

Prosecuting Wall Street – 60 Minutes Transcript
<http://www.cbsnews.com/news/prosecuting-wall-street/> (VIDEO)

If you had looked at the financial statements of the major banks on Wall Street in the weeks leading up to the financial crisis of 2008, you wouldn't have guessed that most of them were about to crumble and require a trillion dollar bailout from the taxpayers. It begs the question did the CEO's of these banks and their chief financial officers withhold critical information from their investors. If they did they can be subject to criminal prosecution under the Sarbanes Oxley Act for knowingly certifying false financial reports and statements about the effectiveness of their internal controls. The Justice Department has not brought a single case against Wall Street executives for violating Sarbanes Oxley, in spite of some compelling evidence. Tonight we take a look at Citigroup beginning with a former vice president, Richard Bowen.

Richard Bowen: There are things that obviously went on in this crisis, and decisions that were made, that people need to be accountable for.

Kroft: Why do you think nothing's been done?

Bowen: I don't know.

Until 2008, Richard Bowen was a senior vice president and chief underwriter in the consumer lending division of Citigroup. He was responsible for evaluating the quality of thousands of mortgages that Citigroup was buying from Countrywide and other mortgage lenders, many of which were bundled into mortgage-backed securities and sold to investors around the world. Bowen's job was to make sure that these mortgages met Citigroup's own standards - no missing paperwork, no signs of fraud, no unqualified borrowers. But in 2006, he discovered that 60 percent of the mortgages he evaluated were defective.

Kroft: Were you surprised at the 60 percent figure?

Bowen: Yes. I was absolutely blown away. This-- this cannot be happening. But it was.

Kroft: And you thought that it was important that the people above you in management knew this?

Bowen: Yes. I did.

Kroft: You told people.

Bowen: I did everything I could, from the way-- in the way of e-mail, weekly reports, meetings, presentations, individual conversations, yes.

Kroft: How high up in the company?

Bowen: My warnings, which were echoed by my manager, went to the highest levels of the Consumer Lending Group.

Bowen also asked for a formal investigation to be conducted by the division in charge of Citigroup's internal controls. That study not only confirmed Bowen's findings but found that his division had been out of compliance with company policy since at least 2005.

Kroft: Did the situation improve?

Bowen: I started raising those warnings in June of 2006. The volumes increased through 2007 and the rate of defective mortgages increased to an excess of 80 percent.

Kroft: So the answer is no?

Bowen: The answer is no, things did not improve. They got worse.

Not only was Citigroup on the hook for massive potential losses, Bowen says it was misleading investors about the quality of the mortgages and the mortgage securities it was selling to its customers. We managed to get our hands on a prospectus for a mortgage-backed security that was made up of home loans that Bowen had tested.

Kroft: It says, "These loans were originated under guidelines that are substantially, in accordance with Citi Mortgage's guidelines, for its own originations, its own mortgages." Is that a true statement?

Bowen: No.

Kroft: This is not some insignificant statement. This is-- speaks to the quality of the-- of the mortgages that-- that investors are putting their money in.

Bowen: Yes.

Kroft: And it's wrong?

Bowen: Yes.

Kroft: And people at Citigroup knew it was wrong. Had been warned that it was wrong, had been told that it was wrong.

Bowen: Yes.

In early November of 2007, with Citi's mortgage losses mounting, Bowen decided to notify top corporate officers directly. He emailed an urgent letter to the bank's chief financial officer, chief risk officer, and chief auditor as well as Robert Rubin, the chairman of Citigroup's executive committee and a former U.S. treasury secretary. The letter informed them of "breakdowns of internal controls" in his division and possibly "unrecognized financial losses existing within our organization."

Kroft: Why did you send that letter?

Bowen: I knew that there existed in my area extreme risks. And one, I had to warn executive management. And two, I felt like I had to warn the Board of Directors.

Kroft: You're saying there's a serious problem here, you've got a big breakdown in internal controls. You need to pay attention. This could cost you a lot of money.

Bowen: Yes. Somebody needed to pay attention. Somebody needed to take some action.

The next day Citigroup's CEO Charles Prince, in his last official act before stepping down, signed the Sarbanes Oxley certification endorsing a financial statement that later proved to be unrealistic and swore that the bank's internal controls over its financial reporting were effective.

Bowen: I know that there were internal controls that were broken. I served notice in that e-mail that they were broken. And the certification indicates that they are not broken.

Kroft: It would seem the chief financial officer and the people that signed the Sarbanes Oxley certification disregarded those warnings.

Bowen: It would appear.

We received a letter from Citigroup saying the bank had acted promptly to address Richard Bowen's concerns and that the issues he raised were limited to his division and had little bearing on the bank's overall financial health. Citigroup also told us that it did not retaliate against Bowen for sending the email. But not long after he sent it, Bowen's duties were radically changed.

Bowen: I was relieved of most of my responsibility and I no longer was physically with the organization.

Kroft: You were told not to come into the office?

Bowen: Yes.

[Phil Angelides: Mr. Bowen.

Bowen: I am very grateful to the commission to be able to give my testimony today.]

The Financial Crisis Inquiry Commission thought enough of Bowen's story to call him as one of its first witnesses and he turned over more than a thousand pages of documents to the Securities

and Exchange Commission. Nothing ever came of it. But Bowen wasn't the only one to warn Citigroup's top officials about its financial weaknesses and breakdowns in the company's internal controls.

Three months after Bowen's email Citigroup's new CEO Vikrim Pandit received a blistering letter from the office of the comptroller of the currency, its chief regulator. It questioned the valuations that Citi had placed on its mortgage securities and found internal controls deeply flawed. The letter stated, among other things, that risk management had insufficient authority and risk was insufficiently evaluated and that the Citibank board had no effective oversight.

Yet eight days later, CEO Vikrim Pandit and Chief Financial Officer Gary Crittenden personally signed the Sarbanes Oxley certification. They attested to the bank's financial viability and the effectiveness of its internal controls. The deficiencies cited by the comptroller of the currency were never mentioned. Citi said it didn't consider the problems serious enough that they had to be disclosed to investors and says the certifications were entirely appropriate. But nine months later, Citigroup would need a \$45 billion bailout and \$300 billion more in federal guarantees just to stay in business.

Frank Partnoy: I don't think Wall Street senior people really think they'll ever end up in jail and they've been right.

Frank Partnoy, the securities lawyer and expert on Sarbanes Oxley law, says the facts about Citigroup raise some troubling questions.

Partnoy: They certainly knew the internal controls were inadequate and that the company was out of control from a reporting perspective.

Kroft: And yet they signed the Sarbanes Oxley letter saying that everything was fine.

Partnoy: I'm very surprised that the CEO and CFO would sign those letters. I wouldn't have signed them under those conditions. You're signing them under penalties of potentially 10 years in prison. You're certifying that you designed and implemented effective internal controls in the aftermath of all this news about the company's problems.

Kroft: How is that not a violation of Sarbanes Oxley?

Partnoy: I don't know. I think that it might be hard to establish knowledge. That might be what prosecutors are thinking in not bringing the cases.

Kroft: The letter was addressed to Vikram Pandit, the new CEO of Citigroup.

Partnoy: And he had eight days to think about it, from February 14th, Valentine's Day, he gets the letter. And then February 22nd, he sits down and signs his name, certifying that financial

statements are accurate and that he had designed and evaluated and reported any problems with internal controls. Eight days is a long time on Wall Street. I can't get inside his head, but I would certainly think, as a prosecutor, that this would be something I'd be interested in asking some questions about.

We wanted to know what Assistant Attorney General Lanny Breuer, thought about that, and why no prosecutions have been directed at Wall Street. We also wanted to know why Sarbanes Oxley has not been used against big banks like Citigroup.

Lanny Breuer: When you talk about Sarbanes Oxley we have to know that you intended-- had the specific intent to make a false statement.

Kroft: They knew there was a problem. Not only had they been told that there was a problem by one of their chief underwriters, that the loans that they were buying were not what they claimed, and that the federal government, that the comptroller of the currency didn't think their internal controls were adequate either.

Breuer: If a company is intentionally misrepresenting on its financial statements what it understands to be the financial condition of its company and makes very real representations that are false, we want to know about it. And we're gonna prosecute it.

Kroft: Do you have cases now that you think that will result in prosecution against major Wall Street banks?

Breuer: We have investigations going on. I won't predict how they're gonna turn out.

Kroft: Has anybody at Treasury or-- or the Federal Reserve or the White House come to you and said, 'Look, we need to go easy on the banks. That-- there are collateral consequences if you bring prosecutions. Some of these organizations are still very fragile and we don't want to push them over the edge?'

Breuer: Steve, this Department of Justice is acting absolutely independently. Every decision that's being made by our prosecutors around the country is being made 100 percent based on the facts of that particular case and the law that we can apply it. And there's been absolutely no interference whatsoever.

Kroft: The perception. I mean, it doesn't seem like you're trying. It doesn't seem like you're making an effort. That the Justice Department does not have the will to take on these big Wall Street banks.

Breuer: Steve, I get it. I find the excessive risk taking to be offensive. I find the greed that was manifested by certain people to be very upsetting. But because I may have an emotional reaction and I may personally share the same frustration that American people all over the country are feeling, that in and of itself doesn't mean we bring a criminal case.

Kroft: If you had said two years ago that nobody was gonna be prosecuted on Wall Street for the subprime mortgage scandal, I think people would think, "It's not possible."

Breuer: Sometimes it takes a number of years to bring these cases. So I'd say to the American people, they should have confidence that this is a department that's working hard and we're gonna keep working hard, so stay tuned.