Unfolding Financial Meltdown on Wall Street

What's The Difference Between Lehman Brothers & Bear Stearns? Lehman's CEO Sits On the Board Of The NY Fed

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An earlier article by this author ("The Secret Bailout of JP Morgan") summarized evidence presented by John Olagues, an expert in options trading, suggesting that JPMorgan, far from "rescuing" Bear Stearns, was actually its nemesis.1 The faltering investment bank was brought down, not by "rumors," but by insider trading based on a plan drawn up much earlier. The deal was a lucrative one for JPM, handing the Wall Street megabank $55 billion in loans from the Federal Reserve (meaning ultimately the U.S. taxpayer). So how did JPM get away with it? Olagues notes the highly suspicious fact that *JPM's CEO James Dimon sits on the Board of the New York Federal Reserve*.

In his latest post, Olagues discusses the fate of Lehman Brothers, the nation's fourth-largest investment bank and the next faltering bank expected to fail.2 Unlike Bear Stearns, which got decimated by the JPM buyout using Federal Reserve money, Lehman Brothers *is* probably in line for a massive bailout from the Fed. At least, that's what its CEO Richard Fuld seems to believe. The June 4, 2008 Financial Times of London quoted him as stating, "The Federal Reserve's decision earlier this year to lend directly to investment banks should take questions about Lehman's liquidity off the table." Whether Lehman can come up with the "liquidity" to meet its debts is no longer an issue, because it expects to be feeding at the trough of the Federal Reserve, just as JPM did when it bought Bear Stearns at bargain-basement prices. The difference between the two "bailouts" is that Lehman Brothers, unlike Bear Stearns, will actually get the money. Why is Fuld so confident of this rescue operation? Olagues notes that Fuld, like Dimon (and unlike Bear CEO Alan Schwartz), sits on the Board of the New York Federal Reserve.

A conflict of interest? It certainly looks like it. Indeed, Olagues points to a statute defining this sort of self-dealing as a criminal offense. 18 U.S.C. Chapter 11, Section 208, makes it a felony punishable by up to 5 five years in prison for members of the Board of Directors of a Federal Reserve Bank to make decisions that benefit their own financial interests. That would undoubtedly apply here:

"Fuld, at last count, owns 1.9 million shares of Lehman, 600,000 restricted stock units and 900,000 executive stock options . . . . Although Mr. Fuld sold over $320,000,000 worth of stock at near all time highs in 2006 and 2007, received through the premature exercise of his stock options, he still has value in his present holdings of approximately $100,000,000."

Likewise, says Olagues, "James Dimon holds almost 3 million shares of J.P. Morgan stock worth over $120 million with taxes already paid and executive stock options equal in my estimate of another $70 million. His dispositions of stock equaled $140 million over the past few years." Olagues adds:

"Fuld, like Jamie Dimon, was at the luncheon on March 11, 2008 with Bernanke, Rubin, CEO of Citigroup, Geithner, President of the New York FED, Thain of Merrill Lynch, and Schwarzman. Some claim that the meeting was about Bear Stearns and how to handle the situation."

Needless to say, Bear CEO Schwartz was not invited to the luncheon. "Lehman Bros. is one of the original stock holders of the New York Federal Reserve Bank," Olagues observes. "Bear Stears does not now have any ownership in the FED banks."

The luncheon was held two days before the April 14 collapse of Bear Stearns stock that led to the bank's demise. If the luncheon attendees were indeed discussing the Bear problem on April 11, testimony before the Senate Banking Committee in which the principals said they first heard of the problem on the evening of the thirteenth, says Olagues, was "less than truthful."

The evidence at least warrants an investigation, but who is going to hold these self-dealing Federal Reserve Board members to account? In a March 27 radio broadcast noted in The New York Post of the same day, Senator Christopher Dodd pointed out the conflict of interest and said it needed to be examined; but no mention was made of it at the April 4 Senate hearings. Why not? Olagues suggests he had gotten his marching orders by then from a major campaign contributor. New York Governor Eliot Spitzer, the former thorn in the side of the Wall Street bankers, has been summarily disposed of; and under the latest proposal of U.S. Treasury Secretary Hank Paulson, the Federal Reserve itself will soon become the chief overseer and regulator of the banks. The Federal Reserve will regulate the Federal Reserve Boards with their litany of private bank CEOs, a clear case of the fox guarding the henhouse.

So who *is* left to bring the banks to task? That question will be addressed in my next article. Stay tuned . . . .

Ellen Brown, J.D., developed her research skills as an attorney practicing civil litigation in Los Angeles. In Web of Debt, her latest book, she turns those skills to an analysis of the Federal Reserve and "the money trust." She shows how this private cartel has usurped the power to create money from the people themselves and how we the people can get it back. Her eleven books include Forbidden Medicine and Nature's Pharmacy (co-authored with Dr. Lynne Walker and selling 285,000 copies). See www.ellenbrown.com and www.webofdebt.com.

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