THE FINANCIAL CRISIS:
A LOOK BEHIND THE WIZARD'S CURTAIN

by Bruce Wiseman - March 2009

I'm tired of hearing about subprime mortgages.

It's as if these things were living entities that had spawned an epidemic of economic pornography. Subprime mortgages are as much a cause of the current financial chaos as bullets were [responsible] for the death of JFK [President John Fitzgerald Kennedy].

Someone planned the assassination and someone pulled the trigger.

The media, J. Edgar Hoover **and** the Warren Commission tried to push Lee Harvey Oswald off on the American public. They didn't buy it.

They shouldn't buy subprime mortgages either. Someone planned the assassination and someone pulled the trigger. Only this time the target is the international financial structure and the bullets are still being fired.

Oh yes, people took out adjustable-rate mortgages they could ill afford, that were then sold to Wall Street bankers. The bankers bundled them up like gift wrappers at Nordstrom's during the Holidays and sold them to other banks after raking off billions in fees. The fees? They were for…well…they were for wrapping the mortgages in the haute couture of Wall Street.

But it didn't start there. No, no, not by a long shot.

And as the late, great Paul Harvey would say, "And now you're going to hear the Rest of the Story."

Are subprime mortgages part of some larger agenda?

And if so, what is it?

Stay with me here, because Alice is about to slide down the rabbit hole into the looking-glass world of international finance.

EASY MONEY ALAN

There are various places we could start this story, but we will begin with the 1987 ascendency of Rockefeller/Rothschild homeboy Alan Greenspan from the Board of Directors of J.P. Morgan to the throne of Chairman of the Federal Reserve Bank (a position he was to hold for twenty years).

From the beginning of his term, Greenspan was a strong advocate for deregulating the financial services industry: letting the cowboys of Wall Street sow their wild financial oats, so to speak.

He also kept interest rates artificially low as if he had sprayed the boardroom of the Federal Reserve Bank with some kind of fiscal aspartame.

While aspartame (an artificial sweetener branded as "Equal" and "NutraSweet") keeps the calories down, it has this itty-bitty side effect of converting to formaldehyde in the human body and creating brain lesions.

As we are dealing here with a gruesomely tortured metaphor, let me explain: I am not suggesting that Chairman Greenspan put Equal in his morning coffee, but rather that by his direct influence, interest rates were forced artificially low resulting in an orgy of borrowing and toxic side effects for the entire economy.

THE COMMUNITY REINVESTMENT ACT

Greenspan had been the Fed Chairman for seven years when, in 1994, a bill called the Community Reinvestment Act (CRA) was rewritten by Congress. The new version had the purpose of providing loans to help deserving minorities afford homes. Nice thought, but the new legislation opened the door to loans that set aside certain lending criteria: little things like a down payment, enough income to service the mortgage and a good credit record.

With CRA's facelift, we have in place two of the five elements of the perfect financial storm: Alan (Easy Money) Greenspan at the helm of the Fed and a piece of legislation that turned mortgage lenders into a division of the Salvation Army.

Perhaps you can see the pot beginning to boil here. But the real fuel to the fire was yet to come.

GLASS-STEAGALL

To understand the third element of the storm, we travel back in time to the Great Depression and the 1933 passage of a federal law called the Glass-Steagall Act. As excess speculation by banks was one of the key factors of the banking collapse of 1929, this law forbade commercial banks from underwriting (promoting and selling) stocks and bonds.

That activity was left to the purview of "Investment Banks" (names of major investment banks you might recognize include Goldman Sachs, Morgan Stanley and the recently deceased Lehman Brothers).

Commercial banks could take deposits and make loans to people.

Investment banks underwrote (facilitated the issuing of) stocks and bonds.

To repeat, this law was put in place to prevent the banking speculation that caused the Great Depression. Among other regulations, Glass-Steagall kept commercial banks out of the securities.

Greenspan's role in our not-so-little drama is made clear in one of his first speeches before Congress in 1987 in which he calls for the repeal of the Glass-Steagall Act. In other words, he's trying to get rid of the legislation that kept a lid on banks speculating in financial markets with securities.

He continued to push for the repeal until 1999 when New York banks successfully lobbied Congress to repeal the Glass-Steagall Act. Easy-Money Alan hailed the repeal as a revolution in finance.

Yeah, Baby!

A revolution was coming.

With Glass-Steagall gone, and the permissible mergers of commercial banks with investment banks, there was nothing to prevent these combined financial institutions from packaging up the subprime CRA mortgages with normal prime loans and selling them off as mortgage-backed securities through a different arm of the same financial institution. No external due diligence required.

You now have three of the five Horsemen of the Fiscal Apocalypse: Greenspan, CRA mortgages and repeal of Glass-Steagall.

WAIVER OF CAPITAL REQUIREMENTS

Enter Hammering Hank Paulson.

In April of 2004, a group of five investment banks met with the regulators at the Securities and Exchange Commission (SEC) and convinced them to waive a rule that required the banks to maintain a certain level of reserves.

This freed up an enormous reservoir of capital, which the investment banks were able to use to purchase oceans of Mortgage-Backed Securities (cleverly spiked with the subprime CRA loans like a martini in a Bond movie). The banks kept some of these packages for their own portfolios but also sold them by the bucketload to willing buyers from every corner of the globe.

The investment bank that took the lead in getting the SEC to waive the regulation was Goldman Sachs. The person responsible for securing the waiver was Goldman's Chairman, a man named Henry Paulson.

With the reserve rule now removed, Paulson became Wall Street's most aggressive player, leveraging the relaxed regulatory environment into a sales and marketing jihad of mortgage-backed securities and similar instruments.

Goldman made billions. And Hammering Hank? According to Forbes magazine, his partnership interest in Goldman in 2006 was worth $632 million. This on top of his $15 million per year in annual compensation. Despite his glistening dome, let's say Hank was having a good hair day.

In case this isn't clear, it was Paulson who, more than anyone else on Wall Street, was responsible for the boom in selling the toxic mortgage-backed securities to anyone who could write a check.

Many of you may recognize the name Hank Paulson. It was Paulson who left the Goldman Sachs' chairmanship and came to Washington in mid-2006 as George Bush's Secretary of the Treasury.

And it was Paulson who bludgeoned Congress out of $700 billion of so-called stimulus money with threats of public riots and financial Armageddon if they did not cough up the dough. He then used $300 billion to "bail out" his Wall Street homeboys to whom he had sold the toxic paper in the first place. All at taxpayer expense.

Makes you feel warm all over, doesn't it?

Congress has its own responsibility for this fiscal madness, but that's another story.

This one still has one more piece—the pièce de résistance.

BASEL II

Greenspan, the Community Reinvestment Act, the repeal of Glass- Steagall, and Paulson getting the SEC to waive the capital rule for investment banks have all set the stage: the economy is screaming along, real estate is in a decade-long boom and the stock market is reaching new highs. Paychecks are fat.

But by the first quarter of 2007, the first nigglings that all was not well in the land of the mortgage-backed securities began to filter into the press. And like a chilled whisper rustling through the forest, mentions of rising delinquencies and foreclosures began to be heard.

Still, the stock market continued to rise, with the Dow Jones reaching a high of 14,164 on October 9, 2007. It stayed in the 13,000 range through the month, but in November, a major

stock market crash commenced from which we have yet to recover.

It's not just the U.S. stock market that has crashed, however. Stock exchanges around the world have fallen like a rock off a tall building. Most have lost half their value, wiping out countless trillions.

If it were just stock markets, that would be bad enough; but, let's be frank, the entire financial structure of the planet has gone into a tailspin and it has yet to hit ground zero.

While there surely would have been losses, truth be told, the U.S. banking system would likely have gotten through this, as would have the rest of the world, had it not been for an accounting rule called Basel II promulgated by the Bank for International Settlements.

Who? What?

That's right, I said an accounting rule.

The final nail in the coffin—and this was really the wooden spike through the heart of the financial markets—was delivered in Basel, Switzerland, at the Bank for International Settlements (BIS).

Never heard of it? Neither have most people; so, let me pull back the wizard's curtain.

Central banks are privately owned financial institutions that govern a country's monetary policy and create the country's money.

The Bank for International Settlements (BIS), located in Basel, Switzerland, is the central banker's bank. There are 55 central banks around the planet that are members, but the bank is controlled by a board of directors, which is comprised of the elite central bankers of 11 different countries (U.S., UK, Belgium, Canada, France, Germany, Italy, Japan, Switzerland, the Netherlands and Sweden).

Created in 1930, the BIS is owned by its member central banks, which, again, are private entities. The buildings and surroundings that are used for the purpose of the bank are inviolable. No agent of the Swiss public authorities may enter the premises without the express consent of the bank. The bank exercises supervision and police power over its premises. The bank enjoys immunity from criminal and administrative jurisdiction.

In short, they are above the law.

This is the ultra-secret world of the planet's central bankers and the top of the food chain in international finance. The board members fly into Switzerland for once-a-month meetings, which they hold in secret.

In 1988 the BIS issued a set of recommendations on how much capital commercial banks should have. This standard, referred to as Basel I, was adopted worldwide.

In January of 2004 our boys got together again and issued new rules about the capitalization of banks (for those that are not fluent in bank-speak, this is essentially what the bank has in reserves to protect itself and its depositors).

This was called Basel II.

Within Basel II was an accounting rule that required banks to adjust the value of their marketable securities (such as mortgage-backed securities) to the "market price" of the security. This is called mark to the market. There can be some rationality to this in certain circumstances, but here's what happened.

THE MEDIA AND MARK TO THE MARKET

As news and rumors began to circulate about some of the subprime CRA loans in the packages of mortgage-backed securities, the press, always at the ready to forward the most salacious and destructive information available, started promoting these problems.

As a result, the value of these securities fell. And when one particular bank did seek to sell some of these securities, they got bargain basement prices.

Instantly, per Basel II, that meant that the hundreds of billions of dollars of these securities being held by banks around the world had to be marked down—marked to the market.

It didn't matter that the vast majority of the loans (90% +) in these portfolios were paying on time. If, say, Lehman Brothers had gotten fire-sale prices for their mortgage-backed securities, the other banks, which held these assets on their books, now had to mark to the market, driving their financial statements into the toilet.

Again, it didn't matter that the banks were receiving payments (cash flow) from their loan portfolios; the value of the package of loans had to be written down.

A rough example would be if the houses on your street were all worth about $400,000. You owe $300,000 on your place and so have $100,000 in equity. Your neighbor, Bill, in selling his house, uncovered a massive invasion of termites. He had to sell the house in a hurry and wound up with $200,000, half the real value.

Shortly thereafter, you get a demand letter from your bank for $100,000 because your house is only worth $200,000 according to "the market." Your house doesn't have termites, or perhaps just a few. Doesn't matter.

Of course, if the value of your home goes below the loan value, banks can't make you cough up the difference.

But if you are a bank, Basel II says you must adjust the value of your mortgage-backed securities if another bank sold for less—termites or no.

When the value of their assets were marked down, it dramatically reduced their capital (reserves), and this—their capital—determined the amount of loans they could make.

The result? Banks couldn't lend. The credit markets froze.

Someone recently said that credit was the life blood of the economy.

This happens to be a lie. Hard work, production, and the creation of products that are needed and wanted by others—these are the true life blood of an economy.

But, let's be honest, credit does drive much of the current U.S. economy: home mortgages, auto loans and Visas in more flavors than a Baskin-Robbins store.

That is, until the banks had to mark to the market and turn the IV off.

THE CRISIS

Mortgage lending slammed to a halt as if it had run headlong into a cement wall, credit lines were cancelled and credit card limits were reduced and in some cases eliminated altogether. In short, with their balance sheets butchered by Basel II, banks were themselves going under and those that weren't simply stopped lending. The results were like something from a financial horror film—if there were such a thing.

Prof. Peter Spencer, one of Britain's leading economists, makes it very clear that the Basel II regulations "…are at the root cause of the crunch…" and that "…if the authorities retain the strict Basel regulations, the full scale of the eventual credit crunch and economic slump could be disastrous."

"The consequences for the macro-economy," he says "of not relaxing [the Basel regulations] are unthinkable."

Spencer isn't the only one who sees this. There have been calls in both the U.S. and abroad to, at least, relax Basel II until the crisis is over. But the Boys from Basel haven't budged an inch. The U.S did modify these rules somewhat a year after the devastation had taken place here, but the rules are still fully in place in the rest of the world and the results are appalling.

The credit crisis that started in the U.S. has spread around the globe with the speed that only the digital universe could make possible. You'd think Mr. Freeze from the 2004 Batman movie was at work.

We have already noted that stock markets around the world have lost half of their value, erasing trillions. Some selected planet-wide stats make it clear that it is not just stock values that have crashed.

China's industrial production fell 12% last year, while Japan's exports to China fell 45% and Taiwan's were off 55%. South Korea's overseas shipments decreased 17%, while their economy shrank 5.6%.

Singapore's exports were off the most in 33 years and Hong Kong's exports plunged the most in 50 years.

Germany had a 7.3% decline in exports in the fourth quarter of last year, while Great Britain's real estate market declined 18% in the last quarter compared to a year earlier.

Australia's manufacturing contracted at a record pace last month bringing the index to the lowest level on record.

There's much more, but I think it is obvious that credit pipe can no longer be smoked.

Welcome to planetary cold turkey.

ODDITIES

It is fascinating to look at the date coincidence of the crash in the U.S. Earlier I noted that the stock market continued to rise throughout 2007, peaking in October of 2007. The dip in October turned to a route in November.

The Basel II standards were implemented here by the U.S. Financial Accounting Standards on November 15, 2007.

There are more oddities.

Despite the fact that Hammering Hank dished out hundreds of billions to his banker buddies to "stimulate" the economy and defrost the credit markets, the recipients of these taxpayer bailout billions have made it clear that they will be reducing the amount of money they will be lending over the next 18 months by as much as $2 trillion to conform to Basel II.

What do you think—Hank, with his Harvard MBA, didn't know? The former chairman of the most successful investment bank in the world didn't know that the Basel II regulations would

inhibit his homies from turning the lending back on?

Maybe it slipped his mind.

Like the provision he put into his magnum opus, the $700 billion bailout called TARP. It carried a provision for the Federal Reserve to start paying interest on money banks deposited with it.

Think this through for a minute. The apparent problem is that the credit markets are frozen. Banks aren't lending. They can't use the money from TARP to lend because Basel II says they can't. On top of this, Paulson's bailout lets the Fed pay interest on funds they deposit there.

If I am the president of a bank, and let's say that I'm not Basel II impaired, why in the world am I going to lend to customers in the midst of the worst financial crisis in human history when I can click a mouse and deposit my funds with the Fed and sit back and earn interest from them until the chaos subsides?

But, hey, maybe Hank's been putting aspartame in his coffee.

No, this stuff is as obvious as the neon signs on Broadway to the folks who play this game. This is banking 101.

So, given the provisions of Basel II and the refusal of the BIS to lift or suspend the regulations when they are clearly the driving force behind the planet-wide credit crisis, and considering the lack of provisions in Paulson's bailout bill to mandate that taxpayer funds given to banks must actually be lent, and given the added incentive in the bill for banks to deposit their bread with the Fed, one gets the idea that maybe, just maybe, these programs weren't designed to cure this crisis; maybe they were designed to create it.

Indeed, my friends, this is crisis by design.

Someone planned the assassination and someone pulled the trigger.

THE RUBBER MEETS THE ROAD

All of which begs the question, How come?

Why drive the planet into the throws of fiscal withdraw—of job losses, vaporized home equity, and pillaged 401ks and IRAs?

Because when the pain is bad enough, when the stock markets are in shambles, when the cities are teaming with the unemployed, when the streets are awash with riots, when governments are drenched in the sweat of eviction and overthrow, then the doctor will come with the needle of

International Financial Control.

This string of ineffective solutions put forth by people who know better are convincing bankers, investors, corporations and governments of one thing: the system failed and even the U.S. government—the anchor of international finance (which is blamed for causing the disaster)—has lost its credibility.

The purpose of this financial crisis is to take down the United States and the U.S. dollar as the stable datum of planetary finance and, in the midst of the resulting confusion, put in its place a Global Monetary Authority—a planetary financial control organization to "ensure this never happens again."

Sound Orwellian? Sound conspiratorial? Sound too evil or too vast to be real?

This entity is being moved forward by world leaders "as we speak." It is coming and the pace is quickening.

A year ago, I saw an article in which the president of the New York Federal Reserve bank was calling for a "Global Monetary Authority" or GMA to deal with the world's financial crisis. While I have been following international banking institutions for some time, this was the clue that they were making their move. I wrote an article on it at the time.

By the way, as some may recall, the president of the New York Fed last year was a man named Timothy Geithner. Geithner was very involved in structuring the booby-trapped TARP bailout with Paulson and Bernanke.

Of course, now, he is the Secretary of the Treasury of the United States.

Change we can believe in.

Once Geithner started to push a global financial authority as the solution to the world's financial troubles, other world leaders and opinion-leading voices in international finance began to forward this message. It has been a PR campaign of growing intensity. Meanwhile, behind the scenes, the international bankers are keeping their hands on the throat of the credit markets choking off lending while the planet's financial markets asphyxiate and become more and more desperate for a solution.

British Prime Minister Gordon Brown, who has taken the point on this, has said that the world needs a "new Bretton Woods." This is the positioning. (Bretton Woods, New Hampshire, was the location where world leaders met after the Second World War and established the international financial organizations called the International Monetary Fund (IMF) and the World Bank to help provide lending to countries in need after the war.)

Sir Evelyn de Rothschild called for improved (international) regulations, while the Managing Director of the IMF suggested a "high level of ministers capable of reaching agreements and implementing them."

The former director of the IMF, Michael Camdessus, called on "the global village" to "urgently and radically" implement international regulations.

As the crisis has intensified, so too have calls for a global financial policeman, and of late, the PR has been directed in favor of—surprise—the Bank of International Settlements.

The person at the BIS who was primarily responsible for the creation of Basle II is Jaime Caruana. The BIS Board has now appointed him as the General Manager, the bank's chief executive position, where he will be in charge of dealing with the current financial crisis which he had no small part in creating.

A few well-chosen sound bites tell the story.

Following a recent IMF function, discussion centered on the fact that the BIS could provide effective market regulation, while the Global Investor magazine opined that "…perhaps the Bank of International Settlements in Basel..." could undertake the task of best dealing with the crisis in the financial markets.

The UK Telegraph is right out front with it.

"A new global solution is needed because the machinery of global economic governance barely exists…it's time for a Bretton Woods for this century.

"The big question is whether it is time to establish a global economic 'policeman' to ensure the crash of 2008 can never be repeated."
….

"The answer might be staring us in the face in the form of the Bank of International Settlements (BIS). The BIS has been spot on throughout this."

And so you see, this was a drill. This was a strategy: bring in Easy Money Alan to loosen the credit screws; open the floodgates to mortgage loans to the seriously unqualified with the CRA, bundle these as securities, repeal Glass-Steagall and waive capital requirements for investment banks so the mortgage-backed securities could be sold far and wide, wait until the loans matured a bit and some became delinquent and ensure the media spread this news as if Heidi Fleiss had had a sex-change operation, then slam in an international accounting rule that was guaranteed to choke off all credit and crash the leading economies of the world.

Ensure the right people were in the key places at the right time—Greenspan, Paulson, Geithner

and Caruana.

When the economic pain was bad enough, promote the theory that the existing financial structures did not work and that a Global Monetary Authority—a Bretton Woods for the 21st century—was needed to solve the crisis and ensure this does not happen again.

Which is exactly where we are right now.

WHAT DO YOU DO?

Let me preface this section by saying that this is advice designed to help you orient your assets, i.e., your reserves, your retirement plans, etc., to the Brave New World of international finance. It is not meant as advice about what you do with your business or your job, or your personal life.

Those things are all senior to this subject, which has a very narrow focus. There is an embarrassment of riches of materials that you can use to stay ahead of and on top of this crisis. Use them to flourish and prosper. This article is not a call to cut back or contract. It is to provide you information so you know what is going on and can plan.
Enough said.

First of all, while not likely, but just in case Timothy Geithner is shocked into some New Age epiphany and Ben Bernanke grows some real wisdom in his polished dome, this is what the government should do:

1) Cancel any aspects of Basel II that are causing banks to misevaluate their assets.

2) Remove the provision of TARP that permits the Fed to pay interest on deposits.

3) Mandate that any funds given under the TARP bailout or that are to be given to banks in the future must be used to lend to deserving borrowers.

4) Repeal the Community Reinvestment Act.

5) Reinstate Glass-Steagall.

6) Restore mandated capital requirements to investment banks.

7) And in case Congress decides to cease being a flock of frightened sheep and take responsibility for the country's monetary policy, they should get rid of the privately owned Federal Reserve Bank and establish a monetary system based on production and property.

8) But if a global monetary authority is put in place, it should not be controlled by central bankers. It should be fully controlled directly by governments with real oversight over it and with a system

of checks and balances. This you can communicate when this matter hits Congress or the White House or both (which it almost certainly will).

And what do you do with your reserves in this Brave New World of international finance?

Modesty aside, please do what I have been recommending for a few years now: get liquid (out of the stock and bond markets) and put some of your assets into precious metals, gold and silver, but more heavily into silver.

Keep the rest in cash (CDs and T-bills) and perhaps a small bit in some stronger foreign currencies like the Chinese yuan (also referred to as the RMB, which is short for renminbi)

And remember that my recommendations are based on my 30 years of experience in banking, finance and investments but I have no crystal ball and make no guarantees regarding my recommendations.

We are living in the most challenging economic times this planet has ever seen. I hope this article has helped shed some light on what is currently happening on the international financial scene. I didn't cover everything, as I don't have time to write another book right now. Nor did I cover everyone involved, but these are the broad strokes.

If you want to follow these shenanigans, log on to The Road to London Summit. It will all look and sound very reasonable—all about saving jobs and homes—but you have seen behind the wizard's curtain and the above is what is really going on.

Keep your powder dry.

Bruce

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