in the United States, this would mean markets such as the OTC Bulletin Board or the Pink Sheets), rather than markets such as the New York Stock Exchange (NYSE) or NASDAQ—because it is easier to manipulate a stock when there is little or no independent information available about the company.[3] The same principle applies in the United Kingdom, where target companies are typically small companies on the AIM or OFEX.
A more modern spin on this attack is known as hack, pump and dump.[4] In this form, a person purchases penny stocks in advance and then uses compromised brokerage accounts to purchase large quantities of that stock. The net result is a price increase, which is often pushed further by day traders seeing a quick advance in a stock. The holder of the stock then sells his stock at a premium.[5]
Specific examples[edit]Jonathan Lebed[edit]During the dot-com era, when stock-market fever was at its height and many people spent significant amounts of time on stock Internet message boards, a 15-year-old named Jonathan Lebed showed how easy it was to use the Internet to run a successful pump and dump. Lebed bought penny stocks and then promoted them on message boards, pointing at the price increase. When other investors bought the stock, Lebed sold his for a profit, leaving the other investors holding the bag. He came to the attention of the U.S. Securities and Exchange Commission (SEC), which filed a civil suit against him alleging security manipulation. Lebed settled the charges by paying a fraction of his total gains. He neither admitted nor denied wrongdoing, but promised not to manipulate securities in the future.[6]
Enron[edit]As late as April 2001, before the company's collapse, Enron executives participated in an elaborate scheme of pump and dump,[7] in addition to other illegal practices that fooled even the most experienced analysts on Wall Street. Studies of the anonymous messages posted on the Yahoo board dedicated to Enron revealed predictive messages that the company was basically a house of cards, and that investors should bail out while the stock was good.[8] After Enron falsely reported profits which inflated the stock price, they covered the real numbers by using questionable accounting practices. 29 Enron executives sold overvalued stock for more than a billion dollars before the company went bankrupt.[9]
Park Financial Group[edit]In April 2007, the U.S. SEC brought charges against Park Financial Group as a result of an investigation into a pump and dump scheme during 2002-2003 of the Pink Sheet listed stock of Spear & Jackson Inc.[10]
John Babikian[edit]John Babikian got rich, authorities allege, by what is known in the business as pumping-and-dumping stocks. He was operating 'AwesomePennyStocks' website and the 700,000 email push hyping America West.[11]
Langbar International[edit]Started as Crown Corporation, Langbar was the biggest pump and dump fraud on theAlternative Investment Market, part of the London Stock Exchange. The company was at one point valued greater than $1 Billion, based on supposed bank deposits in Brazil which did not exist. None of the chief conspirators were convicted, although their whereabouts is known. A Patsy who made a negligent false statement about the assets was convicted and banned from being a director. The investors who lost as much as £100 million sued one of the fraudsters and recovered £30 million.
Pump and dump spam[edit]Pump and dump stock scams are prevalent in spam, accounting for about 15% of spam e-mail messages. A survey of 75,000 unsolicited emails sent between January 2004 and July 2005 concluded that spammers could make an average return of 4.29% by using this method, while recipients who act on the spam message typically lose close to 5.5% of their investment within two days.[12] A study by Böhme and Holz[13] shows a similar effect. Stocks targeted by spam are almost always penny stocks, selling for less than $5 per share, not traded on major exchanges, are thinly traded, and are difficult or impossible to sell short. Spammers acquire stock before sending the messages, and sell the day the message is sent.[14]
Pump and dump differs from many other forms of spam (such as advance fee fraud emails and lottery scammessages) in that it does not require the recipient to contact the spammer to collect supposed "winnings," or to transfer money from supposed bank accounts. This makes tracking the source of pump and dump spam difficult, and has also given rise to "minimalist" spam consisting of a small untraceable image file containing a picture of a stock symbol.[*citation needed*]
Short and distort[edit]Main article: Short and distortA variant of the pump and dump scam, the "short and distort" works in the opposite manner. Instead of first buying the stock, and then artificially raising its price before selling, in a "short and distort" the scammer first short-sells the stock, and then artificially *lowers* the price, using the same techniques as the pump and dump but using criticism or negative predictions regarding the stock. The scammer then covers his short position when he buys back the stock at a lower price.[15]
Regulation[edit]One method of regulating and restricting pump and dump manipulators is to target the category of stocks most often associated with this scheme. To that end, penny stocks have been the target of heightened enforcement efforts. In the United States, regulators have defined a penny stock as a security that must meet a number of specific standards. The criteria include price, market capitalization, and minimum shareholder equity. Securities traded on a national stock exchange, regardless of price, are exempt from regulatory designation as a penny stock,[16] since it is thought that exchange traded securities are less vulnerable to manipulation.[17] Therefore,CitiGroup (NYSE:C) and other NYSE listed securities which traded below $1.00 during the market downturn of 2008-2009, while properly regarded as "low priced" securities, were not technically "penny stocks". Although penny stock trading in the United States is now primarily controlled through rules and regulations enforced by the Securities and Exchange Commission and the Financial Industry Regulatory Authority (FINRA), the genesis of this control is found in State securities law. The State of Georgia was the first state to codify a comprehensive penny stock securities law.[18]Secretary of State Max Cleland, whose office enforced State securities laws[19] was a principal proponent of the legislation. Representative Chesley V. Morton, the only stockbroker in the Georgia General Assembly at the time, was principal sponsor of the bill in the House of Representatives. Georgia's penny stock law was subsequently challenged in court. However, the law was eventually upheld in U.S. District Court,[20] and the statute became the template for laws enacted in other states. Shortly thereafter, both FINRA and the SEC enacted comprehensive revisions of their penny stock regulations. These regulations proved effective in either closing or greatly restricting broker/dealers, such as Blinder, Robinson & Company, which specialized in the penny stocks sector. Meyer Blinder was jailed for securities fraud in 1992, after the collapse of his firm.[21] However, sanctions under these specific regulations lack an effective means to address pump and dump schemes perpetrated by unregistered groups and individuals.
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- Sergey Perminov, *Trendocracy and Stock Market Manipulations* (2008, ISBN 978-1-4357-5244-3).

External links[edit]

- The SEC on Pump and dump stock Schemes in 2005
- The SEC on Pump and dump stock Schemes in 2001
- The movie *Boiler Room*, a fictional account of a pump and dump company

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"One should either write ruthlessly what one believes to be the truth, or else shut up." — Arthur Koestler

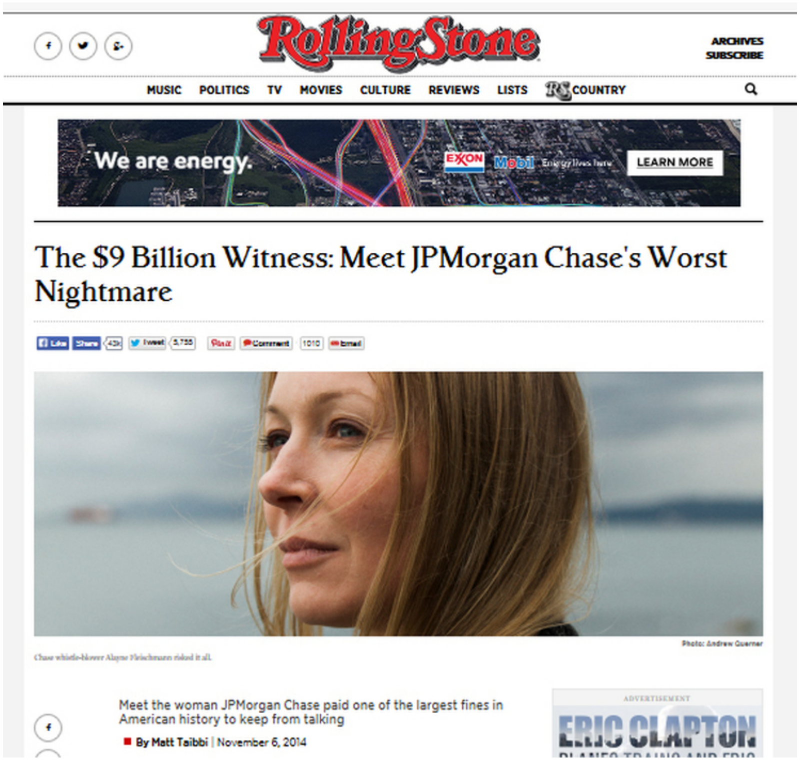
Solyndra: Pump and Dump

A *Wall Street Journal* article quotes an investor in the bankrupt "green energy" boondoggle describing what the half-billion-dollar federal loan guarantee meant: "There was a perceived halo around the loan . . . If we get the loan, then we can definitely go public and cash out." Ed Lasky at American Thinker explains:The huge loan would be a selling point in an initial public offering. The company promoters could point out that the loan gave them credibility — that the government had vouched for their viability and prospects. The private investors would cash out and when the loan came due and the company was unable to pay, taxpayers would be the ones left holding the IOUs. **Take the money and run**.
It was a straight-out *scam*, in other words, with a major Democratic donor as one of the primary beneficiaries. An environmentally-friendly three-card monte game — burning taxpayers instead of burning CO2.

Solyndra Investor admits: we wanted the loan so we could 'go public and cash out'

By Ed Lasky

A clearer picture of the underlying insider scheme at Solyndra is beginning to emerge. [Yuliya Chernova](#) of the Wall Street Journal writes a superb column today regarding all the business problems that beset the scandal plagued Solyndra. There were a litany of engineering and business problems that were very apparent to everyone except, apparently, the White House politicos that pressured career officials in the government to extend a 500 million dollar loan guarantee. The crony investors were given an unusually low interest rate for such a venture. Solyndra was first in line to get loan guarantees under the Obama program to promote solar energy ventures. Solyndra private investors were given priority in case of bankruptcy that placed their claims above those of taxpayers -- a highly unusual occurrence, according to the Wall Street Journal.So who were the type of people granted such favorable treatment? Yes, Obama donors and bundlers. That has been widely publicized. But beyond that, what type of character did they possess?
One investor behind Solyndra blurted out the truth. The loan was needed and needed urgently to fatten up the company and show a going concern (with a factory, etc).Why?From the column:
There was another motivator -- Solyndra's management and investors had an eye on an initial public offering.
"There was a perceived halo around the loan," said an investor with knowledge of the company. "If we get the loan, then we can definitely go public and cash out."
The huge loan would be a selling point in an initial public offering. The company promoters could point out that the loan gave them credibility -- that the government had vouched for their viability and prospects.
The private investors would cash out and when the loan came due and the company was unable to pay, taxpayers would be the ones left holding the IOUs.
Take the money and run.
Read more: http://www.americanthinker.com/blog/2011



Meet the woman JPMorgan Chase paid one of the largest fines in American history to keep from talkingBy [Matt Taibbi](#) | November 6, 2014She tried to stay quiet, she really did. But after eight years of keeping a heavy secret, the day came when Alayne Fleischmann couldn't take it anymore.
"It was like watching an old lady get mugged on the street," she says. "I thought, 'I can't sit by any longer.'"
Fleischmann is a tall, thin, quick-witted securities lawyer in her late thirties, with long blond hair, pale-blue eyes and an infectious sense of humor that has survived some very tough times. She's had to struggle to find work despite some striking skills and qualifications, a common symptom of a not-so-common condition called being a whistle-blower.
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Fleischmann is the central witness in one of the biggest cases of white-collar crime in American history, possessing secrets that JPMorgan Chase CEO Jamie Dimon late last year paid $9 billion (not $13 billion as regularly reported – more on that later) to keep the public from hearing.
Back in 2006, as a deal manager at the gigantic bank, Fleischmann first witnessed, then tried to stop, what she describes as "massive criminal securities fraud" in the bank's mortgage operations.
Thanks to a confidentiality agreement, she's kept her mouth shut since then. "My closest family and friends don't know what I've been living with," she says. "Even my brother will only find out for the first time when he sees this interview."
Six years after the crisis that cratered the global economy, it's not exactly news that the country's biggest banks stole on a grand scale. That's why the more important part of Fleischmann's story is in the pains Chase and the Justice Department took to silence her.
She was blocked at every turn: by asleep-on-the-job regulators like the Securities and Exchange Commission, by a court system that allowed Chase to use its billions to bury her evidence, and, finally, by officials like outgoing Attorney General Eric Holder, the chief architect of the crazily elaborate government policy of surrender, secrecy and cover-up. "Every time I had a chance to talk, something always got in the way," Fleischmann says.
This past year she watched as Holder's Justice Department struck a series of historic settlement deals with Chase, Citigroup and Bank of America. The root bargain in these deals was cash for secrecy. The banks paid big fines, without trials or even judges – only secret negotiations that typically ended with the public shown nothing but vague, quasi-official papers called "statements of facts," which were conveniently devoid of anything like actual facts.
Jamie Dimon (Photo: Bloomberg/Getty) And now, with Holder about to leave office and his Justice Department reportedly wrapping up its final settlements, the state is effectively putting the finishing touches on what will amount to a sweeping, industrywide effort to bury the facts of a whole generation of Wall Street corruption. "I could be sued into bankruptcy," she says. "I could lose my license to practice law. I could lose everything. But if we don't start speaking up, then this really is all we're going to get: the biggest financial cover-up in history."

Alayne Fleischmann grew up in Terrace, British Columbia, a snowbound valley town just a brisk 18-hour drive north of Vancouver. She excelled at school from a young age, making her way to Cornell Law School and then to Wall Street. Her decision to go into finance surprised those closest to her, as she had always had more idealistic ambitions. "I helped lead a group that wrote briefs to the Human Rights Chamber for those affected by ethnic cleansing in Bosnia-Herzegovina," she says. "My whole life prior to moving into securities law was human rights work."

But she had student loans to pay off, and so when Wall Street came knocking, that was that. But it wasn't like she was dragged into high finance kicking and screaming. She found she had a genuine passion for securities law and felt strongly she was doing a good thing. "There was nothing shady about the field back then," she says. "It was very respectable."

In 2006, after a few years at a white-shoe law firm, Fleischmann ended up at Chase. The mortgage market was white-hot. Banks like Chase, Bank of America and Citigroup were furiously buying up huge pools of home loans and repackaging them as mortgage securities. Like soybeans in processed food, these synthesized financial products wound up in everything, whether you knew it or not: your state's pension fund, another state's workers' compensation fund, maybe even the portfolio of the insurance company you were counting on to support your family if you got hit by a bus.

As a transaction manager, Fleischmann functioned as a kind of quality-control officer. Her main job was to help make sure the bank didn't buy spoiled merchandise before it got tossed into the meat grinder and sold out the other end.

A few months into her tenure, Fleischmann would later testify in a DOJ deposition, the bank hired a new manager for diligence, the group in charge of reviewing and clearing loans. Fleischmann quickly ran into a problem with this manager, technically one of her superiors. She says he told her and other employees to stop sending him e-mails. The department, it seemed, was wary of putting anything in writing when it came to its mortgage deals.

"I could lose everything. But if we don't start speaking up, we're going to get the biggest financial cover-up in history." "If you sent him an e-mail, he would actually come out and yell at you," she recalls. "The whole point of having a compliance and diligence group is to have policies that are set out clearly in writing. So to have exactly the opposite of that – that was very worrisome." One former high-ranking federal prosecutor said that if he were taking a criminal case to trial, the information about this e-mail policy would be crucial. "I would begin and end my opening statement with that," he says. "It shows these people knew what they were doing and were trying not to get caught."

In late 2006, not long after the "no e-mail" policy was implemented, Fleischmann and her group were asked to evaluate a packet of home loans from a mortgage originator called GreenPoint that was collectively worth about $900 million. Almost immediately, Fleischmann and some of the diligence managers who worked alongside her began to notice serious problems with this particular package of loans.

For one thing, the dates on many of them were suspiciously old. Normally, banks tried to turn loans into securities at warp speed. The idea was to go from a homeowner signing on the dotted line to an investor buying that loan in a pool of securities within two to three months. Thus it was a huge red flag to see Chase buying loans that were already seven or eight months old.

What this meant was that many of the loans in the GreenPoint deal had either been previously rejected by Chase or another bank, or were what are known as "early payment defaults." EPDs are loans that have already been sold to another bank and have been returned after the borrowers missed multiple payments. That's why the dates on them were so old. In other words, this was the very bottom of the mortgage barrel. They were like used cars that had been towed back to the lot after throwing a rod. The industry had its own term for this sort of loan product: scratch and dent. As Chase later admitted, it not only ended up reselling hundreds of millions of dollars worth of those crappy loans to investors, it also sold them in a mortgage pool marketed as being above subprime, a type of loan called "Alt-A." Putting scratch-and-dent loans in an Alt-A security is a little like putting a fresh coat of paint on a bunch of junkyard wrecks and selling them as new cars. "Everything that I thought was bad at the time," Fleischmann says, "turned out to be a million times worse." (Chase declined to comment for this article.)

When Fleischmann and her team reviewed random samples of the loans, they found that around 40 percent of them were based on overstated incomes – an astronomically high defect rate for any pool of mortgages; Chase's normal tolerance for error was five percent. One mortgage in particular that sticks out in Fleischmann's mind involved a manicurist who claimed to have an annual income of $117,000. Fleischmann figured that even working seven days a week, this woman would have needed to work 488 days a year to make that much. "And that's with no overhead," Fleischmann says. "It wasn't possible."

But when she and others raised objections to the toxic loans, something odd started happening. The number-crunchers who had been complaining about the loans suddenly began changing their reports. The process she describes is strikingly similar to the way police obtain false confessions: The interrogator verbally abuses the target until he starts producing the desired answers. "What happened," Fleischmann says, "is the head diligence manager started yelling at his team, berating them, making them do reports over and over, keeping them late at night." Then the loans started clearing.

Related Chase's Twitter Gambit Devolves into All-Time PR Fiasco As late as December 11th, 2006, diligence managers had marked a full 33 percent of one loan sample as "stated income unreasonable for profession," meaning that it was nearly inevitable that there would be a high number of defaults. Several high-ranking executives were copied on this report. Then, on December 15th, a Chase sales executive held a lengthy meeting with reps from GreenPoint and the diligence team to examine the remaining loans in the pool. When they got to the manicurist, Fleischmann remembers, one of the diligence guys finally caved under the pressure from the sales executive. "He had his hands up and just said, 'OK,' and he cleared it," says Fleischmann, adding that he was shaking his head "no" even as he was saying yes. Soon afterward, the error rate in the pool had magically dropped below 10 percent – a threshold that itself had just been doubled to clear the way for this deal.

After that meeting, Fleischmann testified, she approached a managing director named Greg Boester and pleaded with him to reconsider. She says she told Boester that the bank could not sell the high-risk loans as low-risk securities without committing fraud. "You can't securitize these loans without special disclosure about what's wrong with them," Fleischmann told him, "and if you make that disclosure, no one will buy them."

A former Olympic ski jumper, Boester was such an important executive at Chase that when he later defected to the Chicago-based hedge fund Citadel, Dimon cut off trading with Citadel in retaliation. Boester eventually returned to Chase and is still there today despite his role in this affair.

This moment illustrates the most basic element of the case against Chase: The bank knowingly peddled products stuffed with scratch-and-dent loans to investors without disclosing the obvious defects with the underlying loans.

Years later, in its settlement with the Justice Department, Chase would admit that this conversation between Fleischmann and Boester took place (though neither was named; it was simply described as "an employee . . . told . . . a managing director") and that her warning was ignored when the bank sold those loans off to investors.

Photo: Illustration by Victor Juhasz A few weeks later, in early 2007, she sent a long letter to another managing director, William Buell. In the letter, she warned Buell of the consequences of reselling these bad loans as securities and gave detailed descriptions of breakdowns in Chase's diligence process.

Fleischmann assumed this letter, which Chase lawyers would later jokingly nickname "The Howler" after the screaming missive from the *Harry Potter* books, would be enough to force the bank to stop selling the bad loans. "It used to be if you wrote a memo, they had to stop, because now there's proof that they knew what they were doing," she says. "But when the Justice Department doesn't do anything, that stops being a deterrent. I just didn't know that at the time."

In February 2008, less than two years after joining the bank, Fleischmann was quietly dismissed in a round of layoffs. A few months later, proof would appear that her bosses knew all along that the boom-era mortgage market was rotten. That September, as the market was crashing, Dimon boasted in a ball-washing *Fortune* article titled "Jamie Dimon's SWAT Team" that he knew well before the meltdown that the subprime market was toast. "We concluded that underwriting standards were deteriorating across the industry." The story tells of Dimon ordering Boester's boss, William King, to dump the bank's subprime holdings in October 2006. "Billy," Dimon says, "we need to sell a lot of our positions. . . . This stuff could go up in smoke!"

In other words, two full months before the bank rammed through the dirty GreenPoint deal over Fleischmann's objections, Chase's CEO was aware that loans like this were too dangerous for Chase itself to own. (Though Dimon was talking about subprime loans and GreenPoint was technically an Alt-A pool, the *Fortune* story shows that upper management had serious concerns about industry-wide underwriting problems.)

The ordinary citizen who is the target of a government investigation cannot pick up the phone, call the prosecutor and have his case dropped. But Dimon did just that.In January 2010, when Dimon testified before the Financial Crisis Inquiry Commission, he told investigators the exact opposite story, portraying the poor Chase leadership as having been duped, just like the rest of us. "In mortgage underwriting," he said, "somehow we just missed, you know, that home prices don't go up forever."

When Fleischmann found out about all of this years later, she was shocked. Her confidentiality agreement at Chase didn't bar her from reporting a crime, but the problem was that she couldn't prove that Chase had committed a crime without knowing whether those bad loans had been sold.

As it turned out, of course, Chase was selling those rotten dog-meat loans all over the place. How bad were they? A single lawsuit by a single angry litigant gives some insight. In 2011, Chase was sued over massive losses suffered by a group of credit unions. One of them had invested $135 million in one of the bank's mortgage--backed securities. About 40 percent of the loans in that deal came from the GreenPoint pool.

The lawsuit alleged that in just the first year, the security suffered $51 million in losses, nearly 50 times what had been projected. It's hard to say how much of that was due to the GreenPoint loans. But this was just one security, one year, and the losses were in the tens of millions. And Chase did deal after deal with the same methodology. So did most of the other banks. It's theft on a scale that blows the mind.

In the spring of 2012, Fleischmann, who'd moved back to Canada after leaving Chase, was working at a law firm in Calgary when the phone rang. It was an investigator from the States. "Hi, I'm from the SEC," he said. "You weren't expecting to hear from me, were you?"

A few months earlier, President Obama, giving in to pressure from the Occupy movement and other reformers, had formed the Residential Mortgage-Backed Securities Working Group. At least superficially, this was a serious show of force against banks like Chase. The group would operate like a kind of regulatory Justice League, combining the superpowers of investigators from the SEC, the FBI, the IRS, HUD and a host of other federal agencies. It included noted anti-corruption- investigator and New York Attorney General Eric Schneiderman, which gave many observers reason to hope that finally something would be done about the crimes that led to the crash. That makes the fact that the bank would skate with negligible cash fines an even more extra-ordinary accomplishment.

New York Attorney General Eric Schneiderman (L) speaks whille Attorney General Eric Holder listens during a news conference at the Justice Department on January 27th, 2012. (Photo: Mark Wilson/Getty) By the time the working group was set up, most of the applicable statutes of limitations had either expired or were about to expire. "A conspiratorial way of looking at it would be to say the state waited far too long to look at these cases and is now taking its sweet time investigating, while the last statutes of limitations run out," says famed prosecutor and former New York Attorney General Eliot Spitzer.

It soon became clear that the SEC wasn't so much investigating Chase's behavior as just checking boxes. Fleischmann received no follow-up phone calls, even though she told the investigator that she was willing to tell the SEC everything she knew about the systemic fraud at Chase. Instead, the SEC focused on a single transaction involving a mortgage company called WMC. "I kept trying to talk to them about GreenPoint," Fleischmann says, "but they just wanted to talk about that other deal."

The following year, the SEC would fine Chase $297 million for misrepresentations in the WMC deal. On the surface, it looked like a hefty punishment. In reality, it was a classic example of the piecemeal, cherry-picking style of justice that characterized the post-crisis era. "The kid-gloves approach that the DOJ and the SEC take with Wall Street is as inexplicable as it is indefensible," says Dennis Kelleher of the financial reform group Better Markets, which would later file suit challenging the Chase settlement. "They typically charge only one offense when there are dozens. It would be like charging a serial murderer with a single assault and giving them probation."

Soon Fleischmann's hopes were raised again. In late 2012 and early 2013, she had a pair of interviews with civil litigators from the U.S. attorney's office in the Eastern District of California, based in Sacramento.

One of the ongoing myths about the financial crisis is that the government is outmatched by the legal talent representing the banks. But Fleischmann was impressed by the lead attorney in her case, a litigator named Richard Elias. "He sounded like he had been a securities lawyer for 10 years," she says. "This actually looked like his idea of fun – like he couldn't wait to run with this case."

She gave Elias and his team detailed information about everything she'd seen: the edict against e-mails, the sabotaging of the diligence process, the bullying, the written warnings that were ignored, all of it. She assumed that it wouldn't be long before the bank was hauled into court.

Related [Matt Taibbi on Bank of America: Too Crooked to Fail] Instead, the government decided to help Chase bury the evidence. It began when Holder's office scheduled a press conference for the morning of September 24th, 2013, to announce sweeping civil-fraud charges against the bank, all laid out in a detailed complaint drafted by the U.S. attorney's Sacramento office. But that morning the presser was suddenly canceled, and no complaint was filed. According to later news reports, Dimon had personally called Associate Attorney General Tony West, the third-ranking official in the Justice Department, and asked to reopen negotiations to settle the case out of court.

It goes without saying that the ordinary citizen who is the target of a government investigation cannot simply pick up the phone, call up the prosecutor in charge of his case and have a legal proceeding canceled. But Dimon did just that. "And he didn't just call the prosecutor, he called the prosecutor's boss," Fleischmann says. According to *The New York Times,* after Dimon had already offered $3 billion to settle the case and was turned down, he went to Holder's office and upped the offer, but apparently not by enough.

A few days later, Fleischmann, who had by then moved back to Vancouver and was looking for work, was at a mall when she saw a *Wall Street Journal* headline on her iPhone: JPMorgan Insider Helps U.S. in Probe. The story said that the government had a key witness, a female employee willing to provide damaging testimony about Chase's mortgage operations. Fleischmann was stunned. Until that moment, she had no idea that she was a major part of the government's case against Chase. And worse, nobody had bothered to warn her that she was about to be effectively outed in the newspapers. "The stress started to build after I saw that news," she says. "Especially as I waited to see if my name would come out and I watched my job possibilities evaporate."

Fleischmann later realized that the government wasn't interested in having her testify against Chase in court or any other public forum. Instead, the Justice Department's political wing, led by Holder, appeared to be using her, and her evidence, as a bargaining chip to extract more hush money from Dimon. It worked. Within weeks, Dimon had upped his offer to roughly $9 billion.

In late November, the two sides agreed on a settlement deal that covered a variety of misbehaviors, including the fraud that Fleischmann witnessed as well as similar episodes at Washington Mutual and Bear Stearns, two companies that Chase had acquired during the crisis (with federal bailout aid). The newspapers and the Justice Department described the deal as a "$13 billion settlement," hailing it as the biggest white-collar regulatory settlement in American history. The deal released Chase from civil liability. And, in what was described by *The New York Times* as a "major victory for the government," it left open the possibility that the Justice Department could pursue a further criminal investigation against the bank.

But the idea that Holder had cracked down on Chase was a carefully contrived fiction, one that has survived to this day. For starters, $4 billion of the settlement was largely an accounting falsehood, a chunk of bogus "consumer relief" added to make the payoff look bigger. What the public never grasped about these consumer--relief deals is that the "relief" is often not paid by the bank, which mostly just services the loans, but by the bank's other victims, i.e., the investors in their bad mortgage securities.

Moreover, in this case, a fine-print addendum indicated that this consumer relief would be allowed only if said investors agreed to it – or if it would have been granted anyway under existing arrangements. This often comes down to either forgiving a small portion of a loan or giving homeowners a little extra time to pay up in full. "It's not real," says Fleischmann. "They structured it so that the homeowners only get relief if they would have gotten it anyway." She pauses. "If a loan shark gives you a few extra weeks to pay up, is that 'consumer relief'?"

The average person had no way of knowing what a terrible deal the Chase settlement was for the country. The terms were even lighter than the slap-on-the-wrist formula that allowed Wall Street banks to "neither admit nor deny" wrongdoing – the deals that had helped spark the Occupy protests. Yet those notorious deals were like the Nuremberg hangings compared to the regulatory innovation that Holder's Justice Department cooked up for Dimon and Co.

Instead of a detailed complaint naming names, Chase was allowed to sign a flimsy, 10-and-a-half-page "statement of facts" that was: (a) so short, a first-year law student could read it in the time it takes to eat a tuna sandwich, and (b) so vague, a halfway intelligent person could read it and not know anyone had done anything wrong.

Related [Chase Isn't the Only Bank in Trouble] The ink was barely dry on the deal before Chase would have the balls to insinuate its innocence. "The firm has not admitted to violations of the law," said CFO Marianne Lake. But the deal's most brazen innovation was the way it bypassed the judicial branch. Previously, federal regulators had had bad luck with judges when trying to dole out slap-on-the-wrist settlements to banks. In a pair of celebrated cases, an unpleasantly honest federal judge named Jed Rakoff had rejected sweetheart deals worked out between banks and slavish regulators and had commanded the state to go back to the drawing board and come up with real punishments.

Seemingly not wanting to deal with even the possibility of such a thing happening, Holder blew off the idea of showing the settlement to a judge. The settlement, says Kelleher, "was unprecedented in many ways, including being very carefully crafted to bypass the court system. . . . There can be little doubt that the DOJ and JP-Morgan were trying to avoid disclosure of their dirty deeds and prevent public scrutiny of their sweetheart deal." Kelleher asks a rhetorical question: "Can you imagine the outcry if [Bush-era Attorney General] Alberto Gonzales had gone into the backroom and given Halliburton immunity in exchange for a billion dollars?"

The deal was widely considered a good one for both sides, but Chase emerged with barely a scratch. First, the ludicrously nonspecific language surrounding the settlement put you, me and every other American taxpayer on the hook for roughly a quarter of Chase's check. Because most of the settlement monies were specifically not called fines or penalties, Chase was allowed to treat some $7 billion of the settlement as a tax write-off.

Couple this with the fact that the bank's share price soared six percent on news of the settlement, adding more than $12 billion in value to shareholders, and one could argue Chase actually made money from the deal. What's more, to defray the cost of this and other fines, Chase last year laid off 7,500 lower-level employees. Meanwhile, per-employee compensation for everyone else rose four percent, to $122,653. But no one made out better than Dimon. The board awarded a 74 percent raise to the man who oversaw the biggest regulatory penalty ever, upping his compensation package to about $20 million.

"The assumption they make is that I won't blow up my life to do it. But they're wrong about that."While Holder was being lavishly praised for releasing Chase only from civil liability, Fleischmann knew something the rest of the world did not: The criminal investigation was going nowhere.

In the days leading up to Holder's November 19th announcement of the settlement, the Justice Department had asked Fleischmann to meet with criminal investigators. They would interview her very soon, they said, between December 15th and Christmas.

But December came and went with no follow-up from the DOJ. She began to wonder: If she was the government's key witness, how was it possible that they were still pursuing a criminal case without talking to her? "My concern," she says, "was that they were not investigating."

The government's failure to speak to Fleischmann lends credence to a theory about the Holder-Dimon settlement: It included a tacit agreement from the DOJ not to pursue criminal charges in earnest. It sounds outrageous, but it wouldn't be the first time that the government used a wink and a nod to dispose a bank of major liability without saying so publicly. Back in 2010, *American Lawyer* revealed Goldman Sachs wanted a full release from liability in a dozen crooked mortgage deals, while the SEC didn't want to give the bank such a big public victory. So the two sides quietly agreed to a grimy compromise: Goldman agreed to pay $550 million to settle a single case, and the SEC privately assured the bank that it wouldn't recommend charges in any of the other deals.

As Fleischmann was waiting for the Justice Department to call, Chase and its lawyers had been going to tremendous lengths to keep her muzzled. A number of major institutional investors had sued the bank in an effort to recover money lost in investing in Chase's fraud-ridden home loans. In October 2013, one of those investors – the Fort Worth Employees' Retirement Fund – asked a federal judge to force Chase to grant access to a series of current and former employees, including Fleischmann, whose status as a key cooperator in the federal investigation had made headlines in *The Wall Street Journal* and other major media outlets.

Photo: Spencer Platt/Getty In response, Dorothy Spenner, an attorney representing Chase, told the court that Fleischmann was not a "relevant custodian." In other words, she couldn't testify to anything of importance. Federal Magistrate Judge James C. Francis IV took Chase's lawyers at their word and rejected the Fort Worth retirees' request for access to Fleischmann and her evidence.

Other investors bilked by Chase also tried to speak to Fleischmann. The Federal Home Loan Bank of Pittsburgh, which had sued Chase, asked the court to force Chase to turn over a copy of the draft civil complaint that was withheld after Holder's scuttled press conference. The Pittsburgh litigants also specified that they wanted access to the name of the state's cooperating witness: namely, Fleischmann.

In that case, the judge actually ordered Chase to turn over both the complaint and Fleischmann's name. Chase stalled. Later in the fall, the judge ordered the bank to produce the information again; it stalled some more.

Then, in January 2014, Chase suddenly settled with the Pittsburgh bank out of court for an undisclosed amount. Months after being ordered to allow Fleischmann to talk, they once again paid a stiff price to keep her testimony out of the public eye.

Chase's determination to hide its own dirt while forcing Fleischmann to keep her secret was becoming more and more absurd. "It was a hard time to look for work," she says. All that prospective employers knew was that she had worked in a department that had just been dinged with what was then the biggest regulatory fine in the history of capitalism. According to the terms of her confidentiality agreement, she couldn't even tell them that she'd tried to keep the bank from committing fraud.

Despite it all, Fleischmann still had faith that the Justice Department or some other federal agency would make things right. "I guess I was just a trusting person," she says. "I wasn't cynical. I kept hoping."

One day last spring, Fleischmann happened across a video of Holder giving a speech titled "No Company Is Too Big to Jail." It was classic Holder: full of weird prevarication, distracting eye twitches and other facial contortions. It began with the bold rejection of the idea that overly large financial institutions would receive preferential treatment from his Justice Department. Then, within a few sentences, he seemed to contradict himself, arguing that one must apply a special sort of care when investigating supersize banks, tweaking the rules so as not to upset the world economy. "Federal prosecutors conducting these investigations," Holder said, "must go the extra mile to coordinate closely with the regulators who oversee these institutions' day-to-day operations." That is, he was saying, regulators have to agree not to allow automatic penalties to kick in, so that bad banks can stay in business.

Related [Nobody Should Shed a Tear for JP Morgan Chase] Fleischmann winced. Fully fluent in Holder's three-faced rhetoric after years of waiting for him to act, she felt that he was patting himself on the back for having helped companies survive crimes that otherwise might have triggered crippling regulatory penalties. As she watched in mounting outrage, Holder wrapped up his address with a less-than-reassuring pronouncement: "I am resolved to seeing [the investigations] through." Doing so, he added, would "reaffirm" his principles.

Or, as Fleischmann translates it: "I will personally stay on to make sure that no one can undo the cover-up that I've accomplished."

That's when she decided to break her silence. "I tried to go on with the things I was doing, but I just stopped sleeping and couldn't eat," she says. "It felt like I was trying to keep this secret and my body was literally rejecting it."

Ironically, over the summer, the government contacted her again. A new set of investigators interviewed her, appearing to have restarted the criminal case. Fleischmann won't comment on that investigation. Frustrated as she has been by the decisions of the higher-ups in Holder's Justice Department, she doesn't want to do anything to get in the way of investigators who might be working the case. But she emphasizes she still has reason to be deeply worried that nothing will be done. Even if the investigators build strong cases against executives who oversaw Chase's fraud, Holder or whoever succeeds him can still make the whole thing disappear by negotiating a soft landing for the company. "That's the thing I'm worried about," she says. "That they make the whole thing disappear. If they do that, the truth will never come out."

In September, at a speech at NYU, Holder defended the lack of prosecutions of top executives on the grounds that, in the corporate context, sometimes bad things just happen without actual people being responsible. "Responsibility remains so diffuse, and top executives so insulated," Holder said, "that any misconduct could again be considered more a symptom of the institution's culture than a result of the willful actions of any single individual."

In other words, people don't commit crimes, corporate culture commits crimes! It's probably fortunate that Holder is quitting before he has time to apply the same logic to Mafia or terrorism cases.

Fleischmann, for her part, had begun to find the whole situation almost funny.
"I thought, 'I swear, Eric Holder is gas-lighting me,' " she says.
Ask her where the crime was, and Fleischmann will point out exactly how her bosses at JPMorgan Chase committed criminal fraud: It's right there in the documents; just hand her a highlighter and some Post-it notes – "We lawyers love flags" – and you will not find a more enthusiastic tour guide through a gazillion-page prospectus than Alayne Fleischmann.
She believes the proof is easily there for all the elements of the crime as defined by federal law – the bank made material misrepresentations, it made material omissions, and it did so willfully and with specific intent, consciously ignoring warnings from inside the firm and out.
She'd like to see something done about it, emphasizing that there still is time. The statute of limitations for wire fraud, for instance, has not run out, and she strongly believes there's a case there, against the bank's executives. She has no financial interest in any of this, no motive other than wanting the truth out. But more than anything, she wants it to be over.
In today's America, someone like Fleischmann – an honest person caught for a little while in the wrong place at the wrong time – has to be willing to live through an epic ordeal just to get to the point of being able to open her mouth and tell a truth or two. And when she finally gets there, she still has to risk everything to take that last step. "The assumption they make is that I won't blow up my life to do it," Fleischmann says. "But they're wrong about that."
Good for her, and great for her that it's finally out. But the big-picture ending still stings. She hopes otherwise, but the likely final verdict is a Pyrrhic victory.
Because after all this activity, all these court actions, all these penalties (both real and abortive), even after a fair amount of noise in the press, the target companies remain more ascendant than ever. The people who stole all those billions are still in place. And the bank is more untouchable than ever – former Debevoise & Plimpton hotshots Mary Jo White and Andrew Ceresny, who represented Chase for some of this case, have since been named to the two top jobs at the SEC. As for the bank itself, its stock price has gone up since the settlement and flirts weekly with five-year highs. They may lose the odd battle, but the markets clearly believe the banks won the war. Truth is one thing, and if the right people fight hard enough, you might get to hear it from time to time. But justice is different, and still far enough away.
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