Plunder

The Crime of Our Time

[TRANSCRIPT]

CROWD CHANTING: Fix our loans, so we can save our homes. Fix our loans, so we can save our homes.

CROWD LEADER: We're gonna lead the line. We're gonna do a picket line around his house, okay? So, are we ready to do it? Okay. Let's go. Yeah, around the house. We will educate their children on what their parents do, because they should be ashamed. They should be ashamed.

BERNIE MADOFF: Your Honor, for many years, I operated a Ponzi scheme through the investment advisory side of my business. I knew what I was doing was wrong, indeed criminal.

ARCHIVAL FILM: We say we live in a capitalistic society. What does that mean?

NARRATOR: Capitalism is our way of life – the market system its highest expression. Our media hypes it in quasi-religious terms – even if its impact is sometimes quite negative and even debated in classrooms.

MALE STUDENT IN ARCHIVAL FILM: Can't we agree that capitalism is an economic system – a system for the production and distribution of things we need and want?

FEMALE STUDENT IN ARCHIVAL FILM: I won't agree to that. Not until you say something about government too. There has to be a legal basis for any economic system to operate.

NARRATOR: Most of us recognize we live in an inherently volatile system – not problem free, but so the conventional wisdom goes, better than any alternative. Many still believe the free market is our salvation, even as our economy has crashed, brought down not just by greed but calculated scams and schemes. The flout of the intent of our laws enriched a few and devastated the economy – leading to a massive loss of jobs, homes, and personal wealth. In 2006, my film, "In Debt We Trust," warned of a coming economic collapse.

SCENE FROM IN DEBT WE TRUST: Listen, I think that the next great economic crisis in this nation is gonna be brought about by the debt loge. It will create an economic crisis so deep that it will threaten us as a nation.

NARRATOR: I was called a "doom and gloomer – an alarmist."

JESSE JACKSON: Danny Schechter has just written another book called "Plunder."

NARRATOR: I followed up with a book that came out before Lehman Brothers went bankrupt. Speaking on Wall Street, I called for a jail-out – not a bailout.

DANNY SCHECHTER: I used to think of Wall Street as a financial center. I now think of it as a crime scene.

NARRATOR: Now it's time to make the case for why the financial crisis is a crime story, and I'm not the only one who sees it this way. Nomi Prins was a managing partner at Bear Stearns and Goldman Sachs.

NOMI PRINS: This is the most expensive takeout, the biggest crime, in world history. We're talking about a crime we can't even quantify. You're talking double digit trillions of dollars minimum.

NARRATOR: This film will explore the scale of monies missing, written off, lost, ripped off in these various scams, and in the case of the bailout funds, unaccounted for. Graydon Carter, editor of *Vanity Fair*, may have summed it up best when he wrote: "It can fairly be said that the chain of catastrophic bets made over the past decade by a few hundred bankers may well turn out to be the greatest non-violent crime against humanity in history. They brought the world's economy to its knees, lost tens of millions of people their jobs and homes, and crashed the retirement plans of a generation, and they could drive an estimated two hundred million people world-wide into dire poverty." In other words, never before have so few done so much to so many. In one expert's estimate, the total money lost may reach 196.7 trillion dollars – and that can be low.

DANNY SCHECHTER: Like millions of Americans, I have lost thousands of dollars in retirement funds, and I haven't had it as bad as many. It's not just about them. It's about me too. I have a stake in it, and like millions, I'm angry about the way our economy was wrecked.

NARRATOR: To help with our investigation, we spoke with convicted white-collar criminal, Sam Antar.

SAM ANTAR: The white-collar criminal has no legal constraints. You subpoena documents, we destroy documents. You subpoena the witnesses, we lie. So, you are at a disadvantage when it comes to the white-collar criminal – in effect, we are economic predators.

NARRATOR: To an investigative reporter on the business beat, "Wall Street steals far more than the mafia," says Gary Weiss.

GARY WEISS: Wall Street takes large, much larger, sums of money than were involved in the mafia scrams. The regulatory system is such that they can get away with it.

NARRATOR: The lack of media scrutiny, the absence of regulation, the widespread allusion that markets and real estate could only go up created a casino mentality, an environment for successful fraudsters and white-collar criminals.

BERNIE MADOFF: Your Honor, for many years up until my arrest on December 11, 2008, I operated a Ponzi scheme. I knew what I was doing was wrong, indeed criminal.

NARRATOR: White-collar crime on Wall Street has been underreported except for a very few high-profile cases – as when hundreds of reporters staked out the New York court house to report Bernie Madoff's admission of guilt in his Ponzi scheme.

UNIDENTIFIED MALE: I had an IRA worth 1.3 million. My other monies was about 1.8 million, and it's gone.

DANNY SCHECHTER: How do you think you got away with this for so long?

UNIDENTIFIED MALE: How a person can run a stand for so many years without being detected? That was one of the things I thought of. Can't be a scam, nobody can successfully run a scam for that long.

NARRATOR: Madoff was not alone. Regulators are now investigating scores of similar crimes. They say there is a Ponzimonium under way.

SAM ANTAR: There's four levels in every white-collar crime. There's the guy that gives the orders, the people who take the orders, the people that knew what was going on but didn't participate, and the people that should have known what was going on, like boards of directors or auditors, but didn't participate too. What they try to do is they try to get to the culpability of the guy at the top by working from the bottom. The problem that you have in the Bernie Madoff case is they got the guy at the top first, and he is protecting the other three layers underneath him.

NOMI PRINS: On Wall Street, a lot of the extraction tends to be very borderline-legal because the people extracting tend to be the ones setting up the legal framework.

NARRATOR: Rogue Economics is what Loretta Napoleoni calls it in her new book.

LORETTA NAPOLEONI: The reason why the line between what is criminal and what is not criminal has disappeared is because of de-regulation. When you remove all the restriction, when you remove all the controls, then of course what is legal and what is illegal?

NOMI PRINS: So, you're creating a crime scene, and you're creating the crime, and you're effectively buying the police officers all at the same time only in the form of a regulatory body or politician for the laws that work for Wall Street.

NARRATOR: In June 2009, the FBI said it was investigating 1300 securities fraud cases, including many Ponzi schemes, as well as more than 580 corporate fraud cases. Most of these cases got little attention, but the media loves arch criminals like financier Bernard Madoff.

SAM ANTAR: These are complicated white-collar crimes of which the government does not have the resources to thoroughly prosecute. And the white-collar criminals know it. So they set it up not as a single transaction that's a crime but a series of transaction that once that's all put together makes it a crime.

NARRATOR: But to do that, you have to go beyond the prosecution of one wrongdoer and look at the way Wall Street itself became a Ponzi scheme. You have to examine a pattern, a system of criminality, which brought the investment and real-estate worlds together in a multi-trillion dollar scam.

To simplify, there were three interconnected rings in this circus involving the biggest firms in the industry. It started in the real-estate business where our desire for homes, the American Dream, was turned into a scheme. First, predatory subprime lending over years got people into mortgages they couldn't afford and that the lenders knew they couldn't sustain. It was enabled by artificially low interest rates with financing provided by twenty-five of the top banks in the country.

The second component of the crime involved what happened next – when the biggest banks and investment houses on Wall Street bought and then securitized loans as structured financial products. These mortgage bundles would be sold worldwide without full disclosure of their lack of underlying assets or the risks. The banks that bought these derivative products failed to do due diligence – relying on rating agencies that overvalued their worth and accounting firms that did not do their job. The whole process was corrupt to the core.

Finally, the third level of this interconnected but decentralized criminal enterprise involved insuring these often fraudulent practices – in some cases, betting against them by the very people who sold them to guarantee that they would be protected when borrowers who couldn't afford the loans defaulted. They used insurance companies like AIG.

Put these three criminal components together and a pattern emerges – a pattern of financial crime.

NEWS REPORTER: The financial crisis started because people could no longer afford to make payments on their subprime mortgage loan.

BOSTON MAN: This is a ghost town right now, a ghost street. All of these properties are being foreclosed. All of them. Did you see anyone on the street? Nobody lives here. Nobody wants to rent here.

NARRATOR: The housing crisis hit America like a tsunami, destroying neighborhoods and costing millions of families their homes.

BOSTON MAN: That house foreclosed. This one foreclosed. This one foreclosed. Foreclosed. Everything.

NARRATOR: How did it happen? Why did so many top banks lend to some of the poorest members of society in a practice known as subprime lending, featuring loans like the one called "Ninja" – no income, no jobs, no assets, apparently no problem? The reason: higher fees upfront and billions more when mortgages were turned into securities resold by Wall Street.

MAN IN FORCLOSURE 1: I'm a person that's trying to save my house. I'm in foreclosure right now. I feel like someone's hand's in my pocket and I'd just like a fair break, a fair shake, and the American Dream.

MAN IN FORCLOSURE 2: Most of the world is sleeping. They are not aware of all the ins and outs of buying a house and all. They are not attorneys. They don't know. We don't know. And it's really up to the guys that do know. They should be helping us – the people that don't know. But the sad thing is they are doing just the opposite. They are taking advantage of our lack of understanding.

NARRATOR: Sixty percent of the subprime borrowers could have qualified for less costly prime rates, but most were told their homes would go up in value. Many accepted onerous terms to give their families a piece of the American Dream. Many lulled into believing that they could afford houses with no money down and low introductory interest rates. Watch the costs of adjustable rate mortgages – or ARMs – shoot up.

MAN IN FORECLOSURE 3: When I first got it, I got a 1% introductory loan and my mortgage came down. The second month, it when up to 7.9. And now it's up to 9.9. And it just keeps on going up.

WOMAN IN FORECLOSURE 1: If I'm paying 2800 dollars a month for my home, I want to live next to J Lo and Mark Anthony. Not where I live.

WOMAN IN FORECLOSURE 2: We should not have to leave our homes, our dream, even our shelters because of the rates are going up so high, and we don't understand why it's going up. It's going in somebody's pocket but not ours.

NARRATOR: It should have been no surprise to anyone. Fraudulent lending practices resulted in a steep rise in foreclosures beginning in late 2006. Some of the biggest subprime lenders themselves later declared bankruptcy. In the news media, homeowners took most of the blame. It was said they had exercised a failure of personal responsibility. Irresponsible borrowing was stigmatized, irresponsible lending was not.

BRUCE MARKS: If you say that people made bad decisions, maybe you can argue that 5,000 people made bad decisions, or 10,000, or 100,000. But when it gets to a million people making bad decisions, and then five million people making bad decisions, and then ten million people making bad decisions – because now we are over ten million people at risk of foreclosure – at some point, it turns from making a bad decision because there was a scheme out there. There is a homeownership deception scheme out there.

NARRATOR: Enter the Federal Bureau of Investigation. The FBI describes its responsibility for investigating financial and mortgage fraud on its website. It has called mortgage fraud an epidemic.

NEWS REPORTER: They are calling it "Operation Malicious Mortgage." The FBI unveiled the results of a three and a half month probe into mortgage related fraud. FBI Director Robert Mueller:

ROBERT MUELLER: For this operation, more than 400 defendants have been charged, and we have obtained 173 convictions in crimes that accounted for more than one billion dollars in estimated losses.

NARRATOR: The FBI first warned of this fraud epidemic in 2004, reporting also though that their corporate crime units had been downsized to join the fight against terrorism. Some criminal cases are reported in the press but not all are prosecuted, with companies often paying fines rather than facing a judge or a jury.

DANNY SCHECHTER: Goldman Sachs paid 16 million dollars to settle a subprime complaint. The Massachusetts authority said they had designed mortgages to fail. And they paid 16 million dollars, but they did not admit any guilt.

GARY WEISS: That's standard. It's standard when Wall Street firms negotiate, what are in effect, plea-bargains with regulators for them not to admit guilt.

NARRATOR: According to an investigation by the Center for Public Integrity, 25 of the sleaziest subprime lenders were backed by the biggest banks in the United States: Citi Group, Wells Fargo, JP Morgan Chase, and Bank of America. Together, the *Financial Times* reported, they originated a100 billion dollars in subprime mortgages between 2005 and 2007, almost 3 quarters of the total.

DAN OSSO: What I did in the mortgage industry, at first I got involved in about 1998, I was a loan originator, and during that time, what I had seen was nothing short of amazing in terms of – it was very predatory. The techniques that were being used, the salesmanship that was being used, the gimmicks on the loans and how they were structured, it really disturbed me. Catch hold to this and how they can get away with that is people hear a full disclosure, depending on the lending institution you went to. In other words, a bank, a broker, or a lending institution, all three are different, all three have different sets of regulations that govern them. And so, full disclosure was not necessarily important to the loan itself. Just get them to sign on the dotted line. If they were happy with the numbers, you have a loan.

MOE BEDARD: My name is Moe Bedard. I'm with Loansafe. Basically, what we do is when someone is having mortgage issues and several other issues, but what I want to do is show the signature of Edna. What we are finding out is 80% of the people don't even know they have violations on their loans. This is the signature on her HUD-1, basically which is right here. And then have this signature here, which is her actual signature, which shows a completely different signature. It doesn't take, to me, an expert to figure out that there is something terribly wrong here. Somebody gets a set of loan docs, and they are usually probably 2 to 3 inches thick. There might be 15 or 20 really pertinent disclosures that borrowers need to worry about, and they are buried in there and they don't know what they are signing. Usually, they'll send out a notary to sign the loan with them at loan signing, and the notary usually has no clue of what is in that loan. And it's all part of the scheme, we like to call it. And then we go up here, we start looking at whiteout and we then have a consultant fee. When you see a consultant fee on a mortgage, that should set off red flags. There is not really any consultants on a mortgage or a sale. It should have been one fee to rise mortgage. This Mark Murphy is apparently someone we need to investigate and find out exactly who he is and why he got 7800 dollars on this loan. These people, basically, fraudulently took this woman's home that she has been living in for over fifteen years. And thinking that it's hers where it actually never was hers since 1993.

DAN OSSO: The fraud and deception that was built into these transactions was a necessary part of the transaction in order to generate the profits.

MAX WOLFF: Wall Street doesn't do mortgage lending. What Wall Street did was package, sell, repackage, and resell mortgages making what was a small housing bubble a gigantic housing bubble and making what became an American financial problem very much a global financial problem.

NARRATOR: Welcome to Wall Street today. Economist Max Wolf who works in the financial industry is our tour guide.

MAX WOLFF: You are looking at people who have gone through ten unthinkable low-probability events in a four-month period. When every time you think you can catch a breather, there is another leg down. Atmospheres on trading floors and in a lot of these firms are funereal. Friends are gone; bonuses are gone; futures are unsure. It's been very difficult.

NARRATOR: As we spoke on Wall Street, people wanted to get into the conversation. Most were worried.

BANK EXAMINER: I was a bank examiner for 10 years. And I wonder where the regulators are? City Court. I know they got office in City Court's building year round. Where was the SCC, where were all the guys that were supposed to be watching what's going on. And I mean… When I was a bike examiner 20 years ago, we had some crises in the late 80s, early 90s, but we got our arms around them. Nobody got their arms around this. I just wonder if you think the average person in America really grasps the magnitude of the crisis that we are in.

MAX WOLFF: I hope they do. And I think it's an excellent question. My personal guess is no. My personal guess is they'd be much more angry and much more interested if they understand how much is at play here.

NOMI PRINS: The destruction here is around the clock. You shred papers. You shred deals. All the money has been made at this point. All the takeout happened a couple of years ago. Now, you are just sort of looking at the remains of a very profitable time, which will be followed by another very profitable time because the same people will still be involved in structuring the same types of things.

NARRATOR: *Other People's Money* is Prins' insider book on the subject. She helped create the investment vehicles used to package subprime loans. She now sees it as a criminal enterprise.

NOMI PRINS: The biggest crime in all of this is the thing that is the least able to be understood and examined by the FBI, by the Department of Justice, by anyone in Washington. The tiny, tiny, lowest layer of the crisis that started with subprime defaulting at the homeowner borrower level. The money was not made there. The money was made because several layers up the pyramid, Wall Street investment firms and commercial bank investment groups decided to repackage those mortgages, create layers of them and then re-sold to investors.

BENJAMIN BARBER: Here is what happens. There are three defaults on mortgages. The bank that holds those and sells those at 10 cents on the dollar to a second bank. That bank puts those together with three other defaults and three other defaults and makes a second package and sells it to a third bank. The third bank sells six of these things and bundles them and sells them to some investor who has no idea what he has.

NOMI PRINS: They borrowed against those layers, which is the real crime. They would take a little piece of a layer, of a security underneath which somewhere there was a bunch of homebuyers. And they would take it and they would borrow thirty times the amount of money that it represented.

NARRATOR: Five big investment banks dominated Wall Street. It is they who took the subprime loans, purchased from banks, and packaged them as bundled investments to be sold worldwide.

DANNY SCHECHTER: There were reports that there was what was called “suction” from Wall Street. In other words, Wall Street investment houses as they began to make billions on these securitized loans and CDOs and derivatives were pressuring the mortgage people at the local level: “Give us more, give us more, give us more.”

DAN OSSO: Well, the reason why Wall Street was putting the pressure or the “sucking” sound that you referred to on the loan originators is because the profits that they were generating when this whole concept first opened up and people realized the money that was to be made on the back end, trading the paper. They were essentially creating liquid cash from nothing.

NOMI PRINS: We are talking fourteen trillion dollars worth of asset backs with subprime and other types of mortgages and CDOs created between 2003 and 2007. Fourteen trillion were created. On that, investment houses and hedge funds and private equity funds could leverage thirty, forty times. Banks could leverage fifteen to twenty times. On average, they could only leverage thirteen times but on certain securities…

DANNY SCHECHTER: But that’s more than the value of the whole country – of the whole Gross Domestic Product.

NOMI PRINS: If you want average, and this is a very conservative estimate, assume that the average leverage for the fourteen trillions dollars worth of asset backs and CDOs was ten times, which to me is a conservative estimate. That’s a hundred and forty trillion dollars worth of nothing. If you lose the fourteen trillion, the other hundred and forty minus the fourteen trillion does not exist. You have nothing; you have no collateral left to pay to the people that you borrowed money from, and it all falls down.

LORETTA NAPOLEONI: They practice to sell mortgages to people who clearly cannot afford it. So to target these people in order to give them mortgages and then to use these mortgages to sell it back to the banks in order to create more of bank security is a criminal practice for sure.

JOHN COFFEE: And I think the bank that does have liability, civil and conceivably in some cases, criminal, but that liability arises when they sell that portfolio mortgages to investors who believed they are getting safe, sound, secure mortgages. And there are very injured victims at that chain, at that end of the distribution chain. Because I can direct you to school boards around the country that have lost almost their entire funds and lost their pension funds.

DANNY SCHECHTER: You sound angry!

FEMALE INVESTOR: I am angry. I am an investor. Okay, I invested in some of these investment companies and now I have to wait, holding my breath, hoping that I won't take such a large hit.

DANNY SCHECHTER: We can all be wiped out here.

FEMALE INVESTOR: Yes, we all can be and left with nothing. And these guys are rewarded.

LORETTA NAPOLEONI: And I would even say that this is racketeering because it took place between a group of real estate agencies and banks together.

NARRATOR: A lot of people made a lot of money. But when these homeowners defaulted in record numbers, the whole system became infected.

SONG: I used to think that Freddie Mac was a pimp. But now my mutual fund is the one walking with a limp. And Fannie Mae, you almost failed me boo. But the faithful fears, they bailed you. Poor Lehman Brothers, you all got the shaft. Shaft! The government said: "Good luck with that." Shaft! And AIG, old Uncle Sam he loaned you eighty-five billion, but now he owns you.

NARRATOR: Who had brought down Wall Street? Hedge funds. Back in 2007, with the boom still in full swing, my business partner Rory O'Connor attended this party just off Wall Street for traders under the age of thirty. It reeked of affluence. Shiny cars. And beautiful people. Hedge funds were like millionaire-only clubs, where ungodly sums could be invested in complicated vehicles in secret, outside the prying eyes of Wall Street regulators. Soon, all the traditional investment firms had their own hedge funds. No wonder so many of these young people wanted in. And at the top.

BRIAN KABOT: I personally spend 5 years in private equity and then made the decision instead of going back to business school to move over to the public side, so that was a conscious decision on my part. I think most people probably get involved because there is an opportunity to move up the ranks and make more money at an earlier age in hedge funds than there is in private equity, which is the natural progression after a couple of years in an investment banking program.

JIM ROGERS: Well, if you are going to be in the investment world the best way to, and you are a good investor, the best way to make money is to have a hedge fund because you get compensated much higher. Hedge funds were being paid 1% of the assets and 20% of the profits. So obviously, that was the best way to make money if were any good at it.

NARRATOR: Investor Jim Rogers and a partner named George Soros started a fund because it was the thing to do.

JIM ROGERS: A hedge fund is someone who buys things and at the same time hedges himself by selling short. Problem is most people in the street don't understand selling short.

NARRATED: Terms like "selling short" and "collateralized debt obligations" and "credit default swaps" became the Lingua Franca of the industry. Nowhere was this more true than in unregulated hedge funds – each boasting its own super secret proprietary investment algorithm, they attempted to take the risk out of investing by putting large amounts of money inside bets. Wall Street began putting more money into gambles on the market than money in the market.

JIM ROGERS: If for right now what everybody is doing it's normal, that's great, everybody is making a lot of money. But when the thing starts unwinding, then people are going to say: "I never did that. I don't know how we did it" or "My lawyer said it was okay." And you know what, the lawyers are saying that it's okay. My accountant said it's okay. And accountants are saying it's okay. Everybody is in the game right now. But it's always happened this way, and eventually, it always pops, and eventually, everybody suffers.

SONG: There's a fine, fine line between a bull and a bear. There's a fine, fine line between a lie and a spear. I am hoping I'd avoid the pain to come from trades yet to unwind.

NARRATOR: Insurance company AIG was a leading seller of credit derivatives.

NOMI PRINS: So a bank, for example like Goldman Sachs, would create a CDO. It will stick all kinds of subprime loans and packages, packages, packages, and packages into a package. And then it will go off to AIG. And AIG had a triple A rating: the pristine credit rating. And Goldman would say: "You know what, you take this package of junk we've just created and kind of insure it. You basically write a default swap to us, you basically credit-insure it. You've got a much better rating than we do. So, our investors will buy it from you with that insurance. You make money. We make money. Everybody is happy."

NARRATOR: Former bank regulator William Black told Bill Moyers this was all deliberate.

WILLIAM BLACK: This stuff, the exotic stuff that you're talking about was created out of things like liars loans that were known to be extraordinarily bad. And now it was getting triple A ratings. Now, triple A rating is supposed to mean there is zero credit risk. So, you take something that not only has significant, it has crushing risk. That's why it's toxic. And you create this fiction that it has zero risk. That itself, of course, is a fraudulent exercise.

AIG COMMERCIAL: Should I after tea and cakes and ices have the strength to voice the moment to its crisis?

NARRATOR: AIG made guarantees totaling more than their ability to pay, an amount larger than the entire value of the company. Actually, that's a bit of an understatement. AIG along with others who sold derivatives had insured their policy holders to the tune of an estimated 596 trillion dollars. Compare this to the Gross National Product of the entire world and the problem should become more obvious.

CAROLYN MALONEY: So, you were just gambling billions, possibly trillions of dollars?

MARTIN SULLIVAN: Well, I wouldn't refer to it as gambling. These transactions were individually underwritten, very carefully, and maybe I can provide some more background – it may be helpful.

CAROLYN MALONEY: If they are carefully underwritten, how come no one wants to buy them?

NARRATOR: How could AIG have possibly expected to make good on its promises? One thing we know for sure: AIG executives made huge paychecks selling these credit derivatives to hedge funds and others right up until the economy caved.

DANNY SCHECHTER: So, we don't need to fear hedge funds?

BRIAN KABOT: I don't think you need to fear hedge funds. I think hedge funds provide a pretty intelligent investor base – a more savvy investor base for the market.

SONG: I love subprime. It's my kind of place.

NARRATOR: Wall Street used to invest in the American economy, in companies that used its money to produce goods and services, but then Wall Street became the

American economy. Our financial system was reengineered through what's been called "financialization" with banks, credit cards, real estate, insurance companies as the new power players.

BENJAMIN BARBER: Capitalism is sort of gone off the rails. It ceased to be capital, it's financialization. The fact that it's now all about speculation. The fact that it's about Ponzi schemes, the fact that it's about selling and buying paper from an economy of real goods, real commodities, and real services to a system where people were buying and selling money, buying and selling assets, buying and selling other firms; where no new value was created.

NARRATOR: Mo Sacirbey says the whole system has gone predatory.

MO SACIRBEY: I think we had a transition from what truly was a free market system to something now that is out of control and probably what I would define as a predatory system. Frequently, markets that are manipulated for the end of maybe a few out there, few investors, mega-investors. Even that's very difficult to tell. We still don't know who in fact is making money while so many in fact are losing money on Wall Street right now.

SONG: There's something rotten in Denmark, something rotten in Spain, something rotten in Washington. It ain't ever gonna change. And all I wanna know: what became of the little guy?

NARRATOR: As *Business Week* noted, what we are observing in all of its bizarreness is the ancient paradox of what happens when an irresistible force meets an immoveable object. The irresistible force in this case is the US economy; the immovable object is a wall of debt that now cannot be paid back.

MICHAEL HUDSON: We're in a position where the volume of debt: mortgage debt, corporate debt, personal debt, and even state and local debt is larger than the ability to pay.

NARRATOR: The rise of a credit-based economy fueled a growing disparity between rich and poor. Wealth was transferred from the middle class to the upper class. The middle class watched its savings literally drop to nothing, as every spare dollar went into paying off borrowed money. The upper class, meanwhile, figured out how to make money from money, or more accurately, how to sell their debt – a promise to pay in the future. Real-estate expert Ron Silverman calculates the cost:

RON SILVERMAN: You are talking in recent years of a problem that every year transfers hundreds of billions of dollars…

DANNY SCHECHTER: Hundreds of billions?

RON SILVERMAN: Hundreds of billions of dollars.

DANNY SCHECHTER: You said billions?

RON SILVERMAN: I said billions – not millions – from the pockets of the poor to people who are far better positioned than their so-called victims.

MICHAEL HUDSON: To go, the upper 1% of the population owned 30% of America's returns to wealth. That is dividends, interest, and capital gains. Five years ago, they'd raise their proportions from 37% to 57%. And today, it's estimated that the upper 1% of America's population owns almost 70% of the returns to wealth.

DANNY SCHECHTER: Seventy percent?

MICHAEL HUDSON: Seventy percent.

DANNY SCHECHTER: That's huge!

MICHAEL HUDSON: Yes, it is. It's unprecedented. Essentially, it makes America look like a third world banana republic.

NARRATOR: Angry homeowners marched down Park Avenue and into the lobby of Bear Stearns. Ironically, Bear Stearns was also in debt. The billions of dollars they received in the bailout did not go to the company's shareholders but to those to whom they owed money.

UNIDENTIFIED MALE: It was a deal that ultimately saved the creditors to Bear Stearns by forcing in to JP Morgan at the expense of equity holders.

NARRATOR: Michael Hudson points out that both the homeowners and corporate America are now in hock to the debt machine.

MICHAEL HUDSON: Many corporations are effectively in negative equity or technically in solvent position, headed by the financial sector, by the banks themselves.

DANNY SCHECHTER: Is there any sympathy for the demonstrators in the building?

UNIDENTIFIED MALE: I don't know if there is a lot of sympathy per se to their point of view. I mean we were, you know, in similar boats so to speak.

NARRATOR: A similar boat perhaps but only one had life preservers.

GEORGE STEPHANOPOULOS: Look at the fact that the government now is funneling money to a major bank and saying: “If you can do that with a bank, why not do it with strapped homeowners facing foreclosure as democrats…”

PROTESTOR SHOUTING: Bail out working women and men who worked hard to buy their homes. That’s who you need to bail out, if there’s any bailout to be had.

NARRATOR: As the crisis increases desperation on all sides, Hudson says Wall Street is waging war on Main Street in a battle for survival.

MICHAEL HUDSON: We are seeing a class war in this country such as you’ve never seen in the entire history of the United States.

DANNY SCHECHTER: A class war?

MICHAEL HUDSON: A class war. Except in this case, the class war isn’t the kind of war that Marxists and Socialists talked about. It’s not between employers and employees because employment is going to be shrinking.

NARRATOR: Half of Bear Stearns’ 14,000 employees would eventually be laid off by JP Morgan Chase.

PROTESTOR SHOUTING: And look, any of the Bear Stearns’ employees, you are welcome to join us. ’Cause you’re gonna be in our situation. Bring everybody down into the lobby over here.

MICHAEL HUDSON: It’s a class war between creditors and debtors. It’s going to be a fight between the financial sector and what’s called the real economy, the economy of production and consumption. And the financial sector has prepared itself and positioned itself to come out on top by being able not only to foreclose on the property debtors but to get a government bailout for all of its losses.

PROTESTOR SHOUTING: We don’t want a government bailout. We don’t want a government bailout. Because these folks knew what they were doing when they did it.

WOMAN IN FORECLOSURE 3: Everybody have a dream. Everybody have a chance to get a dream. It’s not just one class or one race. And at this point, nobody is getting that piece of dream at all.

MICHAEL HUDSON: Employment is going to go down. Markets are going to shrink. People are going to default even more on their mortgage debts, on their credit card debt, on their student loans. So, you are going to have an exponentially rising trend of defaults. You are going to see a transfer of property from debtors to creditors.

DANNY SCHECHTER: A depression?

MICHAEL HUDSON: Not only a depression, but an economic polarization.

DANNY SCHECHTER: It sounds bad.

MICHAEL HUDSON: Yes, it's very bad.

NARRATOR: The media was now out in force covering the protest. Many homeowners would not talk to them.

CNBC REPORTER: Would anybody like to get their voice out to CNBC, so everybody can hear what you are protesting right now?

PROTESTOR: No.

NARRATOR: A CNBC reporter turned to me when others were silent.

CNBC REPORTER: Tell us the story.

DANNY SCHECHTER: So, why do you think people don't want to talk to you? Because they hate you. They think the media is part of the problem. They don't think that you are going to help them. They think you are going to help Bear Stearns.

NEWS REPORTER: …Tonight of what's been called the worst financial crisis in modern times…

NARRATOR: Where was the media when all this was going on? Why were there so few warnings and investigations in what was to become an economic catastrophe?

NEWS REPORTER: Things are only going to get worse. We want to talk a little bit more. You have been incredibly pessimistic…

NARRATOR: August 2007 marked the beginning of the end of an era. What had gone up was now coming down. Foreclosures were up 93% from the year before. In London, there was a run on Northern Rock Bank. More bank write downs followed. Billions at UBS and CitiGroup. Fanny Mae – the largest source for home loans – reported a 3.55 billion dollar loss for the forth quarter. In March 2008, the fifth largest investment bank in the world, Bear Stearns, was on the verge of collapse. Many of the nation's most respected financial journalists were still getting it wrong.

FINANCIAL JOURNALIST: Should I be worried about Bear Stearns – and get my money out of there? No. No. No. Bear Stearns is fine. Bear Stearns is not in trouble. I mean it is more likely to be taken over. Don't move your money from Bear. That's just being silly. Don't be silly.

NARRATOR: The media was complicit says Dean Starkman, a financial journalist now at the *Columbia Journalism Review.*

DEAN STARKMAN: The business press, former colleagues of mine, friends of mine, did not really recognize and understand what they were up against – how dramatically the world had changed. The lending industry had changed: things that you have kind of documented. How out of control Wall Street had become. I think it's a real contributing factor to how we go to where we are today.

NARRATOR: Starkman even compares the journalists who cover Wall Street to reporters sent to Iraq. He said that they too were embedded but in the corporate culture.

DEAN STARKMAN: The great panic of 2008 is the equivalent for the business media what the Iraq war was for the Washington Press Corps. This is the national story of the last 70 years. So, the parallel is fair. You could further extend the analogy a little bit to think about the idea, this concept of being embedded – that the press corps itself was sort of embedded within a particular narrative that has its origins on Wall Street. I don't think that analogy is out of whack at all.

NARRATOR: There was one more factor that few in the media covered because it was about the media – about the infusion of nearly three billion dollars in advertising revenues from dodgy lenders and credit card companies between 2002, when the housing bubble took off, until its crash in 2007.

DEAN STARKMAN: Essentially, the entire industry became predatory.

DANNY SCHECHTER: Predatory, like criminal?

DEAN STARKMAN: Yeah, deceptive marketing on a mass scale as a function of corporate policy.

NARRATOR: It started in America and it's now everywhere. Some say the United States has infected the world with a kind of financial AIDS.

DANNY SCHECHTER: People who these mortgages were sold to, a large majority of these people were poor, black, or Latino people. In other words, this was targeting minorities, especially. So, this resulted in the biggest transfer of wealth from the poorest people in America to the richest institutions in the world.

EUROPEAN 1: I think that the majority of people, they feel that this is a problem for… as you say, this is a banking problem, this is a stock market problem, these are investment problems.

EUROPEAN 2: From the European side, it's interesting being here because as the gentleman says things are much more controlled here. But I got a bank loan to get my house, they really made sure I had the money. There is no way I could have gotten the subprime loan here at France and never been able to pay it back and the bank would not have benefitted from that.

EUROPEAN GRADUATE STUDENT: I am a graduate student of a business school in Belgium. I am doing an internship right now in a Belgium bank that has been nationalized. People are scared of losing their jobs because they don't know what's going to happen next.

DANNY SCHECHTER: How do people here feel about the whole subprime lending? Isn't it amazing – people were given money and didn't have any assets?

EUROPEAN GRADUATE STUDENT: I think they just looked at the short-term benefits of the subprime securitization and all those things, and they didn't look at long-term stability, long-term profits.

EUROPEAN 3: I think America is heading for a really deep crisis of untold proportions. You have a deep ideological and cultural division. You are going to have an unseen and can do nothing to avoid massive unemployment. You have extreme wealth and extreme poverty. And you have an armed population. That's not the case here. I think what we are going to see in the United States, I hope I'm wrong, but I think the United States is heading towards an abyss.

NARRATOR: As the crisis worsened, politicians finally woke up to realize that the economy they had deregulated was imploding. Congress was finally being asked to act. Ironically, the pitch was made by a Republican, Treasury Secretary Henry Paulson, a former CEO of Goldman Sachs in the years that that firm made massive profits in housing, securitization, and speculation.

HENRY PAULSON: We must do so in order to avoid a continuing series of financial institution failures and frozen credit markets that threaten American families' financial wellbeing, the viability of businesses, both small and large, and the very health of our economy.

NARRATOR: The question: "Would government intervention fix the problem or make it worse? Would it reward the companies that profited from massive fraud or would it lead to more fraud?" Treasury Secretary Henry Paulson and Fed Chairman Ben Bernanke began a push for what might be called the "final plunder." The real story was not widely known, except through one interview on C-SPAN.

PAUL KANJORSKI: Look, I was there when the secretary and the chairman of Federal Reserve came those days and talked with members of Congress about what was going on. On Thursday, at about 11 o'clock in the morning, the Federal Reserve noticed a tremendous drawdown of money market accounts in the United States to the tune of 550 billion dollars. We were having an electronic run on the banks. Their estimation was that by 2 o'clock that afternoon five and a half trillion dollars would have been drawn out of the money market system of the Untied States, would have collapsed the entire economy of the United States and within 24 hours the world economy.

NARRATOR: A shell-shocked Congress was given a three-page plan. In essence, it gave Paulson total control to spend 700 billion dollars. Some saw it as a power-grab. Others saw it as the deliberate creation of a crisis to push through a corporate agenda.

REP. MARCY KAPTUR: Control the media enough to ensure that the public will not notice that this bailout will indebt them for generations.

MICHAEL HUDSON: What was unique was the refusal of Congress to hear any testimony from expert witnesses or to have hearings.

DENNIS KUCINICH: 700 billion-dollar bailout for Wall Street is being driven by fear – not fact. This is too much money in too short a time going to too few people while too many questions remain unanswered. Why aren't we having hearings on the plan we just received? Why aren't we questioning the underlying premise of the need for a bailout with taxpayers' money? Why have we not even considered any alternatives, other than to give 700 billion dollars to Wall Street? Why aren't we asking Wall Street to clean up its own mess? Why aren't we passing new laws to stop the speculation, which triggered this? Why aren't we putting up new regulatory structures to protect the investors? How do we even value the 700 billion in toxic assets? Why aren't we directly helping homeowners with their debt burden? Why aren't we helping American families faced with bankruptcy? Why aren't we reducing debts for Main Street instead of Wall Street? Isn't it time for fundamental change in our debt-based monetary system, so we can free ourselves from the manipulation by the Federal Reserve and the banks? Is this The United States' Congress or the Board of Directors of Goldman Sachs?

NARRATOR: Congressman Kucinich's remarks were not widely reported either. They were still refusing to make new loans. The oversight of Paulson's program was criticized because millions could not be accounted for.

WILLIAM BLACK: Fraud is deceit. And the essence of fraud is I create trust in you and then I betray that trust and get you to give me something of value. And as a result there is no more effective acid against trust than fraud, especially fraud by top elites, and that's what we have.

NARRATOR: Although all the facts are not in about who got how much and under what terms, many in the public see the bailouts as a way to loot taxpayers – as fraudulent as the problems they were addressing.

PROTESTOR: Yeah, we are all in our way to Capitol Hill.

NARRATOR: By the summer of 2009, the crisis had not abated. Unemployment continued to climb, foreclosures to mount, bankruptcies to grow, markets to shrink, firms to fold, and tensions to tear apart families and communities.

MAX WOLFF: I think you will see a bunch of people get indicted and get some prison sentences. More importantly, and the bigger question to me is will we see a structural change or will we go through a long, bad recession while we waste our money struggling to rebuild an unsustainable system that should have never been erected in the first place.

NARRATOR: As new regulations were beginning to be put in place, trillions have been spent by government on stimulus programs. These measures were clearly not enough. So called reforms often pumped money into the very institutions that caused the problems. The bailouts benefitted the wealthy. Deficits and debt grew by the trillions. It became clear that the structure of our economy has yet to be transformed. In June 2009, President Obama announced new financial reforms saying that the crisis was caused by mistakes. By not recognizing the government's inability to police Wall Street, investor Jim Chanos says his reforms are doomed to fail.

JIM CHANOS: And it's a little bit tough because the guys who are the bad guys are one step ahead of the cops on the beat every single time.

NARRATOR: For starters, we need a full investigation like the one that followed the great crash of 1929. We need to know who benefitted from one of the most insidious crimes in history. How did Wall Street's wizards engineer this disaster? And who was complicit with them? Will the big fish ever be prosecuted? The media too has to wake up to shift the debate to include the need for deeper change and a crack down on white-collar crime.

DANNY SCHECHTER: Since this is my film, I get the last word. This financial crisis will not be turned off like a light switch. Millions are struggling to survive, as conditions get worse.

WOMAN IN FORECLOSURE 4: Well, you have to get your bills straight, you have to pay them. How can we pay them, if the mortgage is sucking everything we got? How can we do it? It's impossible.

DANNY SCHECHTER: I began this film with a call to investigate the wrongdoers, the crimes behind the crisis.

So, we need a jail out – not just a bailout.

NOMI PRINS: People should be angry. When the money was being made, when the securities were being created, there was a lot of partying, there was a lot of backslapping, there was a lot of extraction.

NARRATOR: A lot of extraction should lead to a major reaction. Will an age of plunder usher in an age of major structural change? Or will there have to be an age of protest and pitchforks first?

PROTESTOR: We are here to see the Senator, please.

DANNY SCHECHTER: These issues of economic justice must be addressed on the air and off, in the media and in the streets. I have been trying, but I can't do it alone. Now it's your turn.

[END]