Protected Libor-Rigging Is Murder, Not Malfeasance

by Marcia Merry Baker

July 21—The consequences are evident, in poverty and lives lost, from the years of interest-rate-rigging through the Libor (London Interbank Offered Rate), knowingly protected by Treasury Secretary Timothy Geithner, for the City of London-serving President Obama.

The Libor rate manipulation, done by a cartel of megabanks, was perpetrated as a standard operating procedure in recent years, in particular, since 2005. Three of the banks in the cartel are on the U.S. Dollar Libor 18-bank London panel: JP Morgan, Citibank, and Bank of America. The idea was to use specialized debt and so-called debt insurance contracts—especially interest-rate swaps—to rig terms and obligations in order to extract huge money flows from state and local governments; from authorities responsible for water, transportation, and public safety; from hospitals, educational institutions, and others. If the entrapped cities and entities want to vacate these looting contracts, they face huge termination fees to the banks. This is the international situation, especially in the trans-Atlantic region.

In the United States, an estimated 75% of all municipalities have interest-rate swaps connected to their debt. One in six non-profit hospitals in the United States do likewise. The fifth-largest public transit system in the nation, Boston's Massachusetts Bay Transit Authority, is enmired in interest-rate swaps, as are scores of others. It is estimated that interest-rate swaps account for over 80% of the derivatives market, which had a notional amount outstanding, as of December 2011, of $706 trillion, according to the Bank for International Settlements.

The nature and extent of this show that the impoverishment of the United States, and destruction of essential government functions at all levels—police, firefighting, public health, courts, education—have resulted not only from the erosion of physical economic activity under globalization, but from deliberate looting by interest-rate swaps.

The political question posed is: How long before we can get Geithner and Obama out of office? The same question goes for Mitt Romney, whose identity is also located within this evil system. Under the nationwide Glass-Steagall drive to *change the system* to sound banking, and for credit for economic build-up and government functioning, these wrongful swap deals can be frozen, then nullified, or restructured as warranted.

Hospitals Looted

The blatant nature of Libor crime of murder is best shown in the case of hospitals—venues of life or death, This is a hallmark of both Obamacare and Romneycare in action. More than 500 nonprofit hospitals, one in six nationwide, bought interest-rate swaps in recent years. Dozens were then hard-hit in these deals, paying out millions of dollars because of rigged inter-

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Jefferson County's Cooper Green Mercy Hospital seeks sites for cancer, OB needs as cutbacks start

Published: Monday, April 16, 2012, 5:50 AM   Updated: Monday, April 16, 2012, 6:15 AM

By Barnett Wright -- The Birmingham News
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Jefferson County Manager Tony Petelos said Cooper Green is continuing to negotiate with area hospitals ãon provisions for delivery of babies and our oncology group.â (The Birmingham News/Mark Almond)

BIRMINGHAM, Alabama -- Cooper Green Mercy Hospital officials are scrambling to find medical facilities for cancer patients and new and expectant mothers as the hospital prepares to close its oncology and OB/ GYN units.

Marc Sussman, a spokesman for Cooper Green, said the hospital's oncology unit will remain open until facilities are found for about 40 cancer patients.

"We will be providing care until arrangements can be made," Sussman said. "We will not abandon our pa-

The Birmingham News covers cutbacks at a hospital for the poor in Alabama. The hospital is financially supported by Jefferson County, which suffered the biggest municipal bankruptcy in U.S. history in November 2011. Its finances were ruined by years of interest-rate/Libor-rigged swaps, on top of the general economic collapse.

est rates and terms of contract. They had to cut medical services.

The mode of looting by rigged interest rates involved luring hospitals away from steady, low-interest, long-term borrowing, into using the "auction-rate securities market" for their borrowing (which re-set bond prices weekly or monthly through auctions), along with interest-rate-swap contracts. Then in 2008, when the auction-rate market was suddenly made to crash, hospitals were left with higher interest rates for their debt, and were stiffed on the Libor rates in the swaps. Some hospitals saw their interest rates rocket up from 5% to 20%!

One Wall Street bankster politely summed it up this way in July 2010: "Financial engineering [read: fraud—ed.] by Wall Street has been a huge part of hospitals' financial problems and has even translated into a lack of hospital beds." This was the description by wheeler-dealer Brian McGough, at the Bank of Montreal Capital Markets office in Chicago.

From 2009 to the present, Obama and Geithner perpetuated this debacle, all the while swooning over their new health-care system. Some examples:

Owensboro Medical Health System, Ky., was stung by the deals. It paid out a $14 million termination fee to Merrill Lynch (later part of Bank of America) to end its interest-rate swaps, in Spring 2010.

Sarasota Memorial Hospital, Fla., lost more than $5 million on its package of auction-date securities and interest-rate swaps. The hospital company had to cancel plans to build a new hospital in nearby North Port, where the population was growing. "We were going to build a 300-bed hospital there, but I don't see that happening for a long time, partly because of this Wall Street mess. Now, 50,000 people are without a hospital," said Sarasota Hospital's chief financial officer David Verinder, in 2010.

Tri-City Medical Center, Oceanside, Calif., refinanced its debt with interest-rate swaps in Spring 2007, pitched to the hospital by Citigroup and Smith Barney (later co-owned by Morgan Stanley). In the end, Tri-City was hit by a jump to a 17% interest rate, and had to pay some $16 million more than its prior borrowing costs. Tri-City ended up paying $6 million to Citigroup to get out of its securities (which were auction-rate) and interest-rate swaps. This came about after the hospital sued Citigroup and Smith Barney, in April 2010. The hospital had to delay capital improvements and services because of this bilking, according to Tri-City's attorney Daniel Callahan, who said, in 2010, that the financial loss "continues to impact Tri-City's ability to meet the needs of the entire community."

Rogue Valley Medical Center, Medford, Ore., saw its interest rate shoot up from 5 to 18%, during the chaos when the auction-rate securities market was collapsed in 2008. The hospital had to pay out $5 million more than it had figured on, at the same time that its revenue fell, because people in the community were losing their jobs and couldn't pay for treatment. Merrill Lynch/Bank of America demanded a $30 million termination fee to end the swaps. This was paid, after a hospital staff reduction, job freeze, and other cutbacks were imposed.

Public Safety Jeopardized

The same process of looting has taken its toll in terms of drastic downsizing of police, firefighting, rescue, and other public safety workers, as municipali-

ties cut budgets, all the while paying more and more in rigged debt service.

The Mayor and Council of the City of Baltimore, in August 2011, filed suit in Federal Court against 16 banks, over the rigging of interest-rate swaps, on grounds of how their collusion and manipulation caused harm to city functioning. Baltimore is the lead plaintiff in a consolidated case of several class action suits over this (see box).

While the accused banks filed a response asking the

Baltimore-Led Group Sues Banks for Libor Crimes

July 19—One of the Libor-rigging lawsuits consolidated now in New York's Southern District, brought by the Mayor and City Council of Baltimore (Md.) and the City of New Britain (Conn.) Firefighters' and Police Benefit Fund, gives a whole new meaning to the phrase "urban warfare." The lawsuit, alleging violation of Federal antitrust laws, seeks to recover from the damages wrought on those municipal entities from their purchases of interest-rate-swap derivatives tied to Libor, from one or more of the defendant banks.

The banksters in question are Bank of America Corporation, Bank of Tokyo-Mitsubishi UFJ, Barclays Bank Plc, Citibank NA, Citigroup Inc., Cooperative Central Raiffeisen-Boerenleenbank B.A., Credit Suisse Group AG, Deutsche Bank AG, HBOS Plc, HSBC Bank Plc, HSBC Holdings Plc, JPMorgan Chase & Co., JPMorgan Norinchukin Bank, WestDeutsche Immobilienbank AG, and WestLB AG.

The Complaint filed on April 30, 2012 says that Baltimore purchased "hundreds of millions of dollars worth" and the New Britain pension fund purchased "tens of millions of dollars worth" of these derivatives. The defendants' actions are described as "a global conspiracy to manipulate LIBOR—the reference point for determining interest rates for trillions of dollars in financial instruments worldwide—by a cadre of prominent financial institutions."

The lawsuit asks for a judicial declaration that the defendants' actions were in violation of the Sherman and Clayton antitrust acts, an injunction against them and their employees from any further violations, and treble damages, as the antitrust law provides. It requests a jury trial.

The Complaint summarizes: "This action arises from Defendants' unlawful and intentional misreporting and manipulation of—as well as their combination, agreement and conspiracy to fix—LIBOR rates and to restrain trade in the market for LIBOR-based derivatives during the Class Period," which is defined as Aug. 8, 2007 through at least May 17, 2010.

"Defendants collusively and systematically manipulated LIBOR rates. . . .

"This case arises from the manipulation of LIBOR for the U.S. dollar ('USD-LIBOR' or simply 'LIBOR')—the reference point for determining interest rates for trillions of dollars in financial instruments—by a cadre of prominent financial institutions. Defendants perpetrated a scheme to depress LIBOR for two primary reaons. First, well aware that the interest rate a bank pays (or expects to pay) on its debt is widely, if not universally, viewed as embodying the market's assessment of the risk associated with the bank. Defendants understated their borrowing costs to the British Bankers' Association ('BBA') (thereby suppressing LIBOR) to portray themselves as economically healthier than they actually were. . . .

"Second, artificially suppressing LIBOR allowed Defendants to pay lower interest rates on LIBOR-based financial instruments that Defendants sold to investors. . . ."

In describing the British Bankers' Association, the Complaint points out that it is not a regulatory body, and reports to no regulatory body. A commentator is quoted: "If the BBA admits that LIBOR isn't a market rate but a cartel rate that was established through price fixing, it will be subject to global lawsuits resulting from fraudulent behavior and misrepresentations. The likelihood of the BBA reforming itself, providing transparency and giving up its cartel monopoly is very low given the astronomical liability that will result."

court to dismiss the lawsuit against them, Baltimore Mayor Stephanie Rawlings-Blake reiterated the damage her city has suffered, using as an example, the losses to firefighting capability. "We cannot stand by when we feel that we are being cheated," she told CBS-TV. "You're talking about $1 or $2 million. You know, that's a fire company, that's recreation centers, that's services that our city needs, and we're going to fight for that."

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Baltimore is the lead plaintiff in a Federal lawsuit against 16 banks, over the rigging of interest-rate swaps. The city, like so many others, has been forced to cut back basic services.

Baltimore Firefighters Union President Michael Campbell said that the city's safety is affected by what the banks did. Some of the fire stations had to be closed. "Say, they're closed today and nobody's there. It's going to take a longer time for the next truck company to get here. So yes, it's a dramatic impact on safety."

The same situation exists across the country. Take the example of Oakland, Calif., a city of 390,000, which has been bled by Goldman Sachs interest-rate swaps, while cutting its government functions in order to pay up. Over the last few years, the police force has been cut from 800 officers to 650. Crime has shot up 25% since 2000. Five hundred jobs have been eliminated from the city staff at large in the last three years. The only reason these numbers aren't higher still, is that Oakland's unions agreed to a 10% reduction in pay and benefits over the same time period. Public works, maintenance, and all other departments are reduced. Meantime, Oakland has continued to pay Goldman Sachs its blood money.

On July 3, 2012, the City Council unanimously voted up a measure to cut ties with Goldman Sachs, if the firm continues to refuse to cancel or even renegotiate an interest-rate-swaps contract, under which the city is being gouged for multi-millions of dollars yearly, because of interest-rate flim-flam. The vote comes after six months of fruitless meetings with Goldman, which refuses to either alter the contract, or to budge on demanding a $15 million cancellation fee. The City Council set a deadline of 70 days.

Oakland, in 1998, entered into the interest-rate-swaps deal with Goldman Sachs, tied to the city's issuance of fluctuating interest-rate bonds, to fund its police and firefighter pensions. The city has paid Goldman $32 million to date—owing about $4 million a year—and owes $20 million more before the deal expires in 2021. The pitch for these interest-rate-swap deals, is that you, the locality, pay a flat annual fee to the gouger, as "insurance" against high interest rates. Of course, the gouger club, when interest rates were dropped to about 0.25% in 2008, kept getting blood money from you, the victim, at the rate, in Oakland, of 6% annually.

Transportation Gutted

In June, a report was issued documenting that, for 12 major metropolitan areas, the local transportation systems are paying out $528.6 million annually in interest-rate-swap deals, which were foisted on them by the bank cartel, now shown to have diddled the Libor rates.

The report is titled, "Riding the Gravy Train; How Wall Street Is Bankrupting Our Public Transit Agencies by Profiteering Off Toxic Swap Deals." The report, sponsored by the Refund Transit Coalition of 19 member groups, including two locals of the SEIU (Service Employees International Union), gives specifics on each of the 12 situations (**Table 1**).

Boston and its mass transit system comprise one of the 12 cases of cities reviewed in detail by the study. The Massachusetts Bay Transit Authority (MBTA, also

TABLE 1

Transit Agencies & State/Local Government's Annual Losses on Swap Deals

Metro Aaaa Area	Public Entity/Agency with Swap	Annual Swap Losses	Banks/Swap Counterparties	Related Transit Agency
Baton Rouge	City of Baton Rouge & Parish of East Baton Rouge	$13.3 million	Bank of America, Citigroup Deutsche Bank	Capital Area Transit System (CATS)
Boston	Massachusetts Bay Transportation Authority (MBTA)	$25.8 million	Deutsche Bank JPMorgan Chase Morgan Stanley. UBS	Massachusetts Bay Transportation Authority (MBTA)
Charlotte	City of Charlotte	$19.4 million	Bank of America Wells Fargo	Charlotte Area Transit System (CATS)
Chicago	State of Illinois	$88.2 million	AIG, Bank of America BNY Mellon, Citigroup Deutsche Bank Goldman Sachs JPMorgan Chase Loop Capital Morgan Stanley Wells Fargo	Chicago Transit Authority (CTA)
Detroit	City of Detroit	$54.0 million	Citigroup JPMorgan Chase Loop Capital Morgan Stanley SBS Financial, UBS	Detroit Department of Transportation (DDOT)
Los Angeles	Los Angeles County Metropolitan Transportation Authority (LACMTA)	$19.6 million	Bank of Montreal Deutsche Bank Goldman Sachs Wells Fargo	Los Angeles County Metropolitan Transportation Authority (LACMTA)
New Jersey	State of New Jersey	$83.2 million	Bank of America Bank of Montreal Citigroup Goldman Sachs Morgan Stanley Natixis, UBS Wells Fargo	New Jersey Transit
New York City	Metropolitan Transportation Authority (MTA)	$113.9 million	AIG, Ambac BNP Paribas, Citigroup JPMorgan Chase Morgan Stanley, UBS	Metropolitan Transportation Authority (MTA)
Philadelphia	Southeastern Pennsylvania Transportation Authority (SEPTA) and City of Philadelphia	$39.0 million	Bank of America Citigroup JPMorgan Chase, RBC	Southeastern Pennsylvania Transportation Authority (SEPTA)
San Francisco Bay Area	Metropolitan Transportation Commission (MTC)	$48.1 million	Ambac, Bank of America BNY Mellon, Citigroup Goldman Sachs JPMorgan Chase Morgan Stanley	Metropolitan Transportation Commission (MTC)
San Jose	Santa Clara Valley Transportation Authority (VTA)	$13.0 million	Bank of America, Citigroup Goldman Sachs Morgan Stanley	Santa Clara Valley Transportation Authority (VTA)
Washington, DC	District of Columbia	$11.1 million	JPMorgan Chase Morgan Stanley Wells Fargo	Washington Metropolitan Area Transit Authority (WMATA)
TOTAL		**$528.6 MILLION**		

Source: *Riding the Gravy Train: How Wall Street Is Bankrupting Our Public Transit Agencies*, 2012.

known as the T) had a dozen interest-rate-swap agreements valued at $1.6 billion over a five-year period. Last week, Jonathan Davis, acting director of the MBTA, said, "We're ... going to look and see what our legal recourse is" about the losses associated with Libor-manipulation.

The Refund Transit Coalition wrote:

"The Massachusetts Bay Transportation Authority operates the nation's fifth largest regional transit system, serving 175 cities and towns in Massachusetts that cover about 70% of the state's population.... [The T, according to its *Fare and Service Change Information Booklet*] has 'the highest debt burden of any U.S. transit agency.' Just about every dollar the T collects in fares goes to pay down the debt. This crushing debt burden has helped contribute to a FY 2013 deficit of $160 million. In order to plug the hole in the budget this year, the T approved an average fare increase of 23%. Riders with disabilities and seniors, however, face draconian and disproportionate hikes of up to 150% and 87.5%, respectively....

"Wall Street banks have swooped in to take advantage of a financially desperate transit agency—and its riders—by roping the T into risky interest-rate-swap deals. The T is losing about $26 million a year on five toxic swaps still outstanding with Deutsche Bank, JPMorgan Chase and UBS...."

Ending just half of this flow to these banks would be enough to reverse the fare hikes.

When Will Geithner, Obama Go?

The momentum is already sufficient to usher Geithner out of office, and with him, President Obama.

A reflection of the potential is the high-profile deployment against taking such action, in Washington this month, by long-standing thugs for the banksters, Paul Volcker, Alice Rivlin, and Richard Ravitch. They issued a new report on states' budget crises, and are conducting behind-the-scenes pressure, to insist that there is no such thing as Libor rate-fixing, or bank fraud. States and municipalities must be forced to meet their debt obligations no matter what, by cutting support for the sick, the poor, and old (see box).

Meantime, at least five state governments—New York, Connecticut, Massachusetts, Florida, and Maryland—are currently looking into Libor manipulation by the megabanks, for the scale of losses incurred in their states, for culpability, and in some cases, for restitution. A number of other states have statewide agencies doing likewise, for example, CALPERS in California, the largest state pension fund in the country.

Florida Gov. Rick Scott (R) on July 17 called for a "thorough investigation" of the New York Federal Reserve, and whether it failed to take "sufficient action to protect Americans." He included this in a letter he sent that day to all members of his state's Congressional delegation, asking them to "focus attention on this issue to determine the extent to which LIBOR manipulation may have driven up interest rates unfairly or denied the appropriate returns on retirement savings and other investments.... Based on what has been reported already, these inappropriate banking practices have cost hardworking Floridians money. As investigations into other institutions proceed, the question that must be answered is, 'how *much* money has this cost Florida families?'"

Florida Attorney General Pam Bondi is reviewing whether legal action can be taken at the state level.

Massachusetts state agency leaders were scheduled to meet this week with state Attorney General Martha Coakley on their review of the losses by state investments, and also the harm to municipalities. Besides the MBTA, there are such agencies as the Massachusetts Water Resources Authority, which is looking into its longstanding $350 million interest-rate-swap deals. Massachusetts General Hospital is involved in interest-rate swaps, and losses. Its parent company is Partners HealthCare, which used more than $500 million in swaps in the past ten years. Partners, which also owns Brigham and Women's Hospital, is considering what to do. Harvard University and Lesley University hold interest-rate swaps, as do many other educational institutions.

Officials in New York and Connecticut have had a joint investigation underway for over six months, "with the goal of providing restitution to state agencies, municipalities, school districts and not-for-profit entities nationwide that may have been harmed by any illegal conduct," said Jaclyn Falkowski, a spokesperson for Connecticut Attorney General George Jepsen.

In Maryland, Libor losses and fraud are being looked into, according to the office of state Attorney General Douglas Gansler.

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