BUSINESS ETHICS LESSONS LEARNED...

A CITIGROUP WHISTLEBLOWER'S PERSPECTIVE

by

Richard M. Bowen

edited by

Niki McCuistion

"Whistleblowing requires an extraordinary amount of courage, conviction, integrity and guts. It is not for the faint of heart or for people made of anything other than the highest tensile moral and ethical fiber. They are true American heroes, and unlike, say war veterans or astronauts, whistleblowers rarely get the attention or the public accolades that they richly deserve. While being a whistleblower rarely ends in death or physical injury, it routinely ends in job loss, financial hardship, emotional trauma, family disruption, health issues and industry-wide blackballing," said **William D. Cohan** who wrote the Foreword.

Cohan is a former senior Wall Street investment banker with seventeen years' experience from Merrill Lynch & Co, JPMorgan Chase and GE Capital, and is the best-selling author of *The Last Tycoons*, which received the "2007 Financial Times and Goldman Sachs Business Book of the Year Award." His work includes other best sellers: *House of Cards, Money and Power* and the recently released, *Why Wall Street Matters.*

One of America's most respected financial journalists, he writes for *The Financial Times, Fortune, The New York Times, The Washington Post* and *The Daily Beast* and appears frequently on CNBC.

Testimonials:

Richard Bowen is one of my heroes. He took incredible personal and professional risks in a determined effort to do the right thing, only to run up against a wall of breathtaking corporate indifference.

William D. Cohan

Richard Bowen, you are a star and a hero.

Ben Stein, political commentator

Richard Bowen has been there, done that, and has the scars to prove it, and his message of corruption at the highest levels of industry and government needs to be heard. I only wish that more bankers had the courage that Bowen exhibits. He is not only one of the most talented bankers I have ever met; he has more integrity than all the bankers on Wall Street put together. If his former employer had listened to him taxpayers would not have had to bail out Citi for the third time in the last 30 years.

Dennis McCuistion
Host - *The McCuistion Program*; Executive Director of the Institute for Excellence in Corporate Governance, the University of Texas at Dallas

Richard Bowen reinforced my motto that there is no right way to do a wrong thing. The conversation has continued about personal responsibility and the courage to challenge things that appear to be wrong.

Eileen McDonnell
Chairman, CEO, & President, Penn Mutual

Richard Bowen was a Business Chief Underwriter for Mortgages for Citigroup during the housing bubble financial crisis meltdown. He saw fraud first hand inside Citigroup involving high-level executives and took action attempting to end the fraudulent practices, thus becoming known as the first Citigroup Whistleblower.

Richard speaks to companies, associations, financial groups and others who want to build a more ethical and accountable corporate culture.

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BUSINESS ETHICS LESSONS LEARNED...

A Citigroup Whistleblower's Perspective

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EDITED BY NIKI MCCUISTION

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Whistleblowing

Foreword

By William D. Cohan,
New York Times Bestselling Author of
The Last Tycoons and *Why Wall Street Matters*

THE MOST DANGEROUS JOB IN America is being a whistleblower. It may not look that way to the untrained eye. It certainly isn't understood to be nearly as dangerous as other dangerous jobs, such as logging, commercial fishing and electrical-line installers, where lives are lost too often and serious injury is common.

But, like these other dangerous jobs, whistleblowing requires an extraordinary amount of courage, conviction, integrity and guts. It is not for the faint of heart or for people made of anything other than the highest tensile moral and ethical fiber. They are true American heroes, and unlike, say war veterans or astronauts, whistleblowers rarely get the attention or the public accolades that they richly deserve. While being a whistleblower rarely ends in death or physical injury, it routinely ends in job loss, financial hardship, emotional trauma, family disruption, health issues and industry-wide blackballing.

Can you imagine how difficult it must be to have had a well-paying job on Wall Street, one that is intellectually challenging and high-powered, and then risk throwing it all away because you happen to witness wrongdoing and want to do something about it? Can you imagine how scary it must be to report the wrongdoing to your boss? And then -- when he or she ignores you, or worse, does nothing or tells you to "mind your own business" -- you decide to take the additional step of going up the bank's chain of command to report what you know is wrong because you believe in doing the right thing?

Can you imagine how painful it must be to have those appeals also ignored, despite providing concrete documentation of what you know was wrong behavior? And then, after doing what you know to be the right thing -- what you feel certain that the leaders of the organization could never permit to happen if they were made aware of the wrongdoing because while there are always some bad apples in every crop, the CEO or the Board of Directors must, of course, want to know about the rotten ones and toss them out – your reward is to be unceremoniously fired and labeled a "troublemaker," making it infinitely harder, if not impossible, to ever work on Wall Street again?

That is why Richard Bowen is one of my heroes. He took incredible personal and professional risks in a determined effort to do the right thing, only to run up against a wall of breathtaking corporate indifference.

A longtime Citigroup executive, Bowen saw first-hand how, in the years leading up to the 2008 financial crisis – an event that would have sent Citigroup into bankruptcy, and possibly liquidation, if not for a massive federal government bailout – his colleagues in the mortgage department were intentionally ignoring the bank's own credit guidelines by continuing to package up into securities shoddy mortgages that they likely knew would never be paid back. Bowen was the chief underwriter in the Citigroup unit that bought some $50 billion in home mortgages from third parties and then packaged them up into securities and sold them off as AAA-rated investments all over the world.

Bowen knew wrongdoing when he saw it. He alerted his boss. He was ignored. On November 3, 2007 he sent an "urgent" e-mail message to Citigroup executives, including Robert Rubin, the former U.S. Treasury secretary who was then chairman of the bank's executive committee, and Gary Crittenden, the bank's chief financial officer, raising concerns about "breakdowns in internal controls and resulting significant but possibly unrecognized financial losses existing within our organization."

Bowen wrote the men that he had been "agonizing for some time" about the problem, especially since his direct superiors at the bank, whom he had warned repeatedly since he first discovered the problem in mid-2006, had done little or nothing to remedy it. What he had discovered was that 60 percent of the home mortgages that Citigroup had bought from third parties, or $30 billion, were "defective," meaning that they didn't meet Citigroup's underwriting criteria. Nevertheless, they were still packaged up -- defects and all -- and sold as securities.

Rubin and Crittenden – supposedly pillars of our financial corporate elite – did next to nothing with the information that Bowen so courageously shared with them. The best Rubin could muster, according to his testimony before the Financial Crisis Inquiry Commission in April 2010, was the pathetic response that either he or someone else sent Bowen's correspondence "to the appropriate people," adding that he did "know factually that that was acted on promptly and actions taken in response to it." But Rubin's statement wasn't even remotely true. In fact, according to another Citigroup whistleblower, Sherry Hunt, who worked for Bowen, "There were no noticeable changes in the mortgage machinery as a result of Bowen's warning."

By the time of Rubin's FCIC testimony, of course, Citigroup had been bailed out with $45 billion in cash from the American people, along with another $306 billion in guarantees from the federal government to ring-fence a pot of the very same toxic home mortgages about which Bowen had warned his bosses. Rubin pocketed $126 million in his 10 or so years at the company. Bowen, who was stripped of his responsibilities at Citigroup soon after writing the November e-mail, left the company two weeks after Rubin did in 2008.

As horrific as it was for Rubin, Crittenden and others to ignore Bowen's explicit warning, that's not the end of the story. As part of blowing the whistle on Citigroup's bad behavior, Bowen also alerted the Securities and Exchange Commission, one of the bank's main regulators, hoping it would investigate the "breakdowns of internal controls" at Citigroup and take legal action against those responsible for it. Before the bailout of Citigroup, he gave the SEC two long depositions and 1,000 or so pages of documents, some of which were taken from the Internet, detailing the extent of Citigroup's problems and Bowen's attempts to rectify them. Importantly, he said he also gave his permission for the SEC to release to the public his depositions and the revealing documents. Naturally, the SEC did nothing to pursue Bowen's claims before billions of taxpayer dollars were used to rescue Citigroup.

Sadly, Bowen's experience at Citigroup is not unique in the financial services industry. Wall Street has been particularly vicious to the employees who try to do the right thing by reporting wrongdoing they have witnessed. Alayne Fleischmann, an associate at JPMorgan Chase, had a job similar to Bowen's. In late 2006 and early 2007, like Bowen, she told her bosses that JPMorgan Chase, like so many other Wall Street banks, was packaging up the squirrelly mortgages and selling them off as money-good investments. It wasn't true, of course. But like Bowen, Fleischmann's bosses also ignored her warnings. In February 2008, JPMorgan Chase fired her, effectively blackballing her from the industry. There are other heroes, too, with names such as Eric Ben-Artzi, a Deutsche Bank derivatives expert; Oliver Budd, who worked in the general counsel's office at Lehman Brothers; Peter Sivere, a compliance officer at both JPMorgan Chase and Barclays; Michael Winston, a senior executive at Countrywide Financial: Gary Aguirre, a former attorney at the Securities and Exchange Commission; and William Black, a former savings-and-loan regulator during the crisis of the 1980s. All of them were either fired as a result of their outspokenness or have left the financial services industry, or both.

How ironic. The very people we should be celebrating on Wall Street for their guts and courage – by coming forward to renounce wrongdoing -- are flushed out of the industry. "The pushback against the status quo in any context is extraordinarily difficult," New York State governor Eliot Spitzer once told me. "It is not merely Wall Street. It is a phenomenon that exists within large institutions that have significant power – Wall Street, government, among them. There is this overwhelming rigidity in organizations that makes them hesitant to believe. When money is involved, the powers are very, very significant. Those people who push back on Wall Street are often made to pay a penalty. They're fired. They're blackballed. It is a cultural issue which we have to deal with."

That's the reality of whistleblowing, which makes what people like Richard Bowen and what other whistleblowers have done all the more impressive. These articles are worth a read for anyone who wants to find out more about the financial debacle of 2008, what we must do to prevent it and the role of ethics in every aspect of business.

Richard has stories to tell almost all organizations can benefit from. His is a story of human fortitude at its best and Wall Street at its worst.

William D. Cohan is a former senior Wall Street investment banker with seventeen years' experience from Merrill Lynch & Co, JPMorgan Chase and GE Capital, and is the best-selling author of *The Last Tycoons*, which received the "2007 Financial Times and Goldman Sachs Business Book of the Year Award." His work includes other best sellers: *House of Cards*, *Money and Power* and the recently released, *Why Wall Street Matters*.

One of America's most respected financial journalists, he writes for *The Financial Times*, *Fortune*, *The New York Times*, *The Washington Post* and the *Daily Beast* and appears frequently on CNBC.

Introduction

by Richard M. Bowen

Greetings, friends:

The financial storm of 2008, the bursting of the housing bubble, and the collapse of respected financial services giants almost took this country and the world down. The 35 plus years of banking experience which taught me the credit and lending practices which are timeless in ensuring success in banking, assisting borrowers in their businesses ; and then my work at Citigroup as a Business Chief Underwriter during the housing bubble financial crisis meltdown where I witnessed firsthand the fraud within the organization and the repeated violations of those fundamental principles taught me some fundamental business practices. Unfortunately there are still many critical lessons to be learned if we are to avoid yet another financial crisis of the magnitude of 2008,

The 2008 financial crisis, the worst in our history and the egregious fraud, greed and corruption which led to it, impacted not just the banking world but businesses and individuals worldwide. And, it could well have been prevented if we had followed best business practices. My personal experience as a witness to fraudulent practices led to becoming a whistleblower and eventually being banned from my profession. I can attest to, personally and professionally, how greed, corruption and a total disregard for stakeholders led to a massive meltdown.

As a result, I am committed to speaking to businesses, financial service groups, trade associations, and students, on how we can benefit by following best management practices and avoiding the pitfalls that invariably occur when companies lose focus on their stakeholders and doing the right thing. Ethics and good business practices pay.

For the last two years my team and I have been researching critical issues that impact our economy. This has resulted in weekly articles typically observing best and worst practices in business. Our primary areas of focus: ethics, government policy and whistleblowing. From these we have pulled together the most read of these articles.

From my perspective, each of these articles deals with current events from which lessons can be learned that will assist decision makers in any industry to be successful.

Ethics is the bedrock of human behavior and governs not only our interaction with other individuals, but also determines the value of a company. Research has shown that an ethical culture is the strongest predictor of how much market value will be created for shareholders.

Government Policy and the formulation of policy and government regulations can destroy the marketplace and competition. There are many examples, such as the Dodd-Frank legislation, which has significantly hurt community banking, the primary supporter of small business and entrepreneurship. In turn, business has suffered.

Whistleblowing is a maligned term, but is the best way for company management to gain knowledge of what is actually going on in the trenches with their employees. Where employee feedback is encouraged, employees feel valued and empowered to act in the best interest of the company, their customers and shareholders. But when employee feedback is not valued by management, it leads to employees who are cynical of the stated policies of the company and creates an environment which customers and ultimately shareholders are harmed.

Please enjoy these articles and I sincerely hope they give you additional perspective in making management decisions that increase your organizations' overall success.

Warm regards,

Richard M. Bowen

ETHICS

Can Ethical Principles Become the New Norm?

PICK UP A NEWSPAPER, READ the headlines, turn on your TV set and the prevalent news relates to lying, cheating and stealing. Whether it regards our politicians, business professionals, or local leaders much of our daily input is negative.

The trust we put in our elected officials, the media, bankers and business executives is at an all-time low, with members of Congress at the very bottom of the polls on honesty and ethics. Unfortunately, lack of ethics and basic integrity is becoming a new norm.

So it was with great pleasure that I spoke to the University of Kentucky's Gatton College of Business and Economics this last week. I'd been invited by Urton Anderson, Director of the Von Allmen School of Accountancy at the Gatton College of Business at the University of Kentucky, who heard me speak on several occasions.

are you hip?

Honesty, Integrity and Professionalism in Business Conference

OCTOBER 28, 2016

University of Kentucky
GATTON COLLEGE OF BUSINESS AND ECONOMICS

KEYNOTE SPEAKER

Richard Bowen

Citigroup Whistleblower

Richard Bowen was a business chief underwriter at Citigroup who discovered that billions of dollars annually of defective mortgages were being sold to investors in securitizations as quality mortgages. Bowen warned management repeatedly for 18 months about possible unrecognized financial losses. He also warned Citi's board of directors and requested an outside investigation. He provided evidence to the SEC and gave nationally televised testimony before the Financial Crisis Inquiry Commission, where he witnessed coordinated efforts to hide key parts of his testimony from the American public.

Bowen's story was featured in the 60 Minutes story "Prosecuting Wall Street," which aired December 4, 2011 with an audience of 12 million viewers and has since been re-aired on CBS and CNBC eight times. Bowen is a professor of accounting at the University of Texas at Dallas and is a well-known speaker on ethical leadership and the financial crisis. www.richardmbowen.com

CONFERENCE SCHEDULE

10-10:30 am	Registration and light refreshments	Kincaid Auditorium Lobby - First Floor
10:30 am-12 pm	Richard Bowen	Kincaid Auditorium
12-12:30 pm	Lunch	Woodward Hall
12:45-2 pm	Breakout Sessions (Choose from five)	(See reverse for locations)

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The theme of the conference — "Are You Hip? Honesty, Integrity and Professionalism in Business" — with ethics being the focus. Both students and non-students were invited. What was different about this conference was that the focus on ethics was more than a buzzword. The University of Kentucky and the Gatton College are forging a new norm. They approach integrity, ethics and honesty as an integral part of overall expected behaviors. It's not a "nice to do," it's the expectation. And what studies show is that the expectation is what will be followed, especially as it relates to honesty.

Think about this for a moment. We've all gone by fruit or flowers stands, which say help yourself and deposit money in the jar please, appropriate to what you take. No one's minding the store, yet we take the fair share and put in the right amount. At busy newsstands the same, people take their papers and candy and deposit the requisite amount. It's what's expected!

As Dr. Dan Ariely, the James B. Duke Professor of Psychology and Behavioral Economics at Duke University says, even when there is training in ethics and a code of conduct, if employees are not really expected to follow the code and act ethically, then they often do not do so.

In the documentary, *(Dis)Honesty*, based on Dr. Ariely's work, he points out that if it's socially acceptable in one's circle – that is, if others are doing it – that opens the door for us to do the same. Yet, expect others to be honest, give them the opportunity to exhibit "on your honor" behavior and they just might. If a moral code is truly expected by an organization, school, or company's corporate culture, then it will likely be followed. At Princeton University, for example, students spend a full week in honor code training and sign an honor code pledge. And come test time, no one cheats on their tests!

Hold up a new norm, that of integrity, honesty and ethical behavior and perhaps in the future there might not be such egregious lapses such as occurred when I was at Citigroup. I told this audience about my Citigroup experience, of the one and a half years of warnings with no results. I told them about sending an email to Robert Rubin, who had just been named Chairman of the Board. I mentioned how eventually I was told not to come back to the bank. Of course, I related giving the SEC 1,000 pages of documents just three months before the bank bailouts, how my testimony was buried and then how I was forced to change my written testimony given to the Financial Crisis Inquiry Commission. I also told them about Senator Elizabeth Warren's discovery, after the National Archives starting releasing the previously sealed FCIC documents, that the FCIC had made 11 separate criminal referrals which had been ignored by former Attorney General Eric Holder. And one of those criminal referrals was based solely on my testimony and evidence.

And I said in looking at the financial landscape today, Wells Fargo being a case in point, little has changed. Marianne M. Jennings, JD, author of The Seven Signs of Ethical Collapse, says, "Ethics instructions during the era in which the crop of officer felons… (recent companies such as ENRON, TYCO, WorldCom, etc., since 2001) was trained, was not virtue ethics. Rather these students were given a heavy dose of social responsibility and little to no discussion of the ethical issues in financial reporting."

A comfort level developed toward crossing ethical lines – as that was so called kind of accepted business behavior. That is not what is taught at the University of Kentucky's Gatton College. That is not the norm they accept.

As Dr. Ariely tells us, if we remind people of the code of ethics they have been trained in, if we hold ourselves to the highest standards, if honesty is expected, it often becomes the reality. Could be the highest standards may well become the new norm. Soon, I hope.

ENRON Stands Unprecedented as the Poster Child of Blatant Corporate Fraud

Richard Bowen with Sherron Watkins, Enron whistleblower and professional speaker

In 2001, Enron, then the seventh largest company in the world and the most innovative company in America, whose stock prices doubled every three years, imploded. The American energy company based in Houston, Texas went from $100 billion in revenues and $1 billion in profit to bankrupt, leaving thousands out of work and with no pension plans as many had invested these back into the company, at the request of management.

My friend Sherron Watkins, a former VP of Corporate Development at Enron, became the key whistleblower at ENRON, when she alerted then-CEO Ken Lay to accounting irregularities within Enron in August of 2001, warning him that the company "might implode in a wave of accounting scandals." Incidentally, ENRON had a 64 plus page ethics manual and did implode two months later.

As a result of misappropriated investments, pension funds, stock options, and savings plans, investors losses exceeded $70 billion and the cost to both trustees and employees was upwards of $2 billion. The notoriously corrupt company has been featured in numerous books and films, including *ENRON: The Smartest Guys in the Room.*

It also led to the de facto dissolution of Arthur Andersen, which at the time was one of the five largest audit and accountancy partnerships in the world. Andersen's partner in charge of the Enron audit admitted to an "error of judgment" in its treatment of the debt of one of Enron's off-balance-sheet vehicles which led to an overstatement of profits by almost $600m over the years 1997-2000. According to Sherron, "the #1 criteria at Arthur Anderson was bringing in customers. We were paying them $1 million a week to look at our books!"

Sherron, testified about her role in reporting the Enron fraud before committees of the U.S. House of Representatives and Senate at the beginning of 2002. The congressional hearings resulted in several Enron executives going to jail and the passage of Sarbanes-Oxley.

Sherron, who speaks on ethics and leadership around the globe, and how to prevent or spot the next Enron spoke this week at the Andrew R. Cecil Lecture Series at The Jindal School of Management, at the University of Texas Dallas. I had the privilege of introducing her and moderating the Q&A afterwards. Sherron spoke on the compelling story of what went wrong at Enron and the importance of ethical corporate leadership. She shared her views on how to spot the warning signs of erosion in values.

"The culture was fast -paced. It was all about what have you done for ENRON lately. At ENRON, your targets could not be missed. It was a company running without controls. The internal audit and risk functions had been emasculated and outsourced. All Jeff Skilling, then CEO, talked about was our stock price. And you know when you've invested your retirement money into the company you don't want to hear bad news!"

Enron's stock price had doubled in three years, and its executives and employees held large stock options. "When you feel very good about your company," she remembered, "you can overlook things that have gone wrong, when the money is flowing like that. In 1996, when I first saw troubling accounting practices, I did not think about leaving Enron. I had not yet made vice president, and my own ego got in the way. Enron *was* the place to work in Houston, Texas."

She quoted Aleksandra Solzhenitsyn: "We do not err because truth is difficult to see. It is visible at a glance. We err because this is more comfortable." "Well, that quote would have gone right over my head before the Enron scandal," Watkins said.

She also quoted Martin Luther King, "Our lives begin to end the day we remain silent about things that really matter." This quote was given to all ENRON employees. It was on one out of four telephone message pads in the company to highlight one of ENRON'S core values, Communication. Enron's other core values were Respect, Integrity, and Excellence."

"When you're faced with something that really matters," she paraphrased, "if you're silent, you're starting on the wrong path." "Be prepared to face an ethical challenge; an ethical challenge will appear in your lifetime."

Thank you, Sherron, for reminding us to speak up, not be afraid, and that we must hold our leaders accountable.

Speaking Out Has a Price…
Are You Willing to Pay the Cost?

THIS WEEK I HAD THE opportunity to speak to the University of Nebraska at Omaha for their fifth annual Accounting Speaker Series. Close to two hundred accounting alumni as well as business school students taking ethics courses attended. Many of these young men and women would be auditing company books. Many would see red flags that would need to be looked at more closely.

I talked about the importance of speaking up about what they might find that is not up to standards and why this was so critical. And I used my own war story as an example. They had heard this critical message about speaking up two years ago when Helen Sharkey spoke to them of her experience. My message reinforced hers.

Newly hired by Dynegy, an up-and-coming energy trading company in Houston, Ms. Sharkey saw what she perceived as wrong doing, and did not speak up as a result of her newness to the role she was in and that the "mistake" was made by her boss. Her failure to speak up to authorities branded her as complicit in securities fraud and Ms. Sharkey spent twenty-eight days in a maximum security prison, just two months after giving birth to twin boys. Her bosses got off scot-free.

I warned the audience that speaking up has a price – loss of a job, being black balled in your profession; yet not speaking up had penalties as well – as Ms. Sharkey's experience could speak to. And if they didn't speak up and still saw wrongdoing then it was time to polish up their resume and leave the company for one with higher ethical values.

I referred to Dr. Dan Ariely, the James B. Duke Professor of Psychology and Behavioral Economics at Duke University and the author of *The (Honest) Truth about Dishonesty*, who said that if there is a conflict of interest and one has a personal stake in one of the outcomes, then human nature tends to favor their personal interest even if one has had training in codes of ethics. And even when there is training in ethics and a code of conduct, if employees are not really expected to follow the code and act ethically, then they often do not do so.

I spoke about my experience at Citigroup, reminding them that it was a little over ten years ago that Citi paid over $ 5 billion in fines and settlements related to questionable practices with Enron and Worldcom, and not much has changed.

Honored to be joined by Susan Eldridge, UNO Accounting Chair and Kristen Sullivan, Deloitte partner.

Ironically, Citi had hired a senior officer in charge of ethics. We called him the "ethics czar." Citigroup supposedly had implemented a stringent code of ethics, we all received annual ethics training, and still our code of ethics was just lip service. Everyone knew that that wasn't really how things worked, so why bother following the code?

Overall, many employees of our largest banks knew of the deception their companies were involved in; some attempted to warn senior management of potential fraud. If the banks had followed their own published ethics policies and codes of conduct and actually listened to their employees then the 2008 financial crisis might have been averted. However employees saw the treatment others who spoke up had received and most opted out of speaking up.

A recent example of this is the Wells Fargo situation. Wells Fargo supposedly engaged in retail banking practices that enrolled customers in services they did not ask for or want.

Among others, CNNMoney is hearing from former Wells Fargo (WFC) workers around the country who tried to put a stop to these illegal tactics. Employees who spoke out paid dearly for trying to do the right thing: they were fired.

They ruined my life," Bill Bado, a former Wells Fargo banker in Pennsylvania, told CNNMoney. He said a branch manager on "many occasions" asked him to send out a debit card, "pin it," and enroll customers in online banking — "all without the customers (sic) request or knowledge." Those are precisely the same practices that regulators fined Wells Fargo for three years later and that senators grilled the bank over this week.

Mr. Bado refused orders to open phony bank and credit accounts. He also called an ethics hotline and sent an email to human resources in September 2013, flagging the unethical sales activities he was being instructed to do. Eight days after sending the email he was terminated for "tardiness."

Wells Fargo says they have fired 5,300 employees over five years for engaging in these shocking "cross-selling" tactics. The bank earlier this month paid $185 million in penalties and has since apologized. The damage is done.

I also questioned the auditor's capabilities who gave the largest institutions that failed or were bailed out clean audits. Were they asleep at the switch, stupid or in denial? How is it possible that Bear Sterns, Lehman Brothers, Washington Mutual, Fannie Mae, Freddie Mac, and Citigroup, to name a few, could have gotten clean audit opinions?

How is it possible that 800 senior bankers went to jail during the S&L and banking crisis in the late '80s where, across the United States, more than 1,000 savings and loans and banks failed? That debacle only cost the U.S. taxpayer $150 billion compared to the 2008 crisis which is anticipated to cost the U.S. taxpayer $24 trillion; yet, to date, not one of the major players has been prosecuted!

Dr. Ariely has stated that even if employees are exposed to codes of ethics and ethics training, if the corporate culture is such that employees are not really expected to act ethically, then you won't get ethical behavior.

Like many of us, each accounting alum and business student in my audience last week will perhaps be faced with an ethical dilemma at some time. I asked my audience to continually remind themselves and remind others of their code of ethics; as the studies show that if we do so there is clear evidence of better behavior.

Speaking out is critical to stopping ethical violations that eventually cost us all… in our pocketbooks and most importantly, in our value system.

Richard Bowen and Susan Eldridge, UNO Accounting Chair

Celebrating Ethics … A Way of Life

The Greater Dallas Business Ethics Award has just announced its 2016 award honorees:

- Imprimis Group
- Lone Star Analysis
- Staffelbach
- UR Holdings

These awards will be presented at a very public recognition event which many of Dallas' finest companies will be part of. I'm delighted to be the keynote speaker for this May 17th event. And, I'm especially honored as last year's event speaker was Dallas Mayor Mike Rawlings.

The Greater Dallas Business Ethics Award honors Dallas based companies that clearly demonstrate a "measurable commitment to ethical business practices in everyday operations, management philosophies and responses to crisis or challenges." As Michael Webb, chairman of the award program says, "These companies are great examples of ethics at work. They exemplify businesses operating under ethical principles and doing the right thing for their company and related stakeholders. Their work reinforces the positive, ethical values of our local business community."

Dallas Mayor Mike Rawlings.
Image source: Dallas City Hall

This Dallas program seeks out those companies which make it a point to operate under ethical principles. A panel of judges, from academia, business and previous award winners review the company's ethical policies, programming and practices. Students from the Posey Leadership Institute at Austin College conduct site visits and interviews for each award submission. A Better Business Bureau Review and qualifying rating of B+ and above is also part of the requirement.

The award program has also produced nine previous winners of the national American Business Ethics Award Program (ABEA); more honorees than any other affiliated program in the United States. The Greater Dallas Business Ethics Awards program partners with the Cary M. Maguire Center for Ethics and Public Responsibility at SMU, the Financial Planning Association of Dallas/ Ft. Worth, the North Texas Ethics Association and Success North Dallas, among others. Read the full story here. The event is open to the public and tickets/tables are available at gdbea.org.

This year one of the award honorees will also receive the inaugural Cary M. Maguire "Spirit of Ethics" award, a new level of recognition to a company that demonstrates and champions above-and-beyond ethical practices.

It is gratifying to be included as part of this ceremony. As I've repeatedly said, too many companies pay lip service to ethical policies and procedures, yet the actual practice of ethics goes by the wayside.

Ethics is not a one-time thing, it is a way of life, a way of doing business and serving the community that is a very part of the pillars of a company. Ethics is a daily practice, and all time thing, and to publicly honor the companies that embody its working principles sends a very clear message.

Who Lies More: Politicians, Bankers, or You?

HAVE YOU LIED TODAY?

This is the central question posed by the new independent film, *(Dis) Honesty — The Truth About Lies*, which recently aired in select theaters and film festivals, and is available on iTunes and CNBC. Directed by Yael Melamede, co-founder of SALTY Features, the documentary focuses on the work of Dan Ariely, Ph.D., a professor of psychology and behavioral economics, at Duke University.

The crowdfunded documentary is a thought provoking look at why we lie. It is based on Ariely's book, *The Honest Truth About Dishonesty — How We Lie to Everyone, Especially Ourselves*. Ariely's work has made the study of truth and lying his life work. His multiple TED talks have been viewed by millions.

Through the use of Professor Ariely's class room lectures, lab environment experiments, and interviews with people who have admitted to lying in major ways and have paid the price, viewers are left with some disturbing conclusions of what appears to be a fundamental human trait: the ability to be dishonest.

The interviews are especially disturbing as the range of people interviewed are so everyday normal — a mother doing the best for her children, a young wife, a professional basketball referee, a college student admissions officer from a prestigious college, day traders, and a young athlete, among others. Several had gone to jail and/or lost everything as a result of lying.

The slippery slope they all traveled was a gradual one. And, they were influenced by the same factors Professor Ariely studies in his lab experiments.

Is it human nature to lie? ~ @RichardMBowen #honesty #dishonesty

Any one of us could relate to them.

Mirriam-Webster defines dishonesty as "lack of honesty or integrity; disposition to defraud or deceive. A dishonest act: Fraud."
It describes cheating, lying or being deliberately deceptive, using corruption or treacherousness.

When you look at the many crises and scandals we have had in this century, many of which are still fresh on our minds, dishonesty is the root cause. For example, consider the VW and NSA privacy scandals. And, of course, there is the financial crisis brought on by Wall Street bankers and government officials, including the recent admission by Ben Bernanke that he purposefully misled the public about the collapse of Lehman Brothers.

One of the key points the film leaves viewers with is that by getting a better understanding of why and how people lie, we might be able to prevent some dishonesty. However, this is a "perhaps" and a "might be able to." It looks as if people say they are honest but the documentary uncovers a significant layer of rationalization between what we perceive to be the truth and a fudge factor.

Many of us claim to be honest, but we don't drive the speed limit, or maybe aren't one hundred percent honest when reporting our income taxes. Perhaps we exaggerate our competence and claim to be much more "proficient," and "successful." Many of us state that we are better drivers, students, partners than we really are. Perhaps we stretch a bit of the truth in an online dating service or take extras from a vending machine.

We rationalize our lies and behavior because everyone is doing it! After a while, we don't even consider it to be a lie.

Another chilling observation from Professor Ariely's controlled experiments in The (Dis)Honesty Project, is that seventy percent of the subjects cheated. The bottom line is that, if people who were similar to you cheated, so might you.

"Dan Ariely – PopTech 2010 – Camden, Maine" by PopTech. Licensed under CC BY-SA 2.0 via Commons

The film points out that, once you lie, you are likely to do so again. Lying makes the brain feel good for a while, a dopamine-adrenaline high. So, we have to lie more to get that shot once again.

(Dis)Honesty shows that the further away you are from a source of money, the greater the chances of lying and cheating. If money matters are transacted though credit cards, insurance, stocks, bonds, sureties, and mortgages, the less those involved can personally relate to what these instruments represent, the greater the chance of corruption.

The documentary also asks the question: who lies more, politicians or bankers? And, the bankers won! This was no surprise to me. I have written about studies which have shown that employees of banks may cheat more than employees of other organizations.

(Dis)Honesty pointed out what I have been saying for some time: dishonesty costs society.

We learn from the film that, for some, in fact, it's human nature. They reason that a little bit of lying is okay if it's done for a good cause or to not hurt or embarrass oneself or others. They believe that it's also okay in public relations and marketing exaggerations.

It seems that the more creative a mindset, the more the justifications about what is morally and viably accepted. For example, in collaborative efforts, if I cheat and you are part of my "group," that gives you an opening to do so, as well. This is much like insider information which is passed around and capitalized on all the time.

(Dis)Honesty points out that if it's socially acceptable in one's circle – that is, if others are doing it – that opens the door for us to do the same. By the way, no lying or cheating difference was found in gender or country of origin.

As an individual who is involved in helping companies with guiding principles regarding their ethics policies, this film is great news! Expect others to be honest, give them the opportunity to exhibit "on your honor" behavior and they just might. If a moral code is truly expected by an organization, school , or company's corporate culture, then it will likely be followed.

The documentary showed examples of children in Honesty Stores in India, buying school supplies from open shelves. They pay the right amount, make their change from an open pile of money, and take just what they bought — there is no cheating and no one is watching.

At Princeton University, students spend a full week in honor code training. They sign an honor code statement. And come test time, no one cheats on their tests!

Atheists swearing on a Bible, by and large, tell the truth.

The movie shows that lying and cheating are not so much about being bad, but about being human. We are all fallible and have much to learn about honesty and our ethical shortcomings. Honesty can be taught. If honesty is expected, it often becomes reality.

Who lies more – politicians, bankers, or you? ~ @RichardMBowen #honesty #dishonesty

So folks, Gekko and Madoff may not have not won after all.

Behavioral Ethics:
Too Big To Fail and the Financial Crisis

American
Accounting
Association
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Celebrating a Century of Thought Leaders in Accounting

THIS COMING WEEK, I WILL be speaking at the annual conference of the American Accounting Association (AAA). AAA is the largest community of accountants in academia; key experts in that field on leading-edge research and publications. They are well known and respected as thought leaders and for shaping the future of accounting through teaching, research and their powerful network.

I've been asked to give my presentation on *Behavioral Ethics: Too Big To Fail and the Financial Crisis* to their Ethics Research Symposium. Part of my time will be spent on my story: the story of what I discovered at Citigroup when I was Business Chief Underwriter during the housing bubble financial crisis meltdown and the fraud I saw within the company of certifying poor mortgages as quality mortgages and then selling them to Fannie Mae, Freddie Mac and other securitizations. I'll tell of the actions I felt compelled to take, the warnings I repeatedly issued to management and the board of directors on what I discovered was consistently covered up.

I'm honored to be in front of this group and well aware of the huge responsibility it brings. These are the thought leaders, the teachers, the writers of case studies, in some ways the voice of accounting ethics and what accounting is and must be. And so I am going to tell my story and talk about the implications of what happens when a company loses its moral compass.

The dictionary defines ethics as rules of behavior based on what is morally good and bad; what's morally right or wrong. Ethical behavior is about acting in ways that are consistent with what society and individuals think are good values.

There has been much attention given to research in behavioral ethics. People may think of themselves as good people, yet still lie, cheat and steal. Behavioral ethics takes us one step further to an understanding of why we make the moral decisions we do.

Citigroup, after all, had and has many reliable, accountable, conscientious, committed and ethical employees, good people. On the **surface** we had a culture of doing the right thing. The bottom line though — what governed — was "what will it take to bring in the money?"

Sales and profits trumped everything else.

Max H. Bazerman and Francesca Gino, in their Harvard Business Review paper on the subject, ask, "What makes even good people cross ethical boundaries? Society demands that business and professional schools address ethics, but the results have been disappointing."

Their paper argues that a behavioral approach to ethics is essential because it leads to understanding and explaining moral and immoral behavior in systematic ways. They believe "behavioral ethics is better suited than traditional approaches to address the increasing demand from society for a deeper understanding of what causes even good people to cross ethical boundaries."

We can argue that ethical behavior is good for business. We can say that demonstrating respect for key moral principles is fundamental. And, we can state that the principles of honesty, fairness, equality, dignity, diversity and individual rights are a critical element to business and society. That's not enough.

We need more forthright action on what is a national issue and a breakdown in moral behavior.

> What happens when a company loses its moral compass?" ~ @RichardMBowen #citigroup #citi #tbtf

I'm going to be bold in this presentation. I'm going to engage this group of thought leaders with the case study written by Professor Adam Waytz and Visilia Kilibarda of the Kellogg School of Management on Sherry Hunt. Sherry reported to me at Citigroup and "after I left" took my warnings very much to heart. Four years later she, too, blew the whistle on Citigroup. The case study on Citigroup's mortgage fraud was the topic of a previous post. My audience will have received it ahead of time, hopefully have read it and we will dissect it as part of this presentation.

Thought leaders in accounting are part of the solution. Yet accountants have also been part of the problem. More than one or two accounting firms have "missed" ethical violations. In some cases more than missed — completely failed to report on egregious accounting behavior even when faced with the evidence.

Yet, who better than the professionals in this field to call for accountability? More than call … demand. Teaching ethics in school, asking for our students to study case studies in ethics is important. It gives us a framework for understanding how honest, successful, business ventures need to be run. Yet, until we have a solid foundation of ethical behavior that employees within a company are expected to follow, expected to — not just pay lip service to, the Citigroups, the WorldComs, the Bernie Madoff accountants will still exist.

My client's role in this is huge. They have the power to change our society…for the better.

This is a big assignment.

The bottom line @ Citi? Sales and profits trumped everything else. ~ @RichardMBowen #citigroup #tbtf

Ethical Behavior Pays Off

Source: WikiMedia / Author: Orietta.sberla

The 2012 Great Place to Work® Institute report claims the stock price growth of the 100 firms with the most ethical cultures outperformed stock market and peer measures by almost 300 percent. Thus, researchers have shown that a firm's culture is the strongest predictor of how much market value that firm will create for shareholders' investments. Yet, in at least half of our workplaces, employees report seeing unethical or actual illegal practices (Ethics Resource Center). Lapses in ethics are costly in loss of trust and erosion of confidence on the part of employees and customers. And, there are financial consequences including fines, loss of business, bankruptcies, and more. Yet, unethical practices continue, despite the costs.

If you surveyed most CEO's, they would cite ethics and integrity as being qualities necessary to an organization's wellbeing and as critical leadership traits. Kouzes and Posner's seminal work, *The Leadership Challenge* (which I've mentioned in a previous post), point out that honesty is the #1 trait followers demand in their leaders. In fact, ethical behavior is the foundation upon which a company's culture must be built.

So what's the issue? Why is holding people accountable to an ethical path so difficult? In too many organizations, greed is rewarded by punching up the numbers in the short term to make the sales to make the company balance sheet look good. Management is rewarded on short term profit. And, managers themselves are too often involved in shoddy practices and downright unprofessional or illegal or unethical behavior. Managers may look the other way and not call questionable practices to account.

The message is sent, and followers follow the leader. So how do we hold people and organizations accountable? How do we factor in right behavior, not just making the sale, or getting that big account, and making profit at all costs? The good news is that there are numerous resources that provide guidelines.

One is the Society for Human Resource Management (SHRM). In 2013, SHRM put together a foundation report entitled "Shaping an Ethical Workplace Culture." The report provides specific suggestions for how firms can create a more ethical culture. Each year, *Fortune Magazine* partners with Great Places To Work® and conducts what is the most extensive employee survey in Corporate America to determine the 100 Best Companies To Work For®. The suggestions from the SHRM foundation report and the outcomes determined by the *Fortune* Great Places To Work® survey are remarkably similar.

The practices are not costly, nor do they require an MBA in human development. The suggestions are simple common sense. Employees need to feel genuinely cared for and respected, an organization needs to encourage employees to put the work and interests of others first, and to encourage employees to hold themselves accountable to the highest ethical standards. SHRM also provides an Ethical Culture Inventory so that your own organization can assess its current culture and make changes.

The Ethics Resource Center (ERC) has also identified how leaders can model an ethical tone to inspire employees to do the right thing. The ERC says that firms "that want to support strong ethical leadership should make it part of the hiring process, should train managers on ethics and employees' perceptions of ethics, and annually review business objectives and policies to ensure they promote ethical performance."

Another source, the Ethisphere Institute, ranks the World's Most Ethical Companies®. Companies who make the cut must have robust corporate compliance programs, strong corporate social responsibility policies, and must adhere to various trade and other laws. There are also lists of the most unethical companies and practices.

And, there is some good news. The latest report by the Ethics Resource Center, indicated that workplace misconduct is at a historic low, from 2007 which weighed in at 55% of those surveyed to today's 41%. The report also found that fewer employees felt pressure to compromise their standards than in the past.

We still have a long way to go. As Joyce E.A. Russell, Director of the Executive Coaching and Leadership Development program at Maryland's Robert H. Smith School of Business, says, "there is still work to be done." Russell continues, "Since leaders are "watched" 24/7 both on and off the job, it is imperative that they continue to set a good ethical example and reward others who do the same. Only then will we have companies that truly embody an ethical workplace."

I can't help adding that unethical business practices are costing society and it's the taxpayer who is paying. We all lose if we don't hold businesses accountable.

> Unethical business practices are costing society and it's the taxpayer who is paying.

Engaging Leaders in Responsible Management

Richard Bowen, Niki McCuistion, and Bill Wallace of Success North Dallas.

"Engaging Leaders in Responsible Management" was the topic for my presentation Wednesday to several hundred business execs and entrepreneurs at Success North Dallas, a high powered networking group run by entrepreneur Bill Wallace.

As you know, it's a topic I'm impassioned about. I truly believe the lack of responsible leadership, lack of ethics, and the worship of greed that too many companies engage in today is impacting the very foundation of this country. So, I expounded on human behavior, what influences that behavior, and the stories of power, greed, and corruption I know first hand from my Citigroup experiences.

I asked, "Did the small penalties the "too big to fail" banks have to pay make a difference in changing their behavior?" No, it's not about financial punishment; that's not what changes behavior. In the last financial debacle, 800+ bankers went to jail. This time around, no one has gone to jail, to date.

Some suggest it is the large financial settlements that are a deterrent. Really? Interestingly, it's been only ten years that Citi paid out $5 billion.

The only thing that acts as a deterrent to future wrong doing is prosecution. The "too big to fail" banks have a stranglehold on this country.

History shows the collapse of every major civilization started with violations of moral codes.

Companies that have a lengthy written code of ethics people sign but are not required to follow are paying lip service to an ethical culture. A culture based on moral, ethical codes of conduct that people believe in and follow are necessary for the economic well being of a company.

Last year, a Deloitte study, "Culture of purpose: A business imperative," found that two-thirds of employees and executives surveyed agreed that business wasn't doing enough to "instill in their culture a sense of purpose aimed at meaningful impact."

For companies to survive and thrive, they must foster trust, respect, and support. And, they must encourage critical thinking, debate ongoing dialogue, and foster transparency. They need to encourage people to speak out. Transparency is sorely lacking in the "too big to fail" banks and the companies that eventually find themselves with a whistleblower pointing out their wrong doing.

I called for a Congressional investigation into the actions of the "too big to fail" banks and asked that they, too, be madder than hell and call their Congressional representative and demand a Congressional hearing into the malfeasance the big banks have perpetrated. And I asked each to consider how they are running their own organizations. It's my duty and your duty as a citizen to hold our banks and government accountable.

With truth. And transparency. And rewarding a culture that engages and respects their employees.

A culture built on ethics and purpose ignites the best people have to offer. It is people who lead a company to its becoming everything it has the capacity to be.

A culture built on ethics and purpose ignites the best people have to offer.

A culture built on ethics and purpose ignites the best people have to offer.

Situational Ethics: Heads or Tails!

YEARS AGO, STEPHEN COVEY COMMENTED, "Some say that 'business is business' and that 'ethics and principles' sometimes have to take a back seat to profits. Many of these same people see no correlation between the quality of their personal lives at home and the quality of their products and services at work."

He may be more accurate in this statement than we originally thought possible.

A recent study in the Journal *Nature*, conducted by Alain Cohn and his colleagues at the University of Zurich, alludes to the same phenomena. The study talks about how we have multiple identities that depend on contexts. In different circumstances, a different identity may come forth and our behavior changes accordingly. Our ethics may well change depending on the situation.

The study uses a heads or tails competitive example with cash rewards going to the winner. In a regular heads or tails throw, the subjects call out their choice ahead of time. Unlike the usual game, in the control study the subjects involved indicated what their choice had been after the toss was revealed; which meant one could choose to cheat about what that choice had actually been.

In regular heads or tails, where the call is made in advance, there is a 50% chance of winning or losing. In the control study, higher than 50% success rates indicated the subject was likely cheating.

In this study, all 128 subjects worked for a large international bank. Prior to the game, the first study group filled out a questionnaire about their personal daily lives. When they participated in the toss, there was no evidence of cheating. That is, most of the results came in around 50%.

The second study group, with the same bank, was asked specific questions about their jobs at the bank before they did the tosses, which primed them to think of their professional, not personal, identities.

The subjects in this control group were 20% more likely to cheat on the toss call.

The authors also primed people in manufacturing and other fields to think about their professional identities, as well as priming non-bankers to think about banking and money. Yet cheating for the non-banker control groups did not increase.

Only the subjects at the bank – primed to think about their professional selves – showed an increase in cheating.

In addition, the priming for this control group "made the subjects more likely to endorse the statement: 'Social status is primarily determined by financial success.' The more strongly people endorsed the statement, the higher their rate of cheating."

The article's conclusion that people have multiple social identities is not new.

What I find interesting is how moral behavior may change "according to which identity," personal or professional, may be on someone's mind. Might this explain why some people who are normally honest, gracious, polite, truth tellers at home act differently in different situations?

How does moral behavior change according to the identity that is on someone's mind? #ethics

The last several weeks have brought this issue home with some major public players experiencing extreme embarrassment and professional jeopardy due to their bad choices.

Secretary of State Hillary Clinton used her personal email for state business, a move that interferes with the Freedom of Information Act and makes it more difficult for the public's right to know. And, has everyone forgotten about her supposed 2008 landing under sniper fire in Bosnia? The actual video footage shows a peaceful landing with flowers begin given to her by a young schoolgirl. This would not have happened if there had been real sniper fire.

And, how can we ever again respect NBC anchor and managing editor Brian Williams with his flagrant coloring of the Iraqi helicopter incident? This incident – and the way he explained his "misrembering" – has left him an Internet laughing stock as well as suspended from his prominent and highly respected media position.

And Bill O'Reilly's war stories may instead be tall tales rather than factual reporting. Fellow CBS correspondent Charles Krause described some of O'Reilly's assertions about their experiences in Argentina "absurd."

O'Reilly's explanation of Brian Williams' exaggerations is even more more disturbing. On February 5, 2015, O'Reilly justified Williams' exaggerations: "You go on Letterman…You want to be interesting. You want to be fascinating. You want to be cool…He knows what he did was wrong. A lot of people exaggerate their life experience, and he got caught…. I don't think Americans care anymore. I think they're so used to being lied to, they're so cynical about the media, they don't trust the media at all."

The list goes on.

From highly placed civic leaders to bankers, have ethics become less a set way we govern ourselves at all times, to how we govern ourselves in, shall we say, a flip of the coin and the stakes that depend on that toss?

Penn Mutual's Guiding Principles: a First Step Toward Fraud Prevention

Eileen McDonnell, CEO, Penn Mutual; Richard Bowen, Speaker and Citigroup Whistleblower; and Tom Harris, EVP, Penn Mutual.

SOME COMPANIES ARE GETTING IT right.

Recently, I was hired by Penn Mutual, one of the oldest values-driven companies in America. At this event, under the direction of Chairman, President & CEO Eileen McDonnell, Penn Mutual's leadership team introduced the firm's guiding principles with a straightforward message: Penn Mutual is committed to maintaining a culture which produces a legacy based on respect, trust, and doing the right thing.

The leaders talked with the management team about the firm's noble purpose, and its deep rooted commitment to clients and employees. The message emphasized the firm's unique culture, one shaped by values, that guide their professional and personal conduct, how they do business, interact with employees and one another and how they represent their company in the world.

It's no accident that this insurance giant has a 165 year success track record maintaining some of the strongest ratings in the life insurance world.

They walk their talk and live their values.

Penn Mutual hired me to speak to their management team about my story and offer examples of what to do and not do to build a culture of trust and integrity. As I thought and then spoke of the fraud and financial misconduct I had discovered during my work at Citigroup, it was even more clear that the backbone of a corporate culture was in how guiding principles truly followed and instilled in a corporate culture could prevent fraud and the blatant misconduct I had uncovered. As you may know, I eventually blew the whistle on Citigroup's unethical activities.

Penn Mutual's guiding principles led with "Acting With Integrity, we have the conscious intention to do the right thing." They stated, "each of us has personal responsibility to conduct our business honestly, ethically and with respect."

The full guiding principles are outlined below:

Acting With Integrity

We have the conscious intention to do the right thing.

Respecting One Another

We see each other's distinctiveness as a valued asset.

Focusing on Relationships

We foster meaningful connections with others.

Sustaining Our Legacy

We are trusted guardians for what we promise.

A Shared Sense of Belonging

We evoke our place as part of a larger world that we influence and that influences us.

It is no coincidence that doing the right thing is at the core of Penn Mutual's culture, the cornerstone on which they conduct each of their interactions.

It's no secret that the financial performance of those companies who follow guiding principles and engage their employees show a net income eighteen times higher than their competitors, and stock price growth nearly three times higher than their counterparts who are not engaged in guiding principles as a cornerstone of their companies.

For years, thought leaders have pointed this out in writings and teachings. In James Kouzes and Barry Posner's seminal work, *The Leadership Challenge*, the authors conducted extensive research in how to make extraordinary things happen in organizations.

Started in 1987, one of their surveys stated that of the 20 characteristics most admired in a leader, four of these have consistently received more than 60 % of the votes. The top characteristic selected, **Honest**, is up 6% in the last 25 years. These surveys represent respondents from six continents, with the majority of the respondents in the U.S.

Successful companies have the capacity to stop whistleblowing before it begins by encouraging that the right things be done, as Penn Mutual is doing. Not all of the Department of Justice' incentives to smoke out whistleblowers can light a fire where unethical behavior is discouraged and eliminated from ever taking root to begin with.

It doesn't take a rocket scientist to figure out that having a 150 page, Enron-style ethics code is a waste of paper and time if it is not followed. Ethics, integrity, right conduct, respect for the individual – both customer and employee – are the cornerstones of what builds success.

I find Penn Mutual's guiding principles to be very inspiring.

A culture of honesty and ethical behavior actually takes less work and makes more profit in the long run. To my mind, it is the only way to do business.

GOVERNMENT POLICY

The Bank Foxes are Guarding the SEC Chicken Coop!

U.S. Securities and Exchange Commission headquarters in Washington, D.C., Credit: AgnosticPreachersKid – Own work, CC BY-SA 3.0

IN THIS LAST WEEK'S WORLD Finance, reporter Gretchen Cashen highlights Eric Ben-Artzi's bold gesture in refusing a Whistleblower reward and why he did so, his experience at Deutsche, and the parallels with mine at Citigroup.

Most importantly, it takes a hard look at one of the most egregious issues in government: that of the regulators, most specifically, the Securities and Exchange Commission (SEC). My own experience is indicative of their lack of accountability. When I could not persuade Citigroup's Board of Directors to conduct an internal investigation of the bank's financial malpractices, I turned to the SEC.

Turns out it was all in vain, as the 1,000 pages of fraudulent activity I had documented was not only buried, it was locked up. The SEC classified my testimony as "confidential and trade secrets" and has repeatedly refused to release it, despite much of it being public information.

Like Ben-Artzi, I believe, there is an "incestuous" revolving door relationship between Wall Street banks and the regulators. Anyone who leaves the SEC has a ready-made position within the banks or those who support them. As Ms. Cashen says in the article, "In the years since the crisis, the absence of any significant convictions has come to show the worrying extent of corporate impunity on Wall Street…. Individuals at the highest echelons of "Corporate America" have been largely unaffected by their own financial gambling."

This "incestuous" revolving door has also resulted in large bank control in limiting mandated rules-making by the SEC and the Financial Accountings Standards Board (FASB) and the Commodities Future Trading Commission (CFTC). Additionally, there is a practice of Wall Street executives cashing out early and thus rewarded when they take government jobs.

Mr. Ben-Artzi's heroic gesture in turning down the $8.25 million whistleblower reward offered to him by the SEC opens the door to more public scrutiny which is very much needed. He told the Financial Times just a week or so ago that the SEC's investigation of Deutsche Bank "was disappointing." He stated that the $55 million fine does nothing to prosecute and hold to account the executives responsible for the crimes and instead allowed for top executives being able to retire with "multimillion dollar bonuses based on the misrepresentation of the bank's balance sheet."

In the article, Ben- Artzi argues that the revolving door culture which prevails on Wall Street enables guilty executives to escape punishment over and over again. "This goes beyond the typical revolving door story. In this case top SEC lawyers had held senior posts at the bank, moving in and out of top positions at the regulator even as the investigations into malfeasance at Deutsche were on-going."

Let's look at the facts. Robert Rice, the chief lawyer at Deutsche in 2011 and to whom Ben-Artzi initially took his concerns, was responsible for leading the internal investigations into improper accounting, and in 2013 was serving as the SEC's Chief Counsel. In 2009, Robert Khuzami was Deutsche's senior lawyer in North America before going on to become director of the SEC's enforcement division. When he left the SEC he cashed in on his four years there for a $5 million plus salary at Kirkland & Ellis, another prominent Wall Street firm.

Both Rice and Khuzami reported to Richard Walker, the bank's general counsel who was once head of enforcement at the SEC. Mary Jo White, the current SEC Chair, was a lawyer for several Wall Street financial firms, where she established relationships with several banking executives including Robert Rice and Robert Khuzami. Ms. White appointed James Schnurr chief accountant at the SEC. Schnurr was deputy managing partner at Deloitte and while there the firm signed off on the books of Bear Sterns, Washington Mutual, and Fannie Mae; each of which went bust shortly thereafter. By the way, while White was a partner at a major Wall Street law firm, she had Deloitte as a client. White's husband still has Deloitte as a client, thereafter leaving their investors with $15 billion in losses.

Former SEC attorney, James Kidney, has pressured the SEC to investigate Goldman Sach's executives for their involvement in the 2007 Abacus 2007-ACI investment scam. Abacus, a sub-prime debt deal, was designed to fail. It allowed hedge fund John Paulson & Company to bet against it, all the while recommending it to their own clients as a good investment. The SEC did not bring charges against John Paulson, who made $1 billion in profits, and Goldman Sachs subsequently settled for $550 million.

When Mr. Kidney retired from the SEC in March of 2014, he commented in his retirement speech, "on the rare occasions when enforcement does go to the Penthouse, good manners are paramount. Tough enforcement, risky enforcement is subject to extensive negotiation and weakening."

Bank Whistleblowers United colleague, former SEC attorney Gary Aguirre's experience was similar. During his tenure at the SEC, he had pressured his bosses to serve a subpoena on John Mack, then an official at Morgan Stanley. He suspected Mack's potential involvement in insider trading. Aguirre had contacted the office of Special Counsel to discuss the SEC's protection of Mack. Three days later, while on vacation, he received a phone call from his boss – and was fired. Aguirre later testified to Congress that the SEC had thrown a "roadblock" into his investigation because the suspected insider trader had "powerful political connections".

So it seems the SEC settles with the guilty banks for settlements rather than prison sentences. Since 2008, 20 global financial institutions have paid $235 billion in fines which as Ben Artzi, myself and others have pointed out, comes from shareholders' pockets, not the guilty bank individuals! And not one prison sentence is meted out.

This last week several Rasmussen polls reflect that 67% of voters are angry at the current policies of the Federal government. Reporters Pam Martens and Russ Martens say, "the smooth functioning of the American economy is based on citizen's having confidence in the country's leaders … No Federal agency has to date done more to drown investor consumer confidence than the crony Securities and Exchange Commission (SEC)."

I concur. Mr. Ben–Artzi has gone very public with this issue. My Bank Whistleblowers United colleagues and I have done our best to raise awareness, as have others.

When are we going to demand an end to the cronyism between the SEC and the very financial institutions they regulate? When are we going to demand and get justice?

In 2012, Federal Judge Jed Rakoff wrote regarding the Occupy Wall Street Movement, “What a huge debt this Nation owes to its “troublemakers.” From Thomas Paine to Martin Luther King, Jr.; they have forced us to focus on the problems we would prefer to downplay or ignore. Yet it is with hindsight that we can distinguish those troublemakers who brought us to our senses from those who were simply… troublemakers.”

More of us need to be those “troublemakers“ who bring people to their senses.

Damn the Evidence! No Prosecutions for Citi

Richard Bowen, testifying for the FCIC.

ON SEVERAL OCCASIONS, MY COLLEAGUES and I have stated that the payment of the large bank settlements that were the outcome of the 2008 financial crisis were merely payments of extortion to the Department of Justice. The motive we believe was to lock up the evidence they had discovered so Americans and the world would not see how pervasive and widespread was the fraud committed by the too big to fail banks in question against the public, their shareholders and customers.

I questioned what I perceived to be a smokescreen declared by Eric Holders' successor, Loretta Lynch, regarding how serious was their intent to prosecute the executives involved.

Well, I am sad to say I was right. Sad as the recent decisions made by our government have, from my perspective, decidedly paved the road for another financial debacle. A recent Reuters article, "Exclusive: Citigroup executives avoid U.S. charges over mortgage bonds – document," says:

> *U.S. authorities have decided not to pursue criminal charges against any Citigroup Inc executives or employees involved in packaging and selling mortgage-backed securities at the heart of the 2008 financial crisis, a government report shows. The decision, which followed Citigroup's $7 billion settlement in 2014 resolving federal and state civil claims related to mortgage bonds, was described in a November report obtained by Reuters in response to a Freedom of Information Act request.*
>
> *Its release marked the first public acknowledgement by U.S. authorities that executives at a major bank linked to the financial crisis would face no criminal charges for their involvement in selling billions of dollars of toxic mortgages and securities. The report, by the Federal Housing Finance Agency's Office of Inspector General, one of the agencies in the Citigroup probe, said following the settlement, prosecutors reviewed the evidence to see if any individuals could be charged and determined "there was not enough compelling evidence."*

This "Report of Investigation," issued by the Federal Housing Finance Agency, upholds my claim that the bank settlements were indeed payments of extortion:

> *...the totality of the evidence and testimony obtained showed that Citigroup knowingly and purposefully purchased and securitized loans that did not meet representations and warranties or in many cases were outright fraudulent loans. And eventually these tainted securitized loans were sold to investors that included the GSE's,*

federally-insured financial institutions, as well as a host of states, cities, public and union pension and benefit funds, universities, religious charities, and hospitals, among others [sic] investors.

I also believe that this is why the 1,000+ pages of documents that I gave the Securities & Exchange Commission (SEC) evidencing Citi's behavior in July 2008, three months before the bank bailouts with Citi receiving over $350 billion in capital and toxic asset guarantees, shows the US Government had to have known what was going on at Citi before the bailouts, and thus was buried.

> "The #FCIC forced me to remove important disclosures from my testimony." ~ @RichardMBowen #SEC #tbtf #citi

The SEC has yet to release any of the documents in question despite many FOIA requests. Why? Because my testimony definitively shows that the government knew about Citi's fraud before the bailout and bailed them out anyway. It also explains why the Financial Crisis Inquiry Commission (FCIC) forced me to remove from my written testimony the fact that I had given the SEC the documents before the bailouts as well as my telling the FCIC about the false representations given to the purchasers of residential mortgage-backed securities (RMBS).

This new decision by the so called U.S. authorities to not hold executives at a major bank linked to the financial crisis accountable and not face criminal charges, comes about in spite of the evidence. In spite of Holder's announcement in early 2015 giving federal prosecutors a 90 day deadline to develop cases against individuals related to the financial crisis selling of mortgage bonds and securities. In spite of President Obama's demand to "hold accountable those who broke the law" and "help turn the page on an era of recklessness."

> "We have just changed the rule of law this country." ~ @RichardMBowen #DOJ #SEC #wallstreet #citi #tbtf #rmbs

Folks, we have just changed the rule of law this country has operated under since its inception. This is outrageous.

Is the Government Nationalizing U.S. Companies?

"United States Capitol west front edit2" by United_States_Capitol - Licensed under Public Domain via Commons

SINCE 2012, THE U.S. SEEMS to be business as usual. Stocks have been climbing, the "too big to fail" banks have basically paid back their government "bail out" money. The housing market has boomed, with too few homes to go around, causing much higher demand for rentals.

Unfortunately, this has resulted in some renters having to pay 50% of their income for housing – compared to the 15.3% home owners pay for their housing bills. Zillow, the rental guru guide claims that we are in a rental crisis.

The discomfort about housing has brought to the forefront the debate over GSEs (government sponsored enterprises), of which Fannie Mae and Freddie Mac are at the center. Congress has long debated replacing Fannie and Freddie, who were at ground zero of the 2008 crisis as federally charted privately owned companies. They'd been given directives by Congress to make housing affordable, which pretty much meant: fulfill the American dream by having a chicken in every pot, a car in every driveway and a home for every American family – whether they could afford it or not.

And so the push was on to make housing affordable for everyone, almost regardless of their ability to pay. I strongly believe that one of the primary reasons Fannie and Freddie had such catastrophic losses was not that they had purchased mortgages with loose credit criteria at the behest of Congress, but that they purchased many, many mortgages which did not even meet that low bar of creditworthiness. That is, they did not review the individual mortgages but relied almost solely upon false certifications by the sellers that the mortgages sold met the published standards. It was a perfect storm: a lack of controls, the implicit guarantee the government would stand by the loan, and the assumption that the institutions doing the lending wouldn't go under. No one was checking. It was a circus!

The more mortgages were purchased, the more incentives went straight to Fannie and Freddie. After all, they met the requirement Congress had laid out for them.

Everyone met their quota, everyone made money, everyone – including shareholders – were happy. After all, why not? It was free money.

But, all good things come to an end. And in 2008, the house of cards came tumbling down into the worst recession since the '30's. The government placed Fannie and Freddie in conservatorship, and bailed Fannie and Freddie out to the tune of $187.5 billion in senior preferred stock. And, just as the Too Big To Fail, with their monetary injections, started back on the road to recovery, so eventually did the GSEs- Fannie and Freddie. By the second half of 2012, they posted $8 billion in profit.

Now Fannie and Freddie have a unique structure. As GSEs, they are federally chartered, yet privately owned, with shareholders expecting a return on their investment. That's business, and Freddie and Fannie are in the top 50 Corporations in the U.S.

But in late 2012, something very odd happened. Two arms of government, the Treasury Department and the Federal Housing Finance Agency, "agreed to radically change the terms of what the GSEs would owe in exchange for the moneys they had already received." Instead of a 10% annual dividend on all the bailout moneys drawn, the dividend was now at 100% of each GSE's net profit, which meant any and all profit Fannie or Freddie posted, belonged to the U.S. government. Essentially, Fannie and Freddie were nationalized.

The change, called the "Third Amendment," became effective in January 2013. And another funny thing happened: the GSEs started posting the highest profits they'd ever received – ever. The billions posted went straight to the Treasury. The amount of preferred dividends paid to the government is now about $240 billion, a nice return on the $187.5 billion or so the government had originally invested.

And, it gets worse. The government did not allow for Fannie and Freddie, in the terms outlined for payment, to pay back the principal. Which means that if the GSE's are dissolved, the government will take the first $187.5 billion recovered from liquidation before the original preferred shareholders collect a dime.

Well, the GSE shareholders are up in arms, from private investors to mutual funds to insurance companies with suits flying left and right who allege the U.S. government illegally or unconstitutionally took, without compensation, two Fortune 50 companies, Fannie Mae and Freddie Mac. The money in question, $33 billion in preferred shares and close to $130 billion in dividend payments in excess of the original 10% dividend rate. The battle over the government's alleged nationalization is huge.

"A conservator has one constant accepted responsibility," says Chuck Cooper of Cooper & Kirk, a D.C. firm which is handling two of the cases involved and advising on a third; "That is to rehabilitate the entity under conservatorship. Rehabilitate it. Not to hold it in perpetual captivity to harvest its profits for the benefit of the conservator itself. That's the very antithesis of a conservator." Well, the GSEs are now into their seventh year of conservatorship with no plan and shrinking capital reserves. In essence, they are in a state of crisis.

This move on government's part, that of nationalizing two privately owned companies, is unprecedented. It being an election year, the debate has become highly political; with some calling for the demise of the GSEs and some saying we now need them more than ever. But more than that, the GSE stock evaluations are worth nearly nothing. And, some investors are complaining about an alleged take over of the companies which occurred even before many of the current investors bought in.

Are we missing something here? Or, did they sense this would become a circus and the profits would be huge? Is greed, once again, running rampant?

Fund managers want to influence policy making by recapitalizing and restructuring Fannie and Freddie to their prior positions. By the way, this move would greatly maximize their share value, so let's not confuse this outcry on their part with community service, largesse or altruism.

The arguments for capitalization and restructuring, as well as arguments to dismantle the GSEs, are polarizing. Sen. Bob Corker (R-Tenn), said, "There's a majority of people here that believe that they should be wound down and replaced so that the taxpayers are not backing them up as they are today." Many vocal leaders hate the GSEs and are downright vitriolic in their dislike of the government takeover. Yet, both the voices for and against dismantling, have merit.

One of those voices, Bethany McClain, author of Shaky Ground: The Strange Saga of the U.S. Mortgage Giants, comes down on the side of fund managers. She says, "One of the investors gave me the analogy that Corker-Warner was like taking the existing highway structure in the U.S., tearing it up, and building a new one right next to it, with no guarantees that the new one was going to work."

Well, some of the free market arguments make no sense regarding starting over, if the government is still going to offer guarantees. As Bethany McClain tells us in a recent Washington Post op-ed, "free market solutions assume that the big banks would take greater control of the mortgage market without Fannie and Freddie. But the big banks were bailed out in 2008, too. The Dodd-Frank financial reform legislation may have fixed the "too big to fail" issue. (That's debatable, but give it the benefit of the doubt.) If banks control the nation's mortgage market, does anyone think they'll be allowed to fail in the next crisis? In which case, how are they not government-supported entities, as well?"

For 80 years, Fannie and Freddie's role has been to promote home ownership. They made possible the 30 year, fixed, prepayable mortgage and while they were eventually misguided, they did promote liquidity in the mortgage market by buying mortgages, bundling them into securities and selling them, thinking – albeit falsely, they had government guarantees.

The government claims the GSEs are nowhere close to paying back the bail out moneys they were paid. But the records of depositions from officials at Treasury and the FHFA seem to show that the government's story is misleading and in some cases downright false.

And to "protect" the public and not place this nation's financial markets in jeopardy, would you believe the documents have been sealed from the public's view? So the public is too delicate to see how the government is using their money? Folks there is something not quite right about all of this. And we'd best start asking more questions before we rush into changes that may be worse.

> Is the public too delicate to see how the government is using their money? ~@RichardMBowen #tbtf #fannie #freddie

What Were the Major Causes of the 2008 Financial Crisis?


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We Must Learn from the 2008 Crash or Repeat It ... Soon

By Allen West and Richard Bowen | August 27, 2015 | 4:24 PM EDT

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This week's stock market roller coaster shows just how vulnerable the U.S. economy remains to economic turmoil. But the panic of this past Monday is merely one of many market indicators that are signaling the coming of a financial meltdown worse than that experienced in 2008. First, the Federal Reserve's policy of near-zero interest rates are causing inflation of assets, suggesting the formation of another bubble. In fact, Ruchir Sharma points out in a *Wall Street Journal* opinion piece that composite valuation of stocks, bonds, and houses are well above 2007 levels.

The National Center for Policy Analysis (NCPA) Financial Crisis Initiative is accumulating talent from scholars and practitioners nationwide to research and come to consensus on two central questions of 2008:

What were the major causes of the financial crisis?

What policies can and should be implemented to prevent a reoccurrence?

To answer these questions, the NCPA has gathered a team of experts who will focus their attention on how government policy and financial service firms may have interacted. I'm honored to be part of this initiative, contributing my direct experiences with Citigroup and the Financial Crisis Inquiry Commission, among others.

This week, an op-ed that Allen West, President and CEO of NCPA and I co-authored, as part of that initiative, appeared in CNS News. It appears we have not learned from the 2008 debacle and are once again getting entrapped in the same old maelstrom that led to 2008.

Begin CNSNEWS.com commentary here:

We Must Learn From the 2008 Crash or Repeat It…Soon by Richard M. Bowen & Allen West*

This week's stock market roller coaster shows just how vulnerable the U.S. economy remains to economic turmoil. But the panic of this past Monday is merely one of many market indicators that are signaling the coming of a financial meltdown worse than that experienced in 2008. First, the Federal Reserve's policy of near-zero interest rates are causing inflation of assets, suggesting the formation of another bubble. In fact, Ruchir Sharma points out in a *Wall Street Journal* opinion piece that composite valuation of stocks, bonds, and houses are well above 2007 levels.

Household debt has also returned to pre-crisis levels. According to the New York Fed, total debt is once again approaching $12 trillion, a number not seen since 2007. More startling, Equifax credit agency data shows that more than one third of all credit, auto, and personal loans went to subprime borrowers during the first four months of 2015. This is a proven recipe for disaster. Indeed, experts agree that the large

* *Allen West is President/CEO of the National Center for Policy Analysis and a retired Army Lieutenant Colonel. He served on the House Committee on Small Business in the 112th Congress as a Representative from the 22nd district of Florida.*

concentration of debt in the hands of subprime borrowers caused the 2008 financial crisis.

Meanwhile, big banks are getting bigger and community banks are disappearing. Major financial institutions have used powerful lobbyists on Capitol Hill to effectively gut Dodd-Frank of the very regulations intended to rein in their power. And the top three banks have grown by 80 percent since 2007. The top ten banks own 72 percent of the total banking assets in the entire country. The ill-conceived and burdensome regulations remaining in Dodd-Frank now fall disproportionately on the shoulders of smaller banks. Community banks now share a tiny percent of the banking assets in the country. The number of small institutions has dwindled to below 7,000 (there were over 18,000 in 1984). And now Dodd-Frank is further decimating the community banking industry, which primarily funds small businesses – the life blood of the U.S. economy.

A far more important sign of impending financial crisis exists, though. The U.S. government and the Department of Justice are welcoming more financial malpractice by not prosecuting anyone for substantial wrongdoing in the 2008 crisis. The savings-and-loans crisis of the 1980s caused a $1.8 trillion loss and resulted in over 1,000 criminal prosecutions. In comparison, the 2008 meltdown was 8-times worse, generating a loss of $14 trillion, but the government has failed to prosecute any major banking officials. The DOJ under Attorney General Eric Holder chose to exact settlements from large financial institutions in place of criminal charges – and the beneficiaries of these settlements are questionable and controversial. The new Attorney General, Loretta Lynch, has not addressed the issue. The federal government has essentially rewarded bad behavior and convinced observers that no jail time awaits those who engage in wrongdoing.

The U.S. government claims their investigations could not find concrete evidence of misbehavior. This could not be farther from the truth – one of us know this for certain. I, Richard Bowen, saw the evidence first-hand while working as a Senior Vice President for Underwriting at Citigroup. I testified in April 2010in front of the Financial Crisis Inquiry Commission about the observed activity. But in a startling turn of events, the commission forced me to change my written testimony, editing out much of the damning evidence, with some at the DOJ saying they never received the evidence a legal requirement of the commission. The commission then locked up my original testimony in a blatant example of complicity between government agencies and big banks. A *New York Times op-ed* exposed much of this activity in 2013. Since then, both House and Senate finance committees have ignored repeated written requests for investigations into this blatant cover-up and violation of public trust.

This supposed bipartisan commission, put together while Democrats controlled both chambers, failed in their duties. The commission ignored the mounting evidence of financial wrongdoing and apparently did not pass the evidence on to the DOJ. Leaders in Congress would be wise to start inquiries into the situation.

In light of these circumstances, we are demanding a congressional investigation into what appears to be a cover-up at the commission and the subsequent complicity between banks and government officials. The U.S. government must prove once and for all that it does not reward bad behavior. Those on Capitol Hill must demonstrate that no one is above the law. If not, the American public can expect to see greater malpractice, leading to another, far worse financial crisis.

End CNSNEWS.com commentary.

We are concerned, as should we all be, that our stock market roller coaster rides, higher levels of household debt, lack of individual banker prosecutions, big banks getting even bigger, and more, don't bode well for a healthy economy.

The Financial Crisis Initiative will pay particular attention to how a lack of ethics and transparency contributed to the 2008 financial meltdown. It will also review past and subsequent legislative and regulatory policies to test their efficacy and value. Research studies, articles, videos and other means will culminate in two major summits in the spring of 2016, one to be held in Dallas and the other in Washington D.C.

Part of the Initiative's goal is to foster communicating and advocating sound economic policies which should lead to the prevention or mitigation of future crises such as those we recently experienced here and which were exported worldwide.

How do we prevent another #financialcrisis? ~ @RichardMBowen #2008 #ncpa #tbtf

I applaud NCPA's initiative. We need more like it in order to resolve the issues we are faced with today, in business, economically and ethically, before we become morally and financially bankrupt.

How Bankers Avoid the Slammer

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How Wall Street's Bankers Stayed Out of Jail

The probes into bank fraud leading up to the financial industry's crash have been quietly closed. Is this justice?

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WILLIAM D. COHAN | SEPTEMBER 2015 ISSUE

On May 27, in her first major prosecutorial act as the new U.S. attorney general, Loretta Lynch unsealed a 47-count indictment against nine FIFA officials and another five corporate executives. She was passionate about their wrongdoing. "The indictment alleges corruption that is rampant, systemic, and deep-rooted both abroad and here in the United States," she said. "Today's

In a recent Atlantic article, "How Wall Street's Bankers Stayed Out of Jail," William D. Cohan asks, "the probes into bank fraud, leading to the financial industry's crash have been quietly closed. Is this justice?"

It appears that the legal window for punishing Wall Street bankers for fraudulent actions that contributed to the 2008 crash has just about closed. And, few tough, just actions have been taken.

Image Source: williamcohan.com

Both Cohan and I have been writing about the Department of Justice's indictments of the major Wall Street banks for some time, starting with former Attorney General Eric Holder and continuing with our new Attorney General, Loretta Lynch. Cohan quotes Attorney General Lynch on bank behavior: "The indictment alleges corruption that is rampant, systemic, and deep-rooted both abroad and here in the United States,"… "Today's action makes clear that this Department of Justice intends to end any such corrupt practices, to root out misconduct, and to bring wrongdoers to justice."

Her intentions and Holder's seemed fairly forthright, yet as Cohan and I point out, the department of Justice has lost sight of the larger issue that is the fraudulent behavior of the Wall Street bankers and traders that resulted in our 2008 financial crisis. The D.O.J. has only managed to indict and jail one banker.

We conveniently overlook that in the 1980's financial crisis over 1,000 bankers were jailed, not let off with just a fine. They paid for their fraud and financial wrong doing. To date, the 2008 crisis has resulted in nearly $190 billion in fines and settlements from 49 separate financial institutions (Keefe, Bruyette & Woods analysis).

That's a hefty number, indeed. However, let's not forget that those fines and settlements were paid by the bank's shareholders, not the bankers themselves. And, they were paid out as corporate expenses. In other words, the payments were treated as the cost of doing business and in some cases these expenses were tax deductible. Unbelievable, but true!

Astonishing as it seems, the bankers robbed their banks, customers and tax payers and only one banker, Credit Suisse' senior trader, Kareem Serageldin, has gone to jail. So, in the 2008 crisis, 1; 1980's crisis, 1000! Incredible odds and odds that just don't add up.

The message is clear. Regardless of what our past and present Attorney Generals claim — that the lack of prosecutions are not a result of their lack of effor — to date, the D.O.J. has not displayed the desire to seek punishment for the misconduct on the part of individual bankers.

A long list of whistleblowers, including me, have repeatedly testified that the evidence of fraud is there. We've uncovered it. And the D.O.J. is apparently using that and additional evidence to levy large settlements.

So how is it possible we keep finding evidence to force these large settlements and yet not enough to prosecute? There's obviously a huge piece missing here which just doesn't add up. But William Cohan provides much of the answer by clearly showing the template repeatedly used by the D.O.J. in getting these settlements from the banks.

A long list of whistleblowers have repeatedly testified that the evidence of fraud is there. ~ @RichardMBowen #tbtf #2008 #doj

Cohan describes how the D.O.J. threatens to publicly disclose the evidence of wrongdoing and then, in exchange for large settlements by the banks, the D.O.J. seals the evidence so it will never become known by the public and bank executives are not inconvenienced by a perp walk.

By following this template the D.O.J. gets to show the media and public how tough they are on the big bad banks. The banks simply have another expense and the public never sees how widespread the fraud really was.

I have also written in "Were Bank Payments Really Payments of Extortion to the Justice Department," that the settlements are merely payments to the D.O.J. to hide the evidence. And, not one penny of the billions paid to the D.O.J. coffers goes to the investors who lost the money.

The infamous bank robber Willie Sutton, when asked why he robs banks, supposedly said, "Cause that's where the money is." The D.O.J. has also obviously taken that to heart in filling their own coffers.

Were Bank Settlements Really Payments of Extortion to the Department of Justice??

Source: Reise Reise (Wikimedia)

Congratulations are in order to the Federal Housing Finance Agency, which has managed to bring a case to trial against Nomura Holdings and the Royal Bank of Scotland, two foreign banks with little U.S. reputational risk. This relatively obscure agency oversees Fannie Mae and Freddie Mac. Considering they have nowhere near the power of our federal regulators and prosecutors at our esteemed Department of Justice and the Securities and Exchange Commission, the victory is a strong step in the right direction.

A New York Times editorial (May 15, 2015) congratulated the government for its "big victory" against the two banks which had been deceiving investors about the mortgage securities they had been "peddling." In no uncertain terms, a federal judge ruled that the "two banks misled Fannie Mae and Freddie Mac in selling them mortgage bonds that contained "numerous errors and misrepresentation."

"The magnitude of falsity, conservatively measured, is enormous," Judge Denise L. Cote of Federal District Court in Manhattan wrote in a scathing 361-page decision. "The origination and securitization of these defective loans not only contributed to the collapse of the housing market, the very macroeconomic factor that defendants say caused the losses," she wrote, "but once that collapse started, improperly underwritten loans were hit hardest and drove the collapse even further."

The Wall Street Banks were involved in the same behavior as the two banks in question, yet were not prosecuted by the DOJ and the SEC. How did this relatively obscure agency prevail when the SEC and DOJ sit on their hands regarding the Wall Street banks' same "magnitude of falsity?"

The DOJ and SEC are under obligation to enforce the law and punish and deter wrong doers. Their enforcement powers are immense. Yet they did not fulfill their legal function. Instead, they extracted fines, got settlements and slapped wrists holding no one really accountable. To date, the Wall Street banks have, by and large, not admitted any wrong doing and have argued they did not break the law when they packaged shoddy mortgages and sold them to investors in the lead up to the financial crash of 2008.

Judge Cote is not the first to condemn the falsity of the whole mortgage bubble, but the decision may open the door to further and tougher actions which are long overdue. Two years ago, Federal Judge Jed Rakoff ripped the DOJ apart because of their failure to prosecute anyone. Rakoff stated that "it is only prosecutions that will act as a deterrent to future wrong doing." He noted that during the last financial crisis, over 800 bankers went to jail, but no one of consequence has been prosecuted this round.

> The DOJ and SEC are under obligation to enforce the law and punish and deter wrong doers.

To date, there has been lots of finger pointing, and excuses. Was it negligence, imprudent, but innocent, failure to maintain adequate reserves for a rainy day? Or was it basically the result of fraudulent practices, of dubious mortgages portrayed as sound risks and repackaged into financial instruments, with fundamental weaknesses which were intentionally obscured?

This court decision opens the issue as to why the Department of Justice has not pursued charges against the big banks when overwhelming evidence of fraud for the same actions has been found against these two banks. It certainly has not been for lack of evidence. In fact there has been deliberate hiding of evidence.

Not a penny of most of the settlements has been paid to the investors who lost the money. The facts around each bank settlement were written such that they misled the public into believing they were admissions of guilt by the banks in question. They were not. The banks have yet to admit or deny guilt. Sadly because there are settlements, all evidence is now under seal and we cannot see how pervasive the fraud actually is.

In my opinion, the large bank settlements were merely extortion payments to the DOJ so evidence could be locked up to hide the egregious fraud committed on the American public. I've asked for a Congressional investigation into this and other coverups by the Financial Crisis Inquiry Commission.

Were large bank settlements merely extortion payments to the #DOJ? #fraud

I applaud this court decision. It may well change the dynamics of how this evolving story plays out.

The SEC Bites Like a Flea!

According to Gary Aguirre, the SEC Whistleblower, "when you're talking to people and asking them to change their culture, you might as well be talking to a piece of granite and asking it to transform itself into a piece of sculpture."

Aguirre spoke recently at the Institute for Excellence in Corporate Governance at the University of Texas at Dallas, where I teach. We compared notes about the parallels between his "five year war" against the SEC and mine. And the toxic environment we were both in.

According to Aguirre, and I concur, the SEC which is supposed to have control over financial institutions has instead been captured by the very ones they are supposed to be regulating. They are very lenient on those they are supposed to control and the banks have a stranglehold on Congress as well as the regulatory agencies. We agreed the situation is out of control.

Gary, an attorney was practicing in San Diego. In 2000 he went back to law school and after earning his second law degree applied for and received a public service job with the SEC, where he became the lead investigator on an insider trading case involving Pequot Capital Management. While he saw continued abuses, there had not been a case against insider trading in 25 years!

Aguirre went after this case and thought there was a good chance of getting a conviction. Suspecting the leaked information came from John J. Mack, a Wall Street titan and major contributor to the 2004 campaign of President George W. Bush, Aguirre wanted to subpoena Mack, but supervisors told him Mack had too much "political clout" and the case would not be pursued. The case was postponed.

Aguirre complained to a superior about the preferential treatment being given Mack and was fired without warning. A Senate investigation later found his termination to have been an illegal reprisal.

In May 2010, Pequot Capital settled its insider trading charges with the SEC for $28 million and a month later, the SEC settled the wrongful termination suit filed by Aguirre for $755,000. Aguirre returned to private practice in San Diego in 2008, specializing in securities law. He has emerged as a major critic of the SEC, calling it an agency that was set up to protect the public from Wall Street, but now protects Wall Street from the public.

In 1934, when FDR signed the SEC Act, FDR asked what kind of law this will be? Legend has it that he was told, "It will be a good bill or bad, Mr. President, depending on the men who administer it." It turns out it is no law at all.

The inmates (SEC) are running the institution.

According to Aguirre, the media describes the SEC as Wall Street's Cop, but the truth is, "the SEC roars like a lion and bites like a flea" – a quote he attributed to Harry Markopolous, a financial fraud investigator who blew the whistle on Bernie Madoff's ponzi scheme.

On that he is spot on. The inmates are running the institution.

Bloomberg Interview…
It's Time to Act!

William Cohan and Richard Bowen on Bloomberg.

LAST WEEK I CLOSED MY appearance on Bloomberg TV by announcing a call for an investigation by Congress into the Congressional Commission cover-ups.

"So what's the problem, Richard?" anchor Stephanie Ruhle, of Bloomberg Business asked. I countered back, "the lack of prosecutions as a result of the financial wrongdoings during the financial crisis. And the lack of prosecutions does not indicate a lack of evidence, but may indicate a lack of effort. If Eric Holder is in fact sincere about pursuing this then he'll call us whistleblowers; we know where the evidence is."

From reading my posts, you know a lot of evidence has still not made it to the Department of Justice. As I said on Bloomberg, "to date I've asked four different Assistant U.S. Attorneys if they've seen the evidence I submitted to the Financial Crisis Inquiry Commission." I asked each one if they had received a referral. The answers, no!

So, as I told Stephanie and her co-host, William Cohan, my concern is, did the Congressional Commission fulfill its legal mandate to investigate what happened and turn over the evidence I had submitted to the Department of Justice (DOJ)? I stated, "Based on what has occurred I've instructed my attorneys at the Government Accountability Project to send a letter to two Congressional Committees which have oversight responsibility. I documented my experience and testimony."

Cohan, who wrote about me and the commission cover-up for the New York Times in September of 2013, and is the author of *The Price of Silence*, among other bestsellers, said, "you've made your evidence known; you've written letters to Robert Rubin, when he was Chairman of the Executive Committee at Citigroup; why isn't the Attorney General calling on you and other whistleblowers? The clock is ticking."

Yes, the clock is ticking. Time is running out.

We have a couple of months to assure action is taken since Eric Holder issued a deadline for federal prosecutors to decide whether to bring charges against individuals for their roles in the mortgage meltdown of 2008.

Am I optimistic something will happen!? No.

So I called for a congressional investigation of the cover-up of my testimony. The commission is required by law to turn any evidence found over to the DOJ, but they didn't do that with my evidence, even though Commission Chairman Phil Angelides said they did.

Since four different assistant US Attorneys told me they had not seen any referral or evidence I gave the commission; either Angelides is lying and violating the law, or he gave it to Holder and Holder hasn't passed on the evidence I submitted to his prosecutors.

I suspect that there may be public hearings this summer. It's time Congress investigated.

Why Are Wall Street Bankers Taking Government Jobs?

Photo: Alex Proimos, CC license 3.0

In letters delivered to the Securities and Exchange Commission (SEC) this last month, Citigroup, Goldman Sachs, and Morgan Stanley are seeking exemption from a shareholder proposal, filed by the AFL-CIO labor coalition, which would force them to identify all their executives who are eligible for awards for entering government service, as well as the specific amounts in question.

This practice is what led AFL-CIO President Richard Trumka to write to seven major Wall Street players last month. The AFL-CIO stated, "We oppose compensation plans that provide windfalls to their executives unrelated to performance." Trumka wants to know, "how much money we have promised to give away to senior executives if they take government jobs."

Many believe that these golden parachutes open the door to placing more financial insiders in government who then may be favorable to their Wall Street former bosses. According to Trumka, the banks are not answering him. He asks: "What are they trying to hide?"

Deferred compensation and vested stock options were originally designed to keep talented employees from jumping ship. Heather Slavkin Corzo of the AFL-CIO asks, "Why are we paying these people to leave?" "Unless it's just a backdoor way to pay off newly minted government regulators," she added, "it's hard to see how it's in shareholders' interest."

The practice of Wall Street executives cashing out early when they take government jobs drew criticism during last year's confirmation hearings for Treasury Secretary Jack Lew. Lew left Citigroup in 2008 and later joined the State Department. His early stock payouts totaled somewhere between $250,000 and $500,000. Antonio Weiss, former investment banker at Lazard, acknowledged he would be paid $21 million in unvested income and deferred compensation upon his exit to a government job.

In Weiss' case, Senator Warren and other Democrats attacked President Obama's choice, as just another instance of putting Wall Street regulation into the hands of Wall Street. More opposition is expected from this quarter as the Presidential bids take form.

A 2004 tax law banned accelerated payments but made an exemption for employees who leave for government service. Several banks actually have explicit policies regarding payments like these, outlining automatic awards for executives who go on to government positions. In fact, Goldman Sachs offers "a lump sum cash payment" for government service.

Michael Smallberg of the Project on Government Oversight, a government watchdog group, believes this practice actually ensures these companies "will have friends in high places." Smallberg says these policies "show how the revolving door is literally written into the pay plans of big companies that already have an advantage over public interest groups when it comes to lobbying and making their voices heard."

By the way, it may be just coincidence but, Citigroup supposedly never so much as reached out for a conversation before filing the SEC request for exemption. The letter is dated December 19, 2014, just a week after a provision written by Citigroup lobbyists repealing derivatives rules in the Dodd-Frank Act passed Congress. Citi's no-action letter argues that they have substantially implemented the proposal already. They also deny the existence of golden parachutes, as their officers would supposedly receive the same treatment no matter when or how they left the company, other than to a competitor.

While some say that giving an executive a special financial award as they enter government service encourages public service, others say it's giving Wall Street insiders even more power over government. If answers are not forthcoming, legislative action might be taken to stop these windfall payments. And it certainly looks like considerable party opposition to these payments may be part of the presidential campaign.

We should be in for some rollicking times.

Ethical Leadership - Culture is the Culprit!

PEOPLE ACT IN THEIR OWN best interests; not necessarily because they believe they are doing the right thing or because they may be punished or rewarded for doing so. And if a company wants to promote and assure ethical standards are followed then transparency, trust and developing an ethical culture based on guiding principles is critical. My client, Penn Mutual, is a shining example of what to do right.

We can talk ethics all day long but, if leadership does not follow the stated company principles, trust does not exist.

> If leadership does not follow the stated company principles, trust does not exist.

So it is no surprise that four years after receiving more bailout money than any of the other too-big-to-fail banks Citigroup admitted to breaking FHA rules, certifying thousands of unqualified mortgages for FHA insurance and continuing to take risks with taxpayer money, as told in the Kellogg School of Management's white paper. Some of this story is chronicled in my earlier post.

And my experience at Citigroup has put me on a quest to discover what ethical leadership is and is not.

Adam Waytz, an Assistant professor of Management and Organizations at the Kellogg School, the author of a recent award winning business case on Sherry Hunt's (and my) whistleblowing story has also investigated some of the tough questions about ethical leadership. He asks how could Citi have prevented this chain of events from happening? One red flag goes up for me immediately, when Sherry Hunt and I were yelling loud and clear, no one listened. No-one cared to. Yet the CitiMortgage CEO claims not knowing?! He said, "Did you ask her (in reference to FHA investigation) if she (Sherry) spoke to me?"

Are there steps that can be taken to assure fraud is a moot point? Can whistleblowing be stopped before it is needed? Yes, if an organization truly believes values matter, then transparency is key. Ethical leadership is assuring open discussion, no grey areas, no hiding behind numbers and making sales at all costs. Leadership must be clear in communicating with employees at all levels, especially at the C- level, that THIS is how we operate- honestly, transparently, not just rules and regulations but a full blown adherence to corporate social responsibility. Not just a written code on a shelf, but one that is followed, talked about, expected and rewarded. A respect for human dignity, human rights, sustainability and justice.

Creating a culture that works welcomes open honest dissent, and discussion. Employees who see wrongdoing are not put in a corner and all their responsibilities and direct reports taken away as happened with both Sherry and me — but listened to and the problem explored. Everyone is engaged in ethical issues. Each employee knows they are accountable for fulfilling the Mission and following the guiding principles.

Can whistleblowing be stopped before it is needed?

Interesting the companies who follow guiding principles and welcome open discussion, show open, honest corporate responsibility are also those who get and keep the best employees and, surprise, make a profit. If Citigroup had promoted a commitment to ethical leadership, well that's another story isn't it?

As Whole Foods says, "Values Matter".

WHISTLEBLOWING

The Whistleblower: David vs Goliath — You Don't Have to Be A Giant to Make a Difference

Playing by the Rules, Ethics at Work is a three-part series by WNET TV, PBS New York.

The story of David and Goliath is one most of us are familiar with. Goliath, the Bible character, as told in the Books of Samuel, is described as a giant Philistine warrior who was defeated by the young and small David, a shepherd and future king of the Israelites. No one would stand up to the giant Goliath, who terrorized the Israelites until David confronted him. As Goliath moved in for the kill, David reached into his bag, used his sling shot and slung one of his stones at Goliath's head. The stone hit the giant's forehead, and Goliath fell face down on the ground. David, using Goliath's own sword, killed him and cut off his head.

The story is often used as a metaphor for giant problems or impossible situations. No surprise that is was used by Sherry Hunt about Citigroup, in "The Whistleblower," produced by WNET TV, PBS New York as the first in the three-part series, *Playing by the Rules, Ethics at Work* that begins this week in select PBS markets. WNET is the flagship public station of the New York City tri-state area and one of the most watched and respected public television channels in the country.

This first episode, highlighting Citi and Sherry Hunt that I participated in, includes interviews with Sherry, Professor Adam Waytz and Bob Ivry, the Bloomberg writer who wrote about Sherry Hunt, Citi and our ordeal for *Bloomberg Markets Magazine*. During the interview, I briefly described what happened at Citi. I talked about the culture of greed as a driving force and the constant push to increase profit at any cost and the significant incentive compensation management enjoyed, which also provided the motivation for management to ignore Sherry's warnings and mine.

The story focuses on the egregious fraudulent mortgage activity Citigroup engaged in. Citigroup, the poster child for fraudulent mortgages, couldn't make mortgage loans fast enough. Buying a home was and is the American dream and mortgage loans meant more fees for the banks that could be bundled up and passed along to investors. Subprime loans were attractive and cheap, yet very profitable for banks.

Sherry Hunt on Bloomberg Markets Magazine

Sherry reported to me at Citigroup and "after I left" took my warnings very much to heart. Four years later she blew the whistle on Citigroup. On the surface, the company had a culture of doing the right thing. The bottom line though, what governed, was "what will it take to bring in the money?" Sales and profits trumped everything else.

Sherry consistently documented the fraud. And spoke up, often. She was ignored and belittled. She was told to cook the books. And finally, she couldn't take another day and blew the whistle. This segment documents her journey as well what I went through while I was there. It shows how

Sherry stood up to the Goliath, Citigroup. “You have to start in your own backyard,” she says.” When things get rough, you stand up and you do the right thing.”

Mary Ann Rotondi, the award-winning producer of this episode, contacted Adam Waytz, assistant professor of management at the Kellogg School of Management at Northwestern University, after reading an article summarizing the Kellogg business case about Sherry Hunt’s and my experience at Citigroup, “How Citibank’s Culture Allowed Corruption to Thrive.” The case won Waytz and Vasilia Kilibarda, also at Northwestern, an international award for the “Outstanding Case Study on Anti-Corruption,” given by the United Nations Compact Principles for Responsible Management Education (PRME) and Giving Voice to Values (GVV) presented at the North American Case Research Association (NACRA) conference. The Kellogg case, which is currently used in business schools around the world, was referenced in a prior post.

Ms Rotondi believes that many of us face and have faced situations similar to mine and Sherry’s at Citigroup. Part of her goal is to create a more ethical work environment in business and to encourage employees who may be faced with similar situations to ours to make the right choices and perhaps suffer less retaliation.

Bob Ivry

The producers of the remaining two episodes in this series will also utilize case studies to explore important and serious ethical questions that businesses are faced with today. They also plan to include commentaries from prominent ethics professors from some of our best business schools in an effort to help further the need for an ongoing conversation about ethics, responsibility, and character (or lack thereof) in the workplace.

Every person who learns more about the financial situation this country is faced with; every person who experiences the egregious lack of ethical behavior in their company that Sherry Hunt and I did; every voice that speaks up about this financial travesty is a step forward in assuring this travesty does not continue nor ever happens again.

The ordinary person is not a giant of industry. However, all we need are a few David's willing to stand up and face down corrupt giants.

Banking In the 21st Century: The Great American Ponzi Scheme at Wells Fargo (and all TBTF)

Credit: Ildar Sagdejev (Specious) – Own work, GFDL

"YOU SHOULD RESIGN, YOU SHOULD give back the money, and you should be criminally investigated." a fiery Senator Elizabeth Warren told Wells Fargo's chief executive, John G. Stumpf, during Senate hearings last month. (**Watch in Times Video**)

In September, Wells Fargo reached a $185 million settlement with federal regulators and acknowledged that thousands of employees, under intense pressure to meet aggressive sales targets, opened as many as two million bogus accounts without customers' knowledge, in some cases forging signatures. John G. Stumpf, the bank's former chief executive, declared that the actions were an ethical lapse involving 5,300 low-ranking workers, who have since been fired.

The resulting scandal forced Chairman and CEO John Stumpf to resign on Thursday, "effective immediately"… "I have decided it is best for the company that I step aside," he said in a statement. The bank's board said it would claw back compensation from him valued at $41 million. Overall, when you consider that Wells Fargo is the nation's second-largest bank, the financial punishment it paid out is basically what amounts to chump change.

While it's about time that someone at the very top is being held accountable for the financial misdeeds of the companies they lead, we need to dig deeper and ask why so much fraud is rampant in our financial institutions? Willie Sutton, one of America's most infamous bank robbers when asked why he robbed banks said, "Cause that's where the money is." Yet, is that the whole story?

Some current and former employees have cited an environment in which managers checked with staff members several times a day to monitor progress toward sales quotas. Those who met sales targets earned hefty bonuses.

"Unchecked incentives can lead to serious consumer harm, and that is what happened here," said Richard Cordray, director of the Consumer Financial Protection Bureau, talking about the credit cards opened by Wells Fargo without authorization of its customers.

There is a common thread running through the many banks which have been cited for fraud, as I can personally attest to from my own experience at Citigroup and what was certainly at the core of the Too Big to Fail debacle. The parallels between my Bank Whistleblowers United colleagues, other bank whistleblowers, and the continuing saga of bank fraud, theft, misconduct, greed, lack of ethics and governance is astounding.

One of the driving forces may indeed be a "sales culture" that demands profitability goals be met at all costs and the tremendous pressure that is placed on employees to meet those goals or their jobs were at stake. Couple that with the exceptionally large incentive compensation that senior management enjoys as a result of reaching their profitability goals — well the die for a dysfunctional culture is set.

In 2015, Wells Fargo's top five top executives at the time raked in more than $66 million according to filings with the U.S. Securities and Exchange Commission. Stumpf's pay that year was $19,318,604.

Wells Fargo fired more 5,300 lower level employees who practiced what the company demanded and rewarded their managers! That's systemic behavior for which warning bells need to go off, loudly, and the CEO must be held accountable for rewarding a toxic culture to line his or her own pockets.

Yet organizations are puzzled when employees act contrary to a company's stated values or to its executives' exhortations. How could there be any surprises? You get what you reward. Reward profitability at all costs and the writing is on the wall, in the form of behavioral cues that will eventually shape a company's culture. If managers do not pay attention, if they model a "do as I say, not what I do" behavior, they will continue to be surprised by what their employees are motivated to do.

So, time after time, a company discovers that its employees have been behaving badly, even unethically. The issues come to light, investigations and regulators step in, the public is outraged, and the company's executives express shock and dismay and are in denial as that is not what they directed their employees to do.

Pretty much this is what happened at Wells Fargo, where some of the bank's employees, in an effort to meet aggressive sales goals, opened bank and credit card accounts for customers without their knowledge.

Yet several current and former employees state the environment was such that managers actually checked with staff members several times a day to monitor sales quotas. Those who met sales targets earned hefty bonuses. Those who did not lost their jobs. This is not just a Wells Fargo story; it is becoming rampant behavior at many organizations.

The parallels to Citigroup and the other large banks continue.

John G. Stumpf became president of Wells Fargo in 2005 and its CEO in 2007. In 2005, Julie Tishkoff, then an administrative assistant at the bank, wrote to the company's human resources department about what she had seen: employees opening sham accounts, forging customer signatures and sending out unsolicited credit cards.

For years, other Wells Fargo workers complained about similar wrongdoing and were ignored and/or chastised. In 2011, at least two employees wrote letters directly to Mr. Stumpf, to describe the illegal activities they had witnessed. The list goes on. He denies seeing the letters and other complaints.

Mr. Stumpf has testified twice in front of Congress that he and other senior managers didn't realize they had a huge issue until 2013. Yet the bank had started firing employees over the problem. And why have the brunt of the firings fallen on low-level workers, not on the managers and executives who shaped the company's aggressive sales culture?

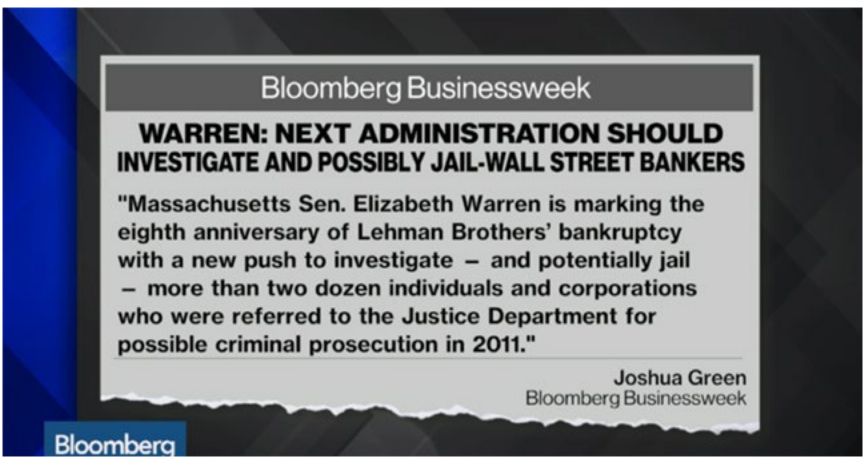
In mid-2014 the message to the dozens of Wells Fargo workers gathered for a two-day ethics workshop in San Diego was loud and clear: Do not create fake bank accounts in the name of unsuspecting clients. "Risk professionals" were deployed throughout the bank in efforts to stamp out the illegal activity. Too little, too late? Three years after the first false accounts were exposed publicly and investigations began, the bank said it was still firing employees over the questionable accounts well into this year. What some say is the cause: Wells has continued to push the sales goals that caused employees to break the rules in the first place. In fact, the goals at the center of a $185 million civil settlement and investigations by prosecutors in three states are not set to be phased out for another three months.

And so, another financial giant suffers humiliation and lost customer loyalty. Is the solution a simple one? No. Yet, as I have repeatedly said, an ethical business culture starts at the top, is the expectation, and the senior suite models the behavior it wants and holds all accountable for a culture that meets the company's stated values.

Wells Fargo is now apologizing to its customers for the execrable behavior it allowed: "We are deeply committed to serving you and your financial needs. We know we did not live up to that commitment. We want you to know that we're making things right and that we're even more dedicated to serving you and making sure you know where you stand."

That's a step in the right direction. Perhaps it's possible for amends to be made to the public and accountability to be made a way of life in all the banks. We haven't seen it yet, but I sure hope so.

Senator Warren Calls Out the DOJ – They Ignored 11 Congressional Commission Criminal Referrals!



Senator Elizabeth Warren (D-MA), Member of the Senate Banking Committee and Ranking Minority Member of the Sub-Committee on Economic Policy, wrote two highly provocative letters this last week requesting a formal investigation into why President Obama's administration has not brought criminal charges against the individuals and corporations involved in the 2007-2008 financial crisis.

According to Bloomberg, Senator Warren says that the Financial Crisis Inquiry Commission (FCIC) clearly believed there was enough evidence to prosecute them, and sent many criminal referrals to the Department of Justice, so she wants to open up investigations to better understand why that never happened.

"The Department has failed to hold the individuals and companies accountable," she wrote. "This failure requires an explanation." Her letter to FBI Director James Comey asked that he "release records of the FBI investigations into financial misdeeds in the wake of the crisis, to further illuminate why the Obama administration decided not to prosecute firms linked to the financial crisis."

A three-page letter to FBI Director James Comey, and a twenty page one to DOJ Inspector General Michael Horowitz, demanded an answer to why the Department of Justice (DOJ) has yet to prosecute any of the major players responsible for the 2008 financial crisis.

Applauding her demand for an investigation into why the referrals were not followed up, is Phil Angelides who had chaired the FCIC. "This is in the public interest," he told Avi Asher-Shapiro of International Business Times. "We need to see if there was a fair investigation into what was happening on Wall Street."

Her letter to Mr. Horowitz requested a review of how federal law enforcement managed to "whiff on all 11 substantive criminal referrals submitted by the Financial Crisis Inquiry Commission (FCIC), a panel set up to examine the causes of the 2008 meltdown." Included in the letter is a description of each of the 11 criminal referrals, including the Citigroup criminal referral based solely on my testimony and evidence.

Senator Warren stated, "It has been almost a decade since the subprime mortgage market began to collapse and the individuals and corporations responsible for the resulting financial crisis have still not been held responsible. It is not too late to do so; and I urge your office to act quickly to open an investigation into the process by which the DOJ handled FCIC referrals of corporate and individual misbehavior that harmed millions of Americans."

Senator Elizabeth Warren (D-MA).
CC US Senate

To date, the FCIC's criminal referrals, which the Justice Department has had in hand since October 2010, have yet to be made public. Senator Warren's staff reviewed thousands of other documents released in March by the National Archives, my own testimony included; plus, hearings and testimony, witness interviews, internal deliberations, and memoranda, and found descriptions and records of them.

The FCIC was under a legal mandate, established by the Fraud Enforcement and Recovery Act which chartered the Commission, to refer to the Attorney General any evidence found where laws were broken and 11 different criminal referrals were sent to then Attorney General Eric Holder, all of which were ignored. This is overwhelming proof that the DOJ ignored all of this very substantial evidence of criminal wrongdoing, which the congressional commission felt warranted referral because of the compelling nature of the evidence.

Senator Warren's letter detailed potential violations of securities laws by 14 different financial institutions: most of America's largest banks — Citigroup, referencing my Citi criminal referral, Goldman Sachs, JPMorgan Chase, Lehman Brothers, Washington Mutual (now part of JPMorgan), and Merrill Lynch (now part of Bank of America) — along with foreign banking giants UBS, Credit Suisse, and Société Generale, auditor PriceWaterhouseCoopers, credit rating agency Moody's, insurance company AIG, and mortgage giants Fannie Mae and Freddie Mac.

Senator Warren wrote, "A review of these documents conducted by my staff has identified 11 separate FCIC referrals of individuals or corporations to DOJ in cases where the FCIC found 'serious indications of violations[s]' of federal securities or other laws. Nine individuals were implicated in these referrals (two were implicated twice). The DOJ has not filed any criminal prosecutions against any of the nine individuals. Not one of the nine has gone to prison or been convicted of a criminal offense. Not a single one has even been indicted or brought to trial. Only one individual was fined, in the amount of $100,000, and that was to settle a civil case brought by the SEC."

Robert Rubin, US Treasury Secretary (1995-1999).
CC Chatham House

By the way, an article in Wall Street on Parade says, "the two individuals Senator Warren refers to who were "implicated twice" in the FCIC's criminal referrals are Robert Rubin, the former Treasury Secretary in the administration of Bill Clinton, who in the lead up to the crash of Citigroup in 2008 served as Executive Committee Chair of Citigroup's Board of Directors. (After advocating for the repeal of the Glass-Steagall Act, which allowed Citigroup to own both an insured depository bank, an investment bank and brokerage firm, Rubin went straight from his post as Treasury Secretary to the Board of Citigroup, where he collected $126 million in compensation over the next decade.)

"The other individual whose name appears twice is Chuck Prince, Citigroup CEO during its implosion. A third Citigroup executive's name appears as well on the list: Gary Crittenden, the Chief Financial Officer of Citigroup at the time of its crash."

Both Rubin and Crittenden were explicitly warned by me, in writing, of the Citigroup pending huge losses one year before the bank bailouts.

Warren writes, "The DOJ's failure to obtain any criminal convictions of any of the individuals or corporations named in the FCIC referrals suggests that the department has failed to hold the individuals and companies most responsible for the financial crisis and the Great Recession accountable. This failure requires an explanation."

Eric Holder may feign frustration at the lack of prosecutions but the fact remains, Wall Street got slapped on the wrist and no one has gone directly to jail! Extracting settlements is not the same as holding the wrong doers accountable. The Department of Justice has not been as diligent as it promised to be. The evidence has certainly been there, as I can personally attest to. Incredibly Holder has said, …"Do you actually think that if we could have brought these cases, we would not have?"

To date, not one Wall Street banker involved in the 2008 financial crisis has gone to prison; instead the big banks have grown larger at the expense of the American taxpayer and our community banks. The Justice Department and the Securities and Exchange Commission, in spite of their promises to hold the TBTF accountable, have failed miserably.

There has been no accountability; none! We need to stand behind Senator Warrens' demand for an investigation.

There Aren't Any Hallmark Cards for Whistleblowers… Yet!

Credit: Alno, CC BY-SA 1.0

WELL NATIONAL WHISTLEBLOWER APPRECIATION DAY came and went July 30th, without much fanfare or appreciation from most.

Still, the fact that there is such a designated day is a step in the right direction. Senators Chuck Grassley (R-Iowa) and Ron Wyden (D-Ore), and their bipartisan Senate Whistleblower Protection Caucus led the charge and the U.S. Senate passed the resolution on July 7th, "to honor whistleblowers for the critical role they play in protecting the country against fraud and misconduct."

Interestingly, July 30th was chosen because on that date in 1778, the first whistleblower law was "inked."

> That it is the duty of all persons in the service of the United States … to give the earliest information to Congress or other proper authority of any misconduct, frauds or misdemeanor committed by any officers or persons in the service of these states , which may come to their knowledge.

The Continental Congress passed this resolution as a response to two whistleblowers who had exposed the transgressions of the highest ranking US naval official of the time and were subsequently incarcerated. In that resolution our new government also agreed to pay for the legal defense of the whistleblowers who ironically were the subject of another whistleblower first, our earliest recorded victims of whistleblower retaliation.

Ironic as well that two and a half centuries later Congress says whistleblowers are instrumental in uncovering wrongdoing and we need to encourage their doing so without any threat of reprisal. So whistleblower legislation is increasing. Unfortunately reprisals are part of the package, which definitely does not encourage whistleblowers.

In a recent interview, Senator Grassley says,

> Whistleblowers are people, often in government, who come forward to expose fraud, waste or abuse in an effort to help improve the status quo. They often are in a position to have unique knowledge or firsthand experience with a problem, and may even be one of only a few people who can bring it to light. Without whistleblowers, problems can remain hidden and allowed to fester.

> When our Founding Fathers created a government accountable to the people, they specifically included tools, like checks and balances, to prevent government from running amok. In that same spirit, they wanted government employees to be the people's eyes and ears in government, and to speak out when they encounter problems or opportunities for improvement. It said that government whistleblowing was not only encouraged; it was a duty for Americans. Today, we still have laws on the books to protect and encourage whistleblowers, and I am still working to strengthen those protections.

The 150 year old False Claims Act has been updated to increase rewards for whistleblowers and the protection given to whistleblowers, and legislation like Dodd-Frank offers up to 30% of any government money recoveries. The Edward Snowden situation brought whistleblowing into the public debate and companies have been more alert to implementing ethics and whistleblowing policies.

Still if rewards may be up so are reprisals. As Senator Grassley says,

> Because the information whistleblowers share could be embarrassing or even incriminating for their bosses, their agency or the administration, they are often treated like skunks at a picnic. Whistleblowers have been transferred, demoted, harassed and even fired for simply shedding light on a problem. Some have seen their security clearance revoked, and even their personal property destroyed in retaliation for their work. Reprisal not only hurts the whistleblower, but it also has a chilling effect on others who may consider blowing the whistle about a problem.

In spite of strong Congressional support, whistleblower retaliation is as virulent as ever. Multiple studies by the Ethics Resource Center puts the retaliation rate at more than one in five for those reporting corporate wrongdoing. And from my own and other whistleblowers' experience, it's more than the cold shoulder and being excluded from work decisions or assignments. It even goes beyond demotions, pay cuts and firings.

The retaliation is apparently going so far as to include harassment and, in some cases, even physical violence.

As The Hill article points out, "the public still has some ambivalence toward whistleblowers; and even the dictionary uses synonyms to describe them such as snitch, rat, fink, troublemaker, squealer" and so on. Thesaurus and Mirriam–Webster may have 30 synonyms to describe whistleblowers; and most are negative portraying whistleblowers as deceitful, dishonest and disloyal.

My colleagues and I have experienced the discrimination and harassment that goes along with being a whistleblower. Even though we may have saved our government and corporate shareholders millions of dollars, we've lost our jobs and will probably never work in our former professions again. Is it any wonder so few take a stand when they see issues one should and could blow the whistle on?

The Council of the Inspectors General on Integrity and Efficiency says,

> Courageous employees deserve our appreciation but all too often they face harassment, demotion or firing. Such retaliation is unlawful, and we are working together to make sure that it is stopped and that those who retaliate are held accountable. The good news is that, with recognition through events like National Whistleblower Appreciation Day, we continue to advance a culture within the federal government that thanks whistleblowers for their service rather than retaliates against them.

The Council gives several examples of how whistleblowers save taxpayer dollars, uncovers wrongdoing, and makes the country safer such as the Department of Veterans Affairs, where whistleblowers alerted the country to the widespread manipulation of scheduling data that masked true wait times for veterans seeking health care.

At the Department of Homeland Security, employees came forward to put an end to unlawful overtime practices, saving taxpayers $100 million a year. A tipster complained about wasteful spending by the

Drug Enforcement Administration's (DEA) aviation operations in Afghanistan. Inspector General auditors followed up and found that more than $86 million in taxpayer dollars was spent to purchase and modify an aircraft that, after more than 7 years, is inoperable and has yet to fly a single mission in Afghanistan. The Inspector General community, working with the Department of Justice and whistleblowers, annually recovers over $3 billion for the Treasury in cases of contractor fraud alone.

Senator Chuck Grassley believes whistleblowers should be praised, not punished, for their patriotic acts to improve government. And, at the Government Accountability Project, they took special care that day and week in honoring national Whistleblower Appreciation Day, from a TEDx Wilmington Salon, *Whistleblowers and the First Amendment*, two panel discussions as part of the *Whistleblower Summit for Civil and Human Rights* and other events. The Government Accountability Project is the nation's leading whistleblower protection organization.

National Whistleblower Appreciation Day may not have had a great deal of fanfare, yet it's a very important day. Ask your friends if they even knew the day existed; tell them about it. And while I couldn't find any Hallmark cards to send to my Bank Whistleblowers United colleagues and other whistleblower friends, we're making progress.

Whistleblowing is costly to the whistleblower. Yet the rewards to the public are great and more and more civilians, citizens and companies are becoming well aware of how society profits when fraud is called out. Maybe some day there won't be such a day – not needed because whistleblowers did their job and honesty, ethics and integrity is the law of the land.

Maybe. We can hope.

Chicken Little was Right - "The Sky IS Falling"!

REMEMBER CHICKEN LITTLE AND HER warning, the sky is falling? I sometimes feel like a Chicken Little, with my repeated warnings that the sky is indeed falling and here's another example.

Just last week I posted about my fellow Bank Whistlebowers United colleague Michael Winston's interview with Gretchen Morgenson on the New York Times Facebook venue.

I'm still chilled by Michael's description of Countrywide's co-founder, former chairman of the board/CEO Angelo Mozilo's funding strategy which Michael inadvertently stumbled upon after they had hired him to take their company to new heights. "Fund 'em" was the policy, regardless of their income (did they have any?), even if they had no assets. "Fund 'em" if they can fog a mirror.

Countrywide Financial Corp. wanted to be the "Goldman Sachs of the Pacific." Instead their shoddy practices led to our 2008 financial meltdown and instead they became the face of risky lending practices, with Mozilo becoming the poster child for Wall Street greed.

U.S. Senator Charles Schumer (N.Y.-D) said in a Bloomberg interview in May of 2008, that Countrywide came to symbolize what went wrong with housing.

I am incensed by very recent news that after a two-year quest by U. S. prosecutors, to build a civil suit against Mozilo, that it now is not pressing any charges against him. As Bloomberg reporter, Keri Geiger said, after nearly a decade of U. S. scrutiny into the man whose face was synonymous with risky lending practices and later an emblem of the government's mixed success in holding individuals accountable, they have achieved nothing.

And Michael Winston, who was never contacted by anyone at the DOJ expressing interest in the substantial evidence he possessed, also offers his opinion on the DOJ-no-prosecution announcement, writing in an email…

> "So what do you do when every major too-big-to-fail bank commits systemic fraud, breaking the law and taking $25 trillion out of GDP? You change the law to give your campaign donors a loophole and avoid prosecution, escaping scot-free.
>
> … And America takes another step down that slippery slope.
>
> It is revolting… unlawful and unconstitutional!
>
> Crime DOES pay in America!"

Mozilo walks the grounds and stays in his 12,000 plus square foot home in Santa Barbara, concocting a fable on his innocence so his grandchildren get his version of "the true story" and know how he was so misunderstood.

I'm speechless. And yes, the sky is falling.

As Dan Ariely, Duke University Professor and best-selling author, reminded us, the further you are removed from the source of real money, the easier it is to steal. And if your friends and colleagues are fudging, cheating, lying and stealing, that makes it more acceptable for you to do so as well.

So, Mozilo, what precedent are you setting for your grandchildren and mine? That greed is good? That the bigger the theft, the easier to get away with it? That lying, cheating and stealing are the new norms, just don't get caught, you don't want to be embarrassed, but don't worry the government supports your crime?

At one time I believe we had a culture of ethics. People really were concerned with doing the 'right' thing. Unfortunately, the principles of this constitutional democracy are steadily dissolving, being eroded by the new norms that folks like Mozilo are putting in place.

The very government our founding fathers fought so hard to establish and which was built on a foundation of doing the right thing is being chipped away by the moral vagrant, whose only creed is more and it matters not at whose expense.

In Stephen Covey's highly acclaimed bestseller, The Seven Habits of Highly Effective People , the author talks about the Character Ethic versus the Personality Ethic. The former, built on the fundamental principles that govern human behavior.

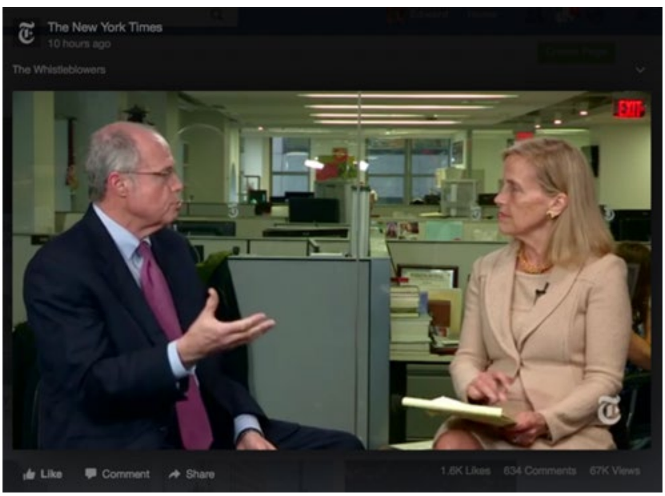
The latter, the personality ethic, is the one with massive appeal. It promises a quick, easy way to achieve a quality of life without going through the natural process of work and growth. It's about get rich quick schemes that promise wealth without the work. I'll be saying more about this in upcoming posts.

And so, within two weeks, I'm writing about "Wall Street's Greatest Enemy," Michael Winston, who epitomizes the character ethic; and the flip side of the coin, Angelo Mozilo, the Face of Wall Street Greed.

Martin Luther King, Jr. said: "Our lives begin to end the day we become silent about things that matter."

Friends, we can continue to stay silent and sound the death knoll for our great country. Or, we can start speaking up, loud and clear. The choice is yours and I hope you choose speaking up.

My New York Times Interview on Facebook Live… the new technology



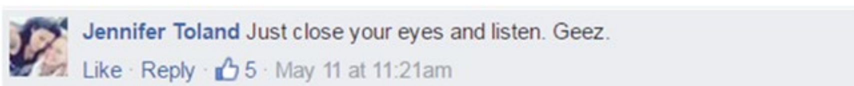
Richard Bowen with Gretchen Morgenson of the New York Times on Facebook Live.

Update on 5/20/2016: The following article talks about technical problems with the broadcast. Today, the New York Times posted a version without technical problems. You can see by clicking here:

THE EXECUTIVE PRODUCER OF THE New York Times for Facebook Live said *"one of the highest levels of engagement yet in both comments and emoticons."*

May 11th, I had the distinct pleasure of being part of a new live journalism series, called "**The Whistleblowers**", led by **Gretchen Morgenson**, a Pulitzer Prize winning journalist. It was exciting to be part of this new technology and to be the very first whistleblower to be profiled.

Of course, being first has advantages and disadvantages. The interview itself went well, the technology did not. It was out of synch and consequently watching it was painful, with many viewers saying they had to close their eyes. At the end of the interview the NYT producer over Facebook Live, Louise Story, posted that there were significant technical issues. That the NY Times is at the mercy of Facebook to get it fixed is ironic.

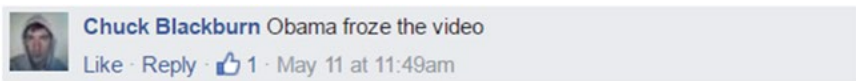


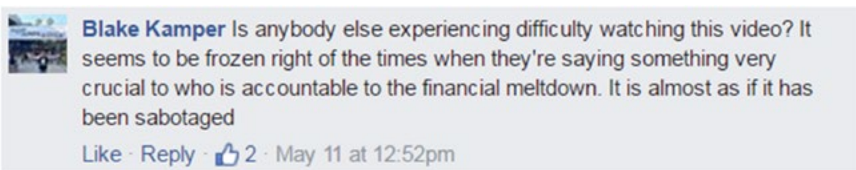
Still, with hardly any audio and out of synch issues, the good news is by the end of the interview **37,000 people were watching**, over **695 comments** were made during the interview and **534 shares** resulted in **1733 likes**. Considering how bad the technology was, it was great that people cared enough about the topic to get involved. You can watch this inaugural episode of The Whistleblowers by clicking here.

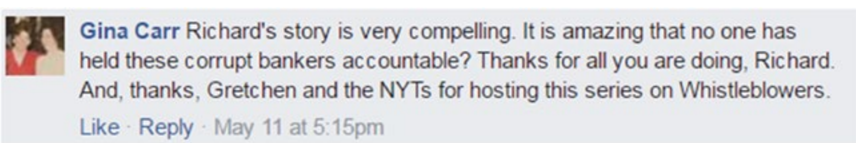
Ironically, because of the nature of my comments directed to the failures of the Department of Justice, The SEC, Citi and our government, some viewers commented that it was a conspiracy to keep viewers from watching and commenting. I doubt it… but it still it makes one wonder!

I talked about what had occurred at Citi during my watch, my reporting on this in an attempt to stop the fraudulent representations given mortgage backed securities. I mentioned my testimony to the SEC, giving them 1,000 pages of evidence which they buried, and how further they refused to respond to multiple requests under the Freedom of Information Act to release the documents, saying the testimony was "confidential" and "trade secrets," even though the fraudulent representations given to the purchasers of the mortgage backed securities had been printed off the Internet.


Tracy Dale Seems like Citybank interfered with this recording ... Not readable
Like · Reply · May 11 at 12:09pm


Chuck Blackburn Obama froze the video
Like · Reply · 1 · May 11 at 11:49am


Blake Kamper Is anybody else experiencing difficulty watching this video? It seems to be frozen right of the times when they're saying something very crucial to who is accountable to the financial meltdown. It is almost as if it has been sabotaged
Like · Reply · 2 · May 11 at 12:52pm


Gina Carr Richard's story is very compelling. It is amazing that no one has held these corrupt bankers accountable? Thanks for all you are doing, Richard. And, thanks, Gretchen and the NYTs for hosting this series on Whistleblowers.
Like · Reply · May 11 at 5:15pm

I mentioned the Congressional Commission (FCIC) forcing me to change my testimony, that the Department of Justice in spite of their many public promises to do so, have still not held any of the guilty parties accountable. I also told viewers that the government had full knowledge of the scope of Citi fraud and yet still bailed them out! And I referenced that Citi's very profitable business model paid significant incentive compensation to all involved which attributed to the greed that caused the decision makers to turn a blind eye and deaf ear to my consistent warnings.

And I introduced **Bank Whistleblowers United** and the platform of actions which we submitted to presidential candidates which any incoming or present president could act on to restore the rule of law to banking.

What Would You Do?

THE ROOM FILLED WITH ALMOST 300 bankers plus was very quiet. The 60 Minute interview with Steve Kroft, which told about what I had experienced at Citi, had just finished playing.

There was a collective sigh when the clip stopped and I asked, “What would you do?,” if you had experienced widespread fraud, corruption and cover ups in your bank that put the company and your customers at risk?

What would you do if you knew that by speaking out and exposing the fraud you could lose your job, some of your colleagues could lose their jobs, and some could even go to jail?

The attendees, bankers from all over the southwest were attending the Southwestern Graduate School of Banking (SWGSB). Many, in key positions, could, in fact, experience some of the same challenges in their career which I had.

I told them that I was only doing my job as a Citigroup Business Chief Underwriter overseeing a division of the business which purchased and sold over $90 billion annually of mortgage loans. Granted, these bankers were independent bankers from much smaller community banks, still what I had observed and blew the whistle on, could happen anywhere.

I reminded them the largest "Too Big To Fail" banks were recognized early on as being largely responsible for the financial crisis, resulting in Congress passing the Dodd-Frank legislation , which was specifically crafted to control the large banks. However, these same banks had gotten even larger since that crisis, with the four largest banks growing by $2 trillion plus in assets in the last five years and gathering even more economic power than before.

I told them I believed these banks have been using that enormous economic power to quietly control and manipulate our legislative and regulatory processes to benefit their own banks, imposing a stranglehold on our country:

The results:

- No Wall Street bankers have been prosecuted. Yet, over 800 bankers were sent to jail in the last financial crisis of the eighties, with that crisis being only one third as severe as the current crisis. It appears the large settlements paid by the largest banks were merely payments of extortion by the banks for the Department of Justice to lock up the evidence so the American public would not know how widespread the fraud was that was perpetrated on them.

- The Dodd-Frank provisions attempting to place controls on the large banks have been systematically gutted, including a key provision prohibiting the banks from using FDIC-insured deposits to fund risky derivatives trading, despite widespread proof that the large-scale trading of risky derivatives substantially increased the losses coming out of the financial crisis. Also, much of the mandated additional investor disclosures on mortgage and loan backed securities is not being required, resulting from continuous involvement by the large banking lobby. The outcome, little or no control or accountability.

- Combined limits on the amounts contributed by individuals and large political action committees to political campaigns have dramatically increased, allowing the largest banks to more easily funnel large amounts to political campaigns.

In a recent interview on Bloomberg, I mentioned that I had requested a Congressional investigation be undertaken by the House Financial Services Committee and the Senate Banking Committee. I asked each and every one of them to call their Congressmen (and women), ask for an investigation, stop the hijacking by the TBTF banks and restore banking's reputation.

The American public needs to be much more aware of how this financial crisis and fraud is affecting them, I asked for their involvement.

So my initial question, "What would you do?," prompted many conversations afterwards. I was surrounded by many young leaders, who said frankly they didn't know what they would do. They'd want to do the right thing, of course. There's a price. Not any of us know what we would do when faced with circumstances that are so crippling.

Richard Bowen with: Scott McDonald, PhD, Director SWGSB
Niki McCuistion, Executive Coach
Harvey Rosenblum, PhD, former EVP, Dallas Federal Reserve

However, right now each of us can do something. I'm only one individual. My asking for a Congressional investigation is only one voice. The banking debacle and how the TBTF banks are controlling our country needs to be stopped.

Share your voice. Call your Congressmen/women. Let's stop the financial bleeding of America…before it's too late.

> Let's stop the financial bleeding of America… before it's too late.

Congressional Committees Asked to Investigate the Financial Crisis Inquiry Commission

Senate Committee on Banking

House Financial Services Committee

Congressional Representatives – Dallas area

District 3 – Congressman Sam Johnson
District 5 – Congressman Jeb Hensarling
District 6 – Congressman Joe Barton
District 24 – Congressman Kenny Marchant
District 26 – Congressman Michael C. Burgess
District 30 – Congresswoman Eddie Bernice Johnson
District 32 – Congressman Pete Sessions
District 33 – Congressman Marc Veasey

Congressional Committees On Bowen Investigation (PDF)

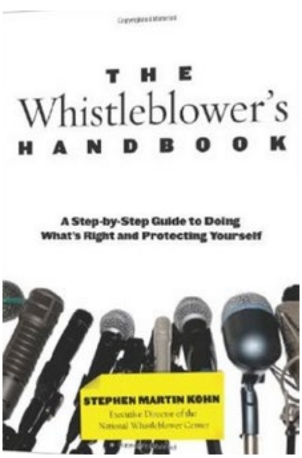
Whistleblowing for Dummies

IN THE LAST SEVERAL MONTHS I've been posting my opinions about the Department of Justice, former Attorney General Eric Holder and numerous other thoughts about whistleblowing and the 2008 financial debacle; as well as my concerns that Citi and the Too Big To Fail Banks are now heading in the same direction that landed us in the financial mess we are in. So it's no surprise that the market is now offering even more guides to catching your company doing something wrong.

My eyebrows went up when Eric Holder– then Attorney General ,announced that the Department of Justice was encouraging whistleblowers to come forth regarding fraud and wrongdoing in their companies to encourage their voice when they see situations that lead to fraud, saying, "their evidence is critical to the work of investigators".

I was amazed at the rewards being offered by the D.O.J .and skeptical re their claim encouraging whistleblowers. Regardless of what Holder stated, to date the evidence shows that it's the whistleblowers themselves who are the most persecuted. I am also amazed and maybe a bit dismayed about the new books coming out on the market, providing everyday citizens guidance on how to blow the whistle should they perceive the need to.

One such is the *Whistleblowers Handbook: A Step- By-Step Guide To Doing What's Right And Protecting Yourself*, by one of America's leading whistleblowers attorneys, Stephen Kohn. Mr. Kohn's guide offers suggestions to the legal do's and don'ts of exposing workplace undoing. He includes six easy-reference checklists on whistleblower reward laws and other legislation.



The Amazon description says, *Do you suspect that your employer is skirting safety or environmental rules, cheating on taxes, violating government contracts, committing financial fraud, or breaking the law? That your boss is a crook? Welcome to the ranks of the close to 50 percent of American workers who have witnessed fraud or misconduct at work—about half of whom take initial steps to "do the right thing" by reporting it.*

Few get far. Despite a revolutionary spate of laws in recent years that not only protect whistleblowers but also provide for large monetary rewards, the legislative labyrinth remains daunting. All too often this means silence, lost court cases, damaged careers, and a failure to effect real change.

I applaud Mr. Kohn and he is right. Few do get far; few are successful in causing real change. Sherry Hunt, I and dozens others are the fallout from reporting whistleblowing. Yet regardless of the encouragement of the D.O.J and books like Mr. Kohn's notwithstanding, there is a better way. And that is, business need s to do the right thing. What do businesses like Southwest Airlines, Container Store, Toyota, Trader Joes, Zappos and countless others have in common?

A culture that is people centered. Openness is valued. Cultures of trust are created. The best doesn't need D.O.J. incentives or whistleblowing guides read under the table.

Are companies today too naïve or too arrogant to even think their employees don't see what is going on when there is a blatant bending of the rules? Are we so wound up in profits at all costs and quarterly reviews that we have lost sight of the purpose of business? Yes it is to make a profit and to benefit consumer's. But a profit at all costs? Is that what capitalism truly is?

> Are companies today too naïve or arrogant to even think their employees don't see what's going on?

Let me ask you - at the end of the day how do you feel about the work you've done, about the purpose and mission of your accomplishments? About the company's mission and the contribution you've made to it? If you're proud of your company and its purpose and the contribution you make, chances are your company is one of the many, and yes there are many that are doing it right- not fraudulently.

But - hey - if your company is not doing it right - get up, stand up - take the right steps - read the books.

I'm for T-shirts, which say stamp out whistleblowing - because we've made the need to do so obsolete.

Whistleblowing on the rise!

A RECENT WALL STREET JOURNAL ARTICLE announced new winners benefiting from the last financial crisis- whistleblowers! Four whistleblowers will be receiving more than $170 million for helping investigators obtain a $16.6 billion penalty against Bank of America for inflating the value of its mortgage practices.

According to Richard Moberly, law professor at the University of Nebraska, Lincoln, who researches whistleblower cases, the size of the payments "is unprecedented in the financial sector."

The article reminded me of my post questioning former attorney General Eric Holder encouraging whistleblowers to come forward to the Department of Justice with evidence of fraud. Holder had said the D.O.J. was committed to prosecuting errant bank and mortgage officials, but it remains a difficult task and the help of whistleblowers was and is needed to make charges stick.

Wall Street Journal, December 19, 2014.

Holder claimed that "in the last six years, he and his colleagues have been singularly aggressive in pursuing cases and bringing charges where evidence warrants it." Yet Bea Edwards, Executive Director of the Government Accountability Project, the nation's leading whistleblower protection organization, advised concerned individuals to look closer: "There's a loophole. The D.O.J. brings criminal charges where there is enough evidence. If there isn't enough evidence per se, then there are no charges."

Banks so far have been hit with civil suits for their financial malfeasance, not criminal charges. And so I questioned Holder's statement and doubted the D.O.J.'s efficacy in pursuing whistleblowers' help and actually prosecuting wrong doers, which is what I believe needs to happen. And even Federal Judge Jed Rakoff publicly scolded the D.O.J. saying "…not a single high-level [banking] executive has been successfully prosecuted in connection with the recent financial crisis." Also, as the study below cites, there are many others who question the outcomes as well.

According to an abstract titled *The Impact of Whistleblowers on Financial MisrepresentationEnforcement Actions*, "Whistleblowers are ostensibly a valuable resource to regulators investigating securities violations, but whether whistleblowers have any measurable impact on the outcomes of enforcement actions is unclear." **Although some whistleblowers do receive awards (and publicity), the vast majority are retaliated against and never heard from.**

The study said companies wind up paying more when a whistleblower is involved in an enforcement action. In fact a typical company was hit with a penalty that was on average 63% higher when a whistleblower was involved than when there was no whistleblower.

So, I'm still in doubt. The operative word is penalty, not the criminal charges that perhaps investigations should lead to. And I'm reminded of the old adage about an ounce of prevention.

My question is why not prevent fraud, corruption, lying and cheating – stop it from ever happening? Perhaps if more companies implemented guiding principles, encouraged right behavior, rewarded employees more fully for the work they contribute and engaged their employees with purpose and passion, whistleblowers would be out of business.

Our society has shown there are more ethical companies like Penn Mutual (a recent client who, in fact, has guiding principles that have kept them in business for more than a century), than there are unethical companies like Enron, WorldCom, and Bank of America. From my own experience of being a whistleblower, especially one who gained nothing except being discharged of his duties and work, whistleblowing is not a fun job.

I'm not being overly optimistic; there are steps that can be implemented, guiding principles that can be applied. Ethics can be followed that are not hundreds of pages in length – so long that one loses one's place trying to follow them.

I'll be talking more about them in coming weeks so please join me.

Whistleblowing Has a Price – Is It Worth It?

Alayne Fleischmann, JPMorgan Chase whistleblower, and Matt Taibbi, Rolling Stone contributor, on MSNBC's "The Ed Show." November 7, 2014

BEING A WHISTLEBLOWER IS NOT what an individual strives to be. It comes with strings attached, yet the "errors" some employers make leaves no room for silence.

Alayne Fleischmann, recently of JP Morgan Chase, is another example of employee observation of their company's wrongdoing – and the need to report what is egregious wrong doing. Labeled the $9 billion witness, her story closely parallels mine. It is disturbing to read, as it points out that in spite of the awareness of the mortgage fiasco, the major banks are still not being held accountable.

It's not news that the major banks in this country, working hand in hand with Fannie Mae and Freddie Mac, granted substandard mortgage loans to subprime borrowers, which led to the 2008 financial debacle. The combination of perverse management incentives, contract underwriter and haphazard investigating, lowered standards and waffling on guarantees that went with the purchasing and repackaging of substandard home loans into mortgage securities was an outright recipe for disaster.

Yet what could be considered as fraud was not. Banks got their wrists slapped. Taxpayers paid and in many cases the bank themselves were able to take write-offs for their 'mistakes". When the inevitable "crash" came, the perpetrators were not held accountable. Instead the Department of Justice (D.O.J) negotiated incredible settlement agreements with the major bank's responsible. Chase, Citigroup and Bank of America paid big fines, but nowhere close to the losses involved. And the investors losing money on the mortgage securities did not get a penny of the settlements.

Eric Holder, the outgoing Attorney General, may be encouraging whistleblowers to come forward but the evidence still remains that one should do so with caution. The reward for speaking up about the wrongdoing comes with a penalty – your job, the possibility of future employment in your profession,,and fear of what comes next. You did the right thing, and yes, there are consequences.

The D.O. J may be wrapping up final settlements but at what cost? Massive corruption cover ups at a small price – small compared to the huge destruction, which greed and corruption allowed. Banks have knowingly sold high risk loans as low risk securities with little regard for the consequences

And frankly with so little "punishment," why not take the risk for such high rewards. It's not accountability which is rewarded, it's greed!

Industry-wide underwriting problems may have been a consequence of the boom era market. However, my concern lies with the continuation of this cycle. If Fannie and Freddie get their way and standards are lowered, we will go down that path again, and pay for that lesson again, as human nature hasn't changed all that much in a few short years.

Whistleblowing is not the answer. In the past, those of us who caught and spoke out against the fraud in-house, made headlines, lost our jobs and signed confidentiality statements – even testified and gave substantial evidence, as I did, to no avail.

We are repeatedly told our big banks are too big to let fail.

Are they also too crooked to let fail?

And, doesn't it seem odd that government is helping by burying the evidence?

If the D.O.J. is not bringing wrong doers to real justice, are they instead encouraging future greed and corruption by not holding company's involved feet to the fire? To date there is little doubt that the D.O.J has tried to avoid disclosure and prevent public scrutiny of their sweetheart deals. In some instances settlements aren't even being called fines.

In the process of this so-called justice, employees are laid off to defray the legal costs involved, the banks "look" good , their stock price goes up and the government disposes a bank's liability without the public being aware. And the Citigroups, Goldman Sachs and JP Morgan Chases stay in the game, at the taxpayer and employees like Ms. Fleischmann's and my expense.

Eric Holder encourages whistleblowing and says he wants evidence, while at the same time arguing that "special" care needs to be taken when investigating the big banks, so the world economy is not upset. Two sets of rules, one for the little guy and one for the supersize? We reward the bad banks so they don't go under?

In a recent blog post, I referred to Eric Holder's speech at NYU. His attitude seemed to indicate that bad things just happen. And, how can you place blame when the people responsible may in fact not be responsible at all? They just found themselves in difficult circumstances.

He states, "Responsibility remains so diffuse and top executives so insulated, 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." Mr. Holder conveniently forgets that it is the top tier who sets the stage for corporate culture and its ethics or lack thereof.

Looks as if we go down this path, the government itself is saying: go for it!

Hey, fellow taxpayer, hope we have the deep pockets to pay for all of this!

Photos

Richard Bowen on Bloomberg's "Market Makers" with Stephanie Ruhle.

Richard Bowen shared his story with the world through major media outlets like CBS News, C-Span, and Bloomberg. Richard is pictured here on "60 Minutes;" with Steve Kroft.

Business **The Dallas Morning News**

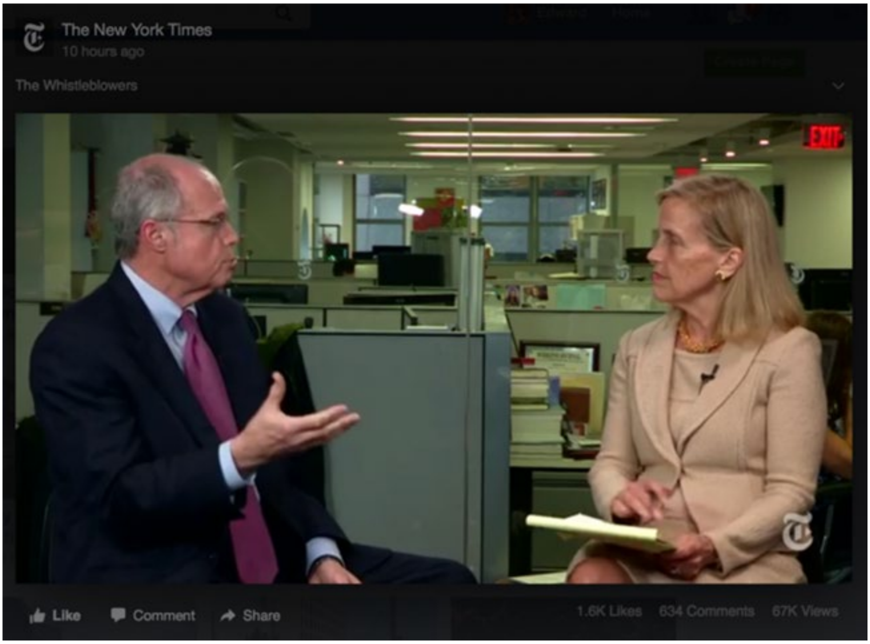
Citigroup whistleblower still on the trail of the too-big-to-fail

G.J. McCarthy/Staff Photographer

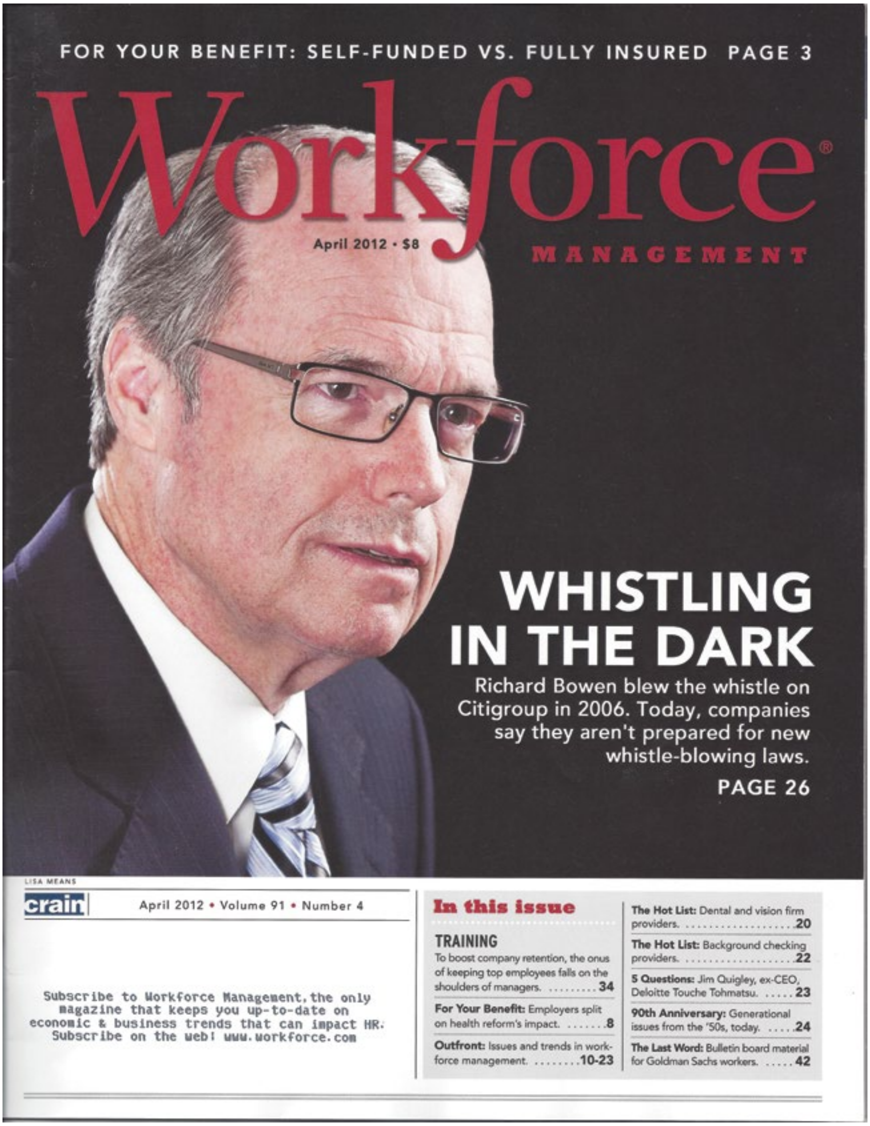
A local banker turned professor who helped nail his former employer preaches the gospel of ethics to anyone who will listen.

Richard Bowen featured in The Dallas Morning News.

Richard Bowen testifies before the FCIC (Financial Crisis Inquiry Commission).



Richard Bowen was interviewed by Gretchen Morgenson on Facebook Live for the New York Times.



FOR YOUR BENEFIT: SELF-FUNDED VS. FULLY INSURED PAGE 3

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WHISTLING IN THE DARK

Richard Bowen blew the whistle on Citigroup in 2006. Today, companies say they aren't prepared for new whistle-blowing laws.

PAGE 26

LISA MEANS

crain April 2012 • Volume 91 • Number 4

In this issue

Richard Bowen speaking about his testimony to the Financial Crisis Inquiry Commission


"Richard Bowen, you are a star and a hero." ~ Ben Stein, political commentator

Richard Bowen on the set of Gray Areas, a production by WNET, which is the flagship public station of the New York City tri-state area, WNET, the most watched public television channel in the country.

Richard Bowen with Emmy Award winner Sharyl Attkisson filming Full Measure News which is broadcast to 43 million households in 79 markets on 162 Sinclair Broadcast Group stations.

Richard Bowen interviewed on PBS Frontline's *The Untouchables.*

McCuistion TV host Dennis McCuistion interviews panelists for the third segment of "What Really Caused the Financial Crisis of 2008?"
Left to Right: Rashad Abdel-Khalik, PhD, Richard M. Bowen, III, C.R. "Rusty" Cloutier, and Michael G. Winston, PhD.

Acknowledgements

THANK YOU FOR ALL MY friends and family, who are so willing to support me in my continued efforts to educate and inform on these issues of transparency and ethics. And to my wife Debbie for her patience and belief in me. I couldn't do it without her.

Special thanks to William Cohan for his advice and friendship and to my Bank Whistleblowers United colleagues: Gary Aguirre, William (Bill) Black and Michael Winston, who have lived through some of what I have and who are diligent in their efforts to assure ethics in corporate America.

And special thanks to my coach and editor, Niki Nicastro McCuistion, who applauds and encourages me on my path.

About the Editor

NIKI NICASTRO MCCUISTION, CSP; IS a strategic performance coach, consultant and trainer. Her 30 plus years in business and nonprofits as a senior executive, sales person and nonprofit CEO gives her firsthand experience she incorporates in her work with CEO's and key thought leaders.

Her focus is helping companies and individuals implement strategies for transformational changes that achieve profitable, sustainable results for the triple bottom line: people, planet and profits. Her client list reads like a Who's Who in business.

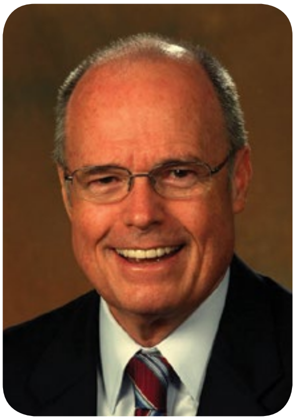
As executive producer/producer of the award winning McCuistion television program, now in its 27th year on KERA, PBS, Dallas she has coached dozens of speakers and business professionals with their communication and presentation skills. Her work as the filmmaker for the controversial *The Roots of War - The Road to Peace* documentary took her from Iraq to Syria and other hot spots in the Middle East and North Africa where she interviewed dozens of political and community leaders.

A prolific writer, she has authored and co-authored several business books; the latest specifically directed toward nonprofit strategy and development, *The Nonprofit Guide to Social Enterprise: Show Me the Unrestricted Money*, a how to manual on earned income and sustainability. Her Selling Is Helping™ coaching process has been used by numerous sales/service providers.

Niki has received a Masters in nonprofit development and philanthropy from St. Mary's University in Minnesota and an MBA in leadership and governance from the University of Dallas. Niki is on the faculty of the University of Texas-Dallas, Institute for Excellence in Corporate Governance, CEO/NonProfit track. She has earned the Certified Speaking designation from the National Speakers Association, is a Malone Fellow and an International Peace Federation Woman of Peace Ambassador.

You can connect with Niki at nikin@nikimccuistion.com or www.nikimccuistion.com.

About the Author



RICHARD M. BOWEN IS COMMITTED to a society where individuals and institutions know the "right" thing to do, personally and professionally and they act on it.

According to the *Wall Street Journal, CBS Evening News*, and *60 Minutes*, **Richard Bowen** is the Citigroup whistleblower who repeatedly warned Citi executive management about risky business practices and potential losses related to mortgage lending.

As a Business Chief Underwriter for Citigroup during the housing bubble financial crisis meltdown, he saw fraud firsthand inside the organization. He watched with disbelief at the way the company certified poor mortgages as quality mortgages and sold them to Fannie Mae, Freddie Mac and other investors. His repeated warnings to executive management and the board of directors were ignored.

Citigroup eventually stripped him of all responsibilities, placed him on administrative leave and told him his presence was no longer required at the bank. Richard subsequently testified before the Securities and Exchange Commission and gave them 1,000 pages of evidence of fraudulent activities, with the bank bailouts occurring three months later.

In 2010, he was a key witness in the mortgage mishaps as he gave nationally televised testimony before the Financial Crisis Inquiry Commission, where he was shocked to see orchestrated efforts to hide key parts of his testimony from the American public. Richard's testimony has been widely quoted in numerous articles and pieces of litigation related to the meltdown.

Richard has taken the lessons learned from his 35 years of business experience and is now working with organizations that want to do things the right way. He speaks and consults with executives who want to build organizations with accountable and ethical corporate cultures.

As a highly sought after speaker on ethical business leadership, he shares his firsthand knowledge of how a company can get into ethical problems. More importantly, he explains in clear terms what an organization must do to instill effective guiding principles throughout the organization to prevent ethical misconduct and leadership missteps.

To schedule a presentation for your organization, contact Richard at:

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Website: http://www.richardmbowen.com/