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Financial Fraud in Germany. The Wall Street Model Backfires

Deutsche Bank and the US Mortgage Scam

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The earlier filing of fraud charges against Wall Street banking titan Goldman Sachs by the US Government Securities and Exchange Commission (SEC) was only the tip of a huge fraud iceberg. Now a US mortgage insurer has charged one of the most aggressive banks involved in the US subprime mortgage scam of fraud. The bank is none other than Deutsche Bank. This case is also likely to be just the "tip of a very big iceberg."

Since he left his post as president of the Swiss-US Credit Suisse bank to go to Deutsche Bank, Swiss banker Josef Ackermann has focused on making the premier German bank into an imitation of the major Wall Street banks. It seems he has succeeded only too well.

Assured Guaranty Ltd., owner of Assured Guaranty Mortgage Insurance Company of New York has sued affiliates of Deutsche Bank AG for over $312 million of mortgage-backed securities (MBS), the controversial bonds that the bond insurer guaranteed and says were "plagued by rampant fraud and misrepresentations." Assured Guaranty is asking a judge to force Deutsche Bank to repurchase the loans, on which the insurer has already paid almost $60 million in loss claims with potential for tens of millions of dollars more. The suit was filed in New York State Supreme Court against DB Structured Products Inc. and ACE Securities Corp. The bond insurer, backed by billionaire Wilbur Ross, is also seeking reimbursement for the claims paid and for future losses. This is major.

When asked by the press, a spokesman for Deutsche Bank in New York declined to comment.

"The entire pools of loans that Deutsche Bank securitized and to a large degree originated in the transactions are plagued by rampant fraud and misrepresentations and an abdication of sound origination and underwriting practices," Assured stated in its New York court filing. They declared, "more than 83 percent of 1,306 defaulted loans examined in one of the transactions...breached Deutsche Bank's representations and warranties." In other plain language, they claim Deutsche Bank lied. In the second deal, Home Equity Loan Trust, 86 percent of the 1,774 loans breached the agreements, Assured said.[1]

The Wall Street model backfires

According to members of the Frankfurt financial community, Joe Ackermann came to Deutsche Bank with the clear goal of making the traditional German bank a competitor to the most successful Wall Street investment banks.

The only problem, as began to emerge with the explosion of the US Financial Tsunami in 2007 around Wall Street's securitization of bundles of thousands of individual low quality, high-risk home mortgages, dubbed "sub-prime" as in below best quality, is that the success "model" of Wall Street was based on fraud to begin with. That's the model for mega-profits and giga-bonuses that Ackermann's Deutsche Bank is apparently building its business on.

In recent weeks it has emerged that perhaps millions of US homeowners had been fraudulently tricked into signing mortgages in which their true costs were hidden only to explode some years after they signed the loan agreement with the lender, forcing them to default and the banks to repossess the homes, so-called bank foreclosure. Now legal action is also hitting Germany's esteemed Deutsche Bank.

'Stupid Germans…'

According to Bloomberg financial writer and author, Michael Lewis, under Ackermann's leadership at Deutsche Bank, the bank, through its New York offices, set out to outdo Goldman Sachs in the home mortgage securitization bonanza of the past decade. Lewis documents the fact that Deutsche Bank in New York was selling what it knew were toxic waste or junk mortgage bonds on US subprime mortgages to "stupid German investors in Duesseldorf" as one Deutsche Bank New York bond trader told Lewis.[2]

The "stupid German investors in Duesseldorf" it turns out, were IKB, the daughter of the German state Kreditanstalt für Wiederaufbau. The interesting point is that Ackermann's DB sold what were allegedly fraudulently-constructed "AAA" CDO's or Collateralized Debt Obligations, some of the highest risk fraudulent derivatives from Wall Street mortgages to IKB at a time Deutsche Bank knew or should have known that the US mortgage default crisis was beginning to explode. In effect it appears that the DB dumped its toxic waste onto IKB. At the same time Deutsche Bank was selling exotic US real estate collateralized debt obligations too the "stupid German investors" at IKB, it was aggressively organizing other Wall Street banks and hedge fund managers to bet on the crash of that same mortgage bubble. No one at Deutsche Bank headquarters in Frankfurt seemed to mind so long as the profits rolled in from all parties. [3]

To add injury to insult, or even more injury to injury, Deutsche Bank's Ackermann personally sent a notice to the head of the German bank regulator, BaFin-Chef Jochen Sanio, on July 27, 2007, kindly alerting the German regulators that IKB held a pile of toxic bonds and that the bank could be in trouble. Ackermann even went public to the press and admitted he knew because Deutsche Bank had sold the toxic financial securities to IKB.[4]

That announcement by Ackermann is credited with bringing IKB to the brink of bankruptcy and necessitating a state taxpayer rescue of billions. What the charitable Herr Ackermann did not divulge is how much profit his bank might have made in the collapse of IKB. The collapse of IKB, as I detail in my ***Der Untergang des Dollar Imperiums (((PLEASE hyperlink)))***, was the catalyst to explode the multi-trillion Euro US financial bubble worldwide, a bubble which today is far from deflated.

Notable as well is the fact that two days after being sued for fraud in New York court, Deutsche Bank announced that it had set aside more in compensation for employees of its corporate and investment bank in the first nine months of 2010 than Goldman Sachs.

Deutsche Bank reserved enough money to pay a bonus of 285,352 euros to each of the 16,194 workers at the division, which includes transaction banking, company data show. But that money goes only to a handful of top traders whose bonus is likely in the tens of millions. “The market continues to be very competitive and top talent has its value and its price and we cannot ignore that fact,” Deutsche Bank Chief Financial Officer Stefan Krause said according to a report in Business Week magazine. “And the beat goes on, and the beat goes on, on, on…” as the pop song goes.

Notes

[1] Shannon D. Harrington and Karen Freifeld, *Assured Guaranty Sues Deutsche Bank Over Mortgages*, Bloomberg, October 25, 2010. T The case is Assured Guaranty Corp. v. DB Structured Products Inc., 651824/2010, New York state Supreme Court (Manhattan)., accessed in http://noir.bloomberg.com/apps/news?pid=newsarchive&sid=ada1QmQYr_BI

[2] Michael Lewis, *The Big Short*, London, Penguin Group, 2010, p.93

[3] Anne Seith , *Ackermann im IKB-Prozess: Der Teflon-Zeuge*, Spiegel Online, http://www.spiegel.de/wirtschaft/unternehmen/0,1518,694403,00.html

[4] Ibid.