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HOW WASHINGTON ABANDONED MAIN STREET WHILE RESCUING WALL STREET

BAILOUT

WITH A NEW FOREWORD

NEIL BAROFSKY

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"[Barofsky] unleashes a blistering attack on President Barack Obama's Treasury Department and i management of government bailout programs."

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"In *Bailout,* [Barofsky] gives a detailed account of just how far-reaching, and how much, the corruptio spread."

—*Publishers Week*

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—*The Reformed Brok*

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—Lou Dobbs, *Lou Dobbs Tonig*

"An excellent read."

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"Neil Barofsky . . . has written a juicy new book about the bailout and how it was handled mishandled, rather, which is where the juicy parts come in."

—Mary Phillips-Sandy, *Comedy Central's Indecisi*

"Barofsky proves that the Obama administration didn't give a damn about protecting taxpayer money protecting homeowners, only shoveling dough at banks and AIG (the auto companies were treated li unwanted stepchildren). It's one thing to surmise that, another to deliver the goods."

—Yves Smith, *Naked Capitalis*

"Revelatory . . . It's well worth your time"

—David Dayen, *Fire Dog La*

"From December 2008 to March 2011, Barofsky served as the official watchdog for the Treasu Department's financial crisis response. (His official title was Special Inspector General for the Trouble Asset Relief Program, or TARP.) In that role, he made headlines with his scathing criticisms of the effo and its alleged deference to Wall Street interests. Now he's back with a new book on his experiences- entitled *Bailout*—and the criticisms are even louder."

—James O'Toole, CNNMon

"Neil Barofsky, the former special inspector general for the TARP program, paints a thorough unflattering portrait of the Treasury secretary in his new book, *Bailout*. Barofsky may have an axe grind, but he grinds it well"

—Darrell Delamaide, MarketWat

"[One] of the best books . . . you should be reading this season"

—Mark Crumpton, Bloomberg TV's "Bottom Lin

"It's a great read."

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"A great book."

—Greta Van Susteren, host of *On the Record with Greta Van Suster*

"[Bailout] should be mandatory reading for everyone in America. In fact, if it was . . . we'd be on o way toward recovery."

—Martin Andelman, host of the "Mandelman Matters" podca

"[Neil Barofsky] peel[s] back the onion on the banking industry . . . a great book."

—Pimm Fox, Bloomberg TV's "Taking Stoc

"Barofsky's anecdotes about the Obama bailout team read much like a lost adult script for *Mean Girls*.

—Heidi N. Moore, *Marketpla*

BAILOUT

How Washington Abandoned Main Street While Rescuing Wall Street

NEIL BAROFSKY

FREE PRESS
New York London Toronto Sydney New Delhi

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CAST OF CHARACTERS

At the Office of the Special Inspector General for the Troubled Assets Relief Program (SIGTARP)

Neil Barofsky: former special inspector general for TARP; former assistant U.S. attorney for the Southern District of New York

Kristine Belisle: former communications director, SIGTARP

Lori Hayman: director of legislative affairs, SIGTARP

Barry Holman: former deputy special inspector general for audits, SIGTARP

Geoff Moulton: former deputy special inspector general, SIGTARP

Kevin Puvalowski: former deputy special inspector general, SIGTARP; former assistant U.S. attorney fo the Southern District of New York

Christopher Sharpley: former deputy special inspector general for investigations, SIGTARP

At the Treasury Department

Herbert Allison: former assistant secretary of the Treasury for financial stability, nominated by the Obama administration and confirmed by the Senate in June 2009; former president and CEO of Fanni Mae, former chairman and CEO of TIAA-CREF, former president of Merrill Lynch

Timothy Geithner: U.S. secretary of the Treasury; former president of the Federal Reserve Bank of Nev York

Timothy Massad: assistant secretary of the Treasury for financial stability, former chief counsel for the Office of Financial Stability

Robert Hoyt: former general counsel, Treasury Department

Neel Kashkari: former interim assistant secretary of the Treasury for financial stability.

Mark Patterson: chief of staff to Treasury Secretary Geithner

Henry Paulson: former U.S. secretary of the Treasury; former chief executive officer of Goldman Sachs

Eric Thorson: inspector general for the Treasury Department

Jim Wilkinson: former chief of staff to Treasury Secretary Paulson

At the Federal Reserve

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William Dudley: president of the Federal Reserve Bank of New York

Members of Congress

Max Baucus: senior U.S. senator from Montana; chairman of the Senate Committee on Finance, a Democrat

Elijah Cummings: the U.S. representative for Maryland's 7th District and ranking member of the Hou

Committee on Oversight and Government Reform; a Democrat

Barney Frank: U.S. representative for Massachusetts's 4th Congressional District and ranking member and former chairman of the House Financial Services Committee; a Democrat

Chuck Grassley: senior U.S. senator for Iowa; former ranking member of the Senate Committee on Finance; a Republican

Darrell Issa: U.S. representative for California's 49th District; chairman and former ranking member o the House Oversight and Government Reform Committee; a Republican

Richard Shelby: senior U.S. senator from Alabama; ranking member and former chairman of the Sena Committee on Banking, Housing, and Urban Affairs; a Republican

Edolphus Towns: U.S. representative for New York's 10th district and former chairman of the House Oversight and Government Reform Committee; a Democrat

Other Characters

Preet Bharara: former chief counsel to Senator Charles E. Schumer; became U.S. attorney for the Southern District of New York in May, 2009

William Burck: former White House deputy counsel and former assistant U.S. attorney for the Souther District of New York

Michael Garcia: former U.S. attorney for the Southern District of New York

Lee Sachs: member of Obama administration transition team; former advisor to Treasury Secretary Timothy Geithner

Elizabeth Warren: former chair of the Congressional Oversight Panel created to oversee the Troubled Assets Relief Program; former assistant to the president and special advisor to the secretary of the Treasury on the Consumer Financial Protection Bureau; professor at Harvard University Law School

FOREWORD TO THE PAPERBACK EDITION

IN WRITING *BAILOUT,* I was given the opportunity to relive the tumultuous twenty-seven months my life that are recounted in the pages that follow. It was a harrowing time, both for me and for th country, but it was an experience I will always treasure. As a line prosecutor in Manhattan, I nev dreamed I would have the opportunity to serve my country at such a crucial time, and while I certain had more than my fair share of setbacks, I believe that the work we did at the Office of the Speci Inspector General for the Troubled Asset Relief Program (SIGTARP) played an important role protecting TARP from greater abuse and in bringing to justice those who sought to criminally pro from it.

Although I was initially reluctant to take the job in Washington, I felt it was my duty, and I felt similar call to write this book, in order to bring attention to what I saw as a hijacking of both th bailouts and the government itself by a handful of Wall Street financial institutions and their executive I saw how they were able to exert their power and influence to protect and reinforce a dangerous stat quo that worked brilliantly for them but has left the rest of the country behind. In writing this book wanted to send a warning about what I see as a treacherous future given the banks' continue dominance.

Events that have happened since I finished the original hardcover version have unfortunately on further confirmed my fears about where we are headed as a country if we continue to ignore the dange presented by banks deemed "too big to fail." Specifically, in the past several months we have seen parade of banking scandals that have reflected just as poorly on the government and its capture regulators as on the banks themselves.

First, we learned of what appears to be a global conspiracy among several of the largest banks manipulate one of the most important interest rate benchmarks in the world, the London InterBa Offered Rate (LIBOR), which is used to set interest rates for everything from complex derivati contracts to home and auto loans. A few banks are supposed to send in estimates of their borrowi costs each day to the British Bankers' Association, which then averages the reported numbers and issu the official LIBOR rate for that day. One of those reporting banks, Barclays, settled allegations that i employees had taken part in cooking the rate. The bank lied about its estimated costs in order manipulate this number, originally so that its traders could rip off its counterparties and earn illic profits, and then later to make it appear that the bank was in better financial shape than it actually wa thus potentially lowering its costs and fooling potential shareholders, regulators, and others.[1] A numb of other banks are also apparent subjects of the ongoing investigation, including the all-too-famili triumvirate in banking scandals: JPMorgan Chase, Bank of America, and Citigroup.[2]

As damning as the breathtaking arrogance, size, and scale of the alleged misconduct by the ban were the allegations indicating that one of the banks' primary regulators, the Federal Reserve Bank New York, and its president at the time, Timothy Geithner, were made aware by Barclays by April 200 both of the ongoing manipulation and that other banks were involved.[3] But rather than immediate alerting the Department of Justice or even calling in the banks subject to his jurisdiction and warni them that they needed to cease the manipulation immediately, Geithner took far more modest steps. H apparently did little more than send a memo to his regulatory counterparts in England, recommendi that the rate-setting process be changed,[4] and call a meeting of U.S. regulators, during which the Ne York ~~Fed generally reported that the LIBOR process was vulnerable to potential manipulatio~~n b reportedly did not cite the *actual* manipulation to which Barclays had confessed.[5]

This regulatory response was so remarkably tepid that Barclays actually *continued* to manipula LIBOR for a full year after Geithner took the actions he later defended as "necessary and appropriat which apparently included relying on the British regulators to "fix this."[6] Indeed, although at the tin some suspicions were reported in the press that LIBOR was being manipulated,[7] rather than alerting t public, Geithner effectively endorsed the rate by baking it into several bailout programs, using it as benchmark to determine the interest rate that taxpayers would receive from AIG and in certain TAR programs. According to news reports, it wasn't until 2010 that a referral was made to the Department Justice, and even then it came from the U.S. Commodity Futures Trading Commission, not the Ne York Fed or Treasury.[8]

A number of other banking scandals have also broken since *Bailout*'s completion. Standard Charter joined JPMorgan Chase in settling charges that they illicitly processed monetary transactions f institutions in nations such as Iran and Cuba,[9] and a Senate Committee detailed HSBC's appare facilitation of financial transactions for rogue organizations, including those potentially involved terrorism or narcotics traf-ficking.[10] The Department of Justice has also brought civil charges again Wells Fargo and Bank of America for defrauding the government of more than a billion dollars connection with fraudulent mortgage activity that continued through 2009, well after the banks ha accepted TARP funds. These cases, brought in October 2012, followed the settlement of similar charg against Citigroup and Deutsche Bank. Also in October, the New York State attorney general brought broad civil case against JPMorgan Chase for fraud committed by Bear Stearns in the assembling and sa of mortgage-related securities during the run-up to the financial crisis, and he filed a similar case again Credit Suisse the following month. The SEC also settled cases against both JPMorgan Chase and Cred Suisse over the packaging and sale of similar securities.[11]

To date, however, all of these cases and scandals have one thing in common. Not a single institutio or senior executive has been criminally charged for the underlying conduct. And while there have be leaked news stories suggesting that some of the lower-level Barclays traders may in fact be charg criminally in the LIBOR case, it seems as if the likelihood of high-level criminal charges for cases relat to the financial crisis or actions taken in its aftermath has diminished to close to zero. As the New Yor attorney general told reporters, he chose civil over criminal cases not necessarily because of a paucity evidence, but because the authorities had waited too long to file criminal charges.[12] The five-year statu of limitations in New York for criminal cases (as opposed to the six-year statute for civil cases) had ru its course. Similarly, it now appears to be too late for the president's Financial Fraud Enforcement Tas Force, originally announced in October 2009, to do its promised job "to hold accountable those wh helped bring about the last financial meltdown."[13]

There are a number of potential explanations for the failure to bring criminal cases, some of which a detailed in the pages that follow. After the terrorist attacks of September 11, 2001, federal la enforcement personnel and resources were understandably redirected toward counter-terrorism effort creating a significant shortfall in white-collar criminal investigative expertise. As a result, as I sa firsthand, by 2008 the Department of Justice lacked sophistication when it came to investigating compl accounting fraud cases.

But there was another reason for the lack of cases: a staggering absence of referrals from regulators such as Geithner's New York Fed—to the Department of Justice. As William K. Black, a bankin regulator during the savings and loan crisis of the 1980s and 1990s, has explained, prosecutors back th leaned heavily on banking experts at the regulatory agencies to refer and shape the cases, with Blac agen~~cy making 30,000 referrals to the Department of Justice relating to frauds committed by the b~~anks. In contrast, Black reported that the Office of the Comptroller of the Currency and the Office of Thri Supervision, the two bank regulators housed at Treasury, had made only a handful of referrals connection with the current crisis.[15] Also, despite the promising announcement of the presiden Financial Fraud Enforcement Task Force, there was never a significant commitment of investigative an prosecutorial resources to focus exclusively on sophisticated crisis-related crimes.

The absence of cases is likely also related to the power, influence, and control in Washington of th largest banks. The entire federal regulatory and political apparatus coalesced during the crisis and in th aftermath around one goal—to rescue the "too big to fail" banks by any means necessary, with trillion of taxpayer dollars flowing out the door with few conditions and little accountability. With Treasur having invested so much time, effort, and treasure into *saving* the big banks, it was simply inconceivab that the Department of Justice could have sought criminal indictments against any of the largest ban or their top executives. Doing so would have risked causing them to fail, thereby undoing all Treasury's and the Federal Reserve's efforts and putting the entire financial system at risk once again.

These problems, of course, endure, with the largest banks now nearly 25 percent bigger than the were before the crisis. If they were too big to fail in 2008, they became too big to jail in 2009. Worst all, Wall Street knows this to be true, and each settlement of a civil case on favorable terms, and with n accountability for the individuals who committed the fraudulent acts, reinforces the most dangero perception of all: for a select group of executives and institutions, crime pays. Why not risk crossing th line and continue to perpetrate fraud in the assembling and sale of mortgages if the penalty for gettin caught is a fine that can be paid off with a few days or weeks of earnings? Why worry about violatin sanctions in order to profit illegally by laundering money for terrorist-sponsoring states? Why not rip o investors by selling bonds that are designed to fail so that you can profit from your bet against them? Why not spend ten years defrauding the Federal Housing Administration? You know you'll get to kee all of the ill-gotten profits if you go undetected, and on the off chance that you're caught, you shareholders will pay a minor fine that will not affect your bottom line. In other words, the comple lack of meaningful consequences—financial or penal—for those committing these frauds encourag future fraudulent conduct.

Ultimately, the financial crisis was a game of incentives gone wild, and the lack of accountability the aftermath of the crisis only reinforced those bad incentives. We had a chance to bring re accountability to the system in 2009 with the announcement of the Financial Fraud Enforcement Tas Force, but it was left underfunded and under-resourced. We had a second chance to fix the system 2010 by breaking up the largest banks through regulatory reform, but the banks—with a healthy ass from Geithner and the Treasury Department—won that battle too. And we had an election in 2012 th could also have been an opportunity for meaningful change. But both candidates staunchly defend the status quo, which maintained the size and power of the banks, even as they made the incredib claim that they would never bail them out again. I fear that we may not have many more opportuniti left before it is too late, and that meaningful reform will arise only out of the ashes of the next econom conflagration. That is a sequel I would prefer not to have to write.

ALTHOUGH it was only April, we were in the midst of a mini heat wave in Washington tha foreshadowed what would turn out to be a scorching summer. I'd been in the city for almost a year an a half, but I just couldn't get used to the otherworldly heat, the swamplike humidity, and the comple absence of anything that might resemble a breeze. Even so, I decided to walk the ten minutes from ou offices in Dupont Circle to Potenza restaurant, located on the first floor of a luxury rental buildi inhabited by the former banking executives and lawyers from New York who frequent the revolvi door between Wall Street and Washington.

I was meeting that night with Herb Allison, who lived in the building and fit its profile perfectl Allison was the former president of Merrill Lynch and chief executive officer of the financial servic organization TIAA-CREF. He'd enjoyed an illustrious and highly profitable Wall Street career befor retiring to his sprawling mansion in Connecticut. In late 2008, then Secretary of the Treasury Hen Paulson called the sixty-five-year-old while he was enjoying a vacation in the Caribbean and asked hi to come to Washington immediately to run the recently failed and now government-owned mortga behemoth Fannie Mae. Allison accepted and after a short stint was tapped by incoming Treasu Secretary Timothy Geithner to run the Troubled Asset Relief Program, or TARP, as the Treasur assistant secretary for financial stability. He became, in other words, the "TARP czar," and I quickl became one of his least favorite people on the planet.

I had initiated this meeting. As the special inspector general assigned to oversee the spending of t TARP money—my office was known as SIGTARP—it was my job to scrutinize just about every aspect o Allison's professional life in Washington. By April 2010, that had meant issuing a series of highly critic reports that generated a stream of negative headlines for the Treasury Department and a seeming unending series of congressional hearings in which Allison, Geithner, and other Treasury officials we subject to bipartisan roastings, occasionally punctuated by one member of Congress or another calli for Geithner's resignation. I offered to meet with Allison "offline" after yet another one of my weekl meetings with him had devolved into a screaming match. I wanted to get together away from the offic just the two of us, over a drink—or "over shots," as Allison had joked when I'd invited him—to clear th air.

Never knowing how much longer I was going to be welcome in Washington, I hadn't invested in new Washington-appropriate wardrobe and was wearing the unseasonal dark gray wool suit that ha become my uniform. I could feel the sweat pooling at the small of my back as I walked into t restaurant. Because I'd told the hostess we were only having drinks, she wanted to seat us up fron where it would have been difficult for us to have a private conversation. After first asking politely to b seated in the back and refused, Allison adopted a formidable "Do you know who I am?" tone that he obviously perfected over his decades as a top executive on Wall Street. The hostess was no match, and w were quickly ushered to a quiet table in the back. We chatted cordially for a few minutes about ou families and nonwork lives, as people tend to do at these Washington rendezvous. Allison said ho tough his weekly commute from Connecticut was, while I told him that my wife's regular commute fro New York had just ended because she had entered the final month of pregnancy with our first child. said I was excited about the imminent arrival of our daughter, and he said how thrilled he'd been abou the birth of his first son decades before. He then got to the heart of things.

"Neil, you're obviously very talented, with a bright future," he started. He talked about how clear t reports my office had submitted to Congress were and noted that the press was generally effusive in i praise of me and my team. Always circumspect about being complimented in Washington, I waited f the kicker.

“But you’re really hurting yourself.”

~~“In what way?” I asked, genuinely curious about where this might be going.~~

“Well, you’re a young man, just starting out with a family, and obviously this job isn’t going to la forever. Have you thought at all about what you’ll be doing next?”

It was not the first time I’d been asked that question in Washington. It’s the question that everyon asks, always to themselves and sometimes to others. What’s next? What’s your angle? What’s going to b the payout? How are you going to leverage your current position to get a better one with more pow and a bigger payout? I gave Allison my standard answer, whether to a reporter, congressional staffe senator, family member, friend, my wife, Karen, or myself.

“Herb, in my first Senate hearing, Shelby”—Richard Shelby, the top Republican on the Sena Banking, Housing, and Urban Affairs Committee and whose southern drawl I couldn’t help affecting a I told this story—“told me, ‘Mister Inspector General, you have a wonderful opportunity here. A opportunity not too many people get. The opportunity to make a real difference. An opportunity to serv the American people in a true and meaningful way. And if you do this job the right way, you’ll never b able to get a job again. No one will hire you. And that would be a good thing.’ ”

I explained to Allison how meaningful that exchange had been to me.

“Shelby was trying to be funny,” I said, “but there was an important point there too—that the onl way to do this job was *not* to think about what I would be doing next. If I ever start thinking about law firm job, or a job on Wall Street, or even another government job, those concerns will inevitably sta creeping into my decision making.”

Allison was unimpressed with my speech. Not that I can blame him—I’m sure it sounded like sound bite devised for a press interview. He continued, “You have to think about it. And I’m telling you you’re doing yourself real harm. Out there in the market, there are consequences for some of the thing that you’re saying and the *way* that you’re saying them.”

I was impressed with Allison’s approach. By that point I’d been in Washington long enough to know when I was being played, and Allison was essentially threatening me with lifelong unemployment. Bu to his credit, his tone dripped with sincerity.

“Herb, I know that. I understand that. But like I just said, I really can’t think that way. I wouldn’t b doing my job if I started thinking that way.”

Having failed to achieve the desired response by holding up the specter of homelessness for my wi my soon-to-be-born daughter, and me, Allison shifted course.

“Well, it’s not just that. On the Hill, I’m hearing a lot of things about you. Sure, during a hearing the may say some nice things, but there are a lot of members of Congress, particularly in the Senate, wh think that you’ve gone too far, and you’re losing credibility fast.”

A much better play, Herb, I thought. Allison had struck a nerve. The relevance of my oversig depended on strong credibility with members of Congress. At SIGTARP we had limited authority, an without strong backers in Congress, our work would quickly recede into irrelevancy.

“I can’t control that, Herb,” I responded. “It’s not as if we sit there and craft each word in our report based on how we think some senator or congressman might react. We just tell the truth in the way th we see it.”

Allison persisted, “It’s not so much the content as it is the tone. Your *tone* is the problem.”

My tone was part of my job, I explained. “Herb, when I first got here, a senior congressman took m aside and said, ‘Neil, let me tell you how this town works. You can write the best and most importa reports in the world, and Treasury will ignore you. The only way that you’re going to be able to have a impact is to get us, Congress, involved. And the only way that we’ll pay attention is if your reports a covered in the press. Then we'll embrace you. *And then* Treasury will pay attention.'" I explained t ~~Allison that I had stuck with that advice and it had proven exactly right, and that my tone was necessa~~ to penetrate all of the noise in Washington and get the attention of the press, Congress, and ultimate Treasury itself.

Allison changed gears. "Well, is it an appointment you might be looking for? Something else government? A judgeship?"

I laughed. "Herb, obviously that would be amazing, but there is no way that this White House, aft the things we've said, is going to nominate me for anything."

Allison paused. "Well, Neil, it doesn't have to be that way. It's not necessarily off the table. All you really have to do is change your tone, just a bit, and things can really change for you. Including with t White House."

It was my turn to pause, as I took a good sip of my wine. "Well, Herb, I certainly appreciate you advice," I said, not quite believing what I thought he was saying, and then tried desperately to turn o conversation back to more trivial matters.

But Allison wouldn't give up that easily. He stuck to his script for a good ten minutes more before managed to steer the conversation back to beltway gossip and other banal niceties before wrapping up.

I was all of thirty seconds back out into the heat when I called my deputy and friend for nearly decade, Kevin Puvalowski. Kevin and I had met as prosecutors in the United States Attorney's Office i Manhattan in 2001, and we worked closely together on cases against the world's biggest drug cartels members of the international narcotics trafficking unit.

"How'd it go?" he asked. We had both been curious about how this encounter would play out.

I burst out laughing. "You are not going to believe it," I responded, and then recounted th conversation.

Kevin laughed. "It was the gold or the lead."

"Yeah, the bullet or the bribe, I think he totally Escobarred me." We were referring to the practic that, as former narcotics prosecutors, we both well knew. The most notorious method of persuasion use by the legendary Colombian cocaine kingpin Pablo Escobar to bend elected officials, police officers, local judges to his will was to offer them one of two choices: a giant pile of pesos to do his bidding or bullet in the head. I'd just received the Washington equivalent. Either I started playing ball and woul then get either a plum appointment or a lucrative job on Wall Street, or I'd end up discredited an unemployed.

Kevin responded, "Unbelievable. Every trick in the book. He flattered you, insulted you, tried to sca you, and then effectively tried to bribe you. Welcome to Washington."

"Yeah, but what about what he said about the Hill?" I asked. "Do you think we have a proble there?" Allison's assertion that some members of Congress had become unhappy with me was a litt unnerving.

But Kevin wasn't worried. "Don't give it a second thought," he said. "He's probably full of shit."

Looking back, I don't now think that Allison was in fact really threatening me, nor do I think that h was actually offering me a plum appointment if I played ball. I think he was, in a very Washington wa sincerely trying to be helpful, to educate me on how to survive and thrive, both in Washington and o Wall Street. They are both worlds where if you play by the rules of those in power, great things ca follow, whether in the form of multimillion-dollar paydays in the private sector or escalating power ar prestige in the government. The allure of those payoffs is a powerful and pernicious force in governme service, especially, as I saw up close in my dealings with Treasury, in agencies that deal with Wall Street

As an elder statesman now of both worlds, Allison was, I think, probably just trying to explain to r how the system worked. Although he was undoubtedly right, I hadn't left a job I had loved in Ne Yor~~k to go down to Washington and play by its rules. I was still a prosecutor at heart, and for as l~~ong a I managed to hang on at SIGTARP, I was going to keep doing exactly what I'd been given the job to do hold Treasury and the banks it had bailed out accountable for their management and use of hundreds billions of taxpayer dollars.

1

Fraud 101

I WAS SITTING AT my desk after hours on Wednesday, October 15, 2008, when the phone rang. I'd bee sifting through a pile of FBI reports about my newest case—a loathsome ring of predators who we stealing houses out from under home owners who had fallen behind in their mortgage paymen Looking down at the caller ID, I saw that it read us attorney. *Shit,* I thought. It was my boss, Mi Garcia, the U.S. attorney for the Southern District of New York, and I figured that either I was trouble or he was going to dump something urgent on me.

"You got a minute?" he asked. "C'mon up."

As I headed out of my office, I tried to think of who I might have pissed off enough to warra getting called to the principal's office. While I was waiting for Mike to get off the phone, he handed me copy of a statute describing the creation of an inspector general's office for the Troubled Asset Reli Program, the $700 billion bank bailout Congress had passed less than two weeks earlier.

When he hung up, Mike asked, "Did you know that when they passed TARP, they also created a $5 million law enforcement agency to oversee it?"

"No, I had no idea," I replied.

He then started describing the new office in detail. It would have two roles. First, it was going to be full-fledged law enforcement agency, a mini-FBI for the TARP, which would try to catch the inevitab criminal flies that would be drawn to the $700 billion in government honey. It would also have an aud function, providing Congress with regular reports on how the Treasury Department was carrying out t bailout. Relieved that I wasn't in trouble, I half listened while trying to figure out why Mike was telli *me* about this new agency. Rumors were swirling around the office that with the presidential election ju a few weeks away, Mike, who was a Bush appointee, was about to step down. I thought maybe he w taking the inspector general job and that he might be trying to recruit me to go with him. I beg planning my polite refusal.

"So, you think you'd be interested?" Mike asked, snapping my attention back.

"In what?" I responded, making a mental note to pay closer attention when the boss was talking.

"In the job," he said.

"What job?" I asked, still not understanding what he was getting at.

He looked exasperated and said, "The special inspector general job."

I was stunned. As a federal prosecutor I had been fortunate to investigate and try some remarkab cases, but I sucked at office politics. I had a hard time keeping my opinions to myself, and my aversi to bullshit and hypocrisy occasionally led to an Asperger's-like bluntness. That didn't always endear m to people, particularly some of my recent supervisors. (Months later, Mike explained that was partly w he had recommended me: "You can be kind of a dick at times, and they needed someone who could kind of a dick.") And although Mike had recently promoted me to lead the office's newly create mortgage fraud group, he had also passed me over for a supervisory job a couple of years earlier.

Now, out of nowhere, he was asking me if I was interested in a job that he explained would require nomination from President George W. Bush and confirmation by the U.S. Senate. Clearly this job wou be ~~a highly sought after political appointment for the type of person who aspires to such things~~. D Mike not realize that I was a nobody? That I knew almost no one in Washington? More important, di he not realize that I was a lifelong Democrat who had recently contributed to the Barack Oban campaign? Me? A *Bush* appointee?

It wasn't just that I couldn't see how I could possibly get the nomination; I wasn't interested. I didr even really know what an inspector general did. My experiences with IGs, as they were called, we largely limited to a handful of cases I'd handled back when I first started as a prosecutor in 2000. M friend and colleague Mike Purpura used to joke that the true sign a case was going to prove a coloss waste of time was if it involved what he referred to as "those three magic letters, O-I-G"—for Office the Inspector General. I started thinking of excuses.

"Is the job in New York?" I asked.

"No, D.C., of course it's in D.C.," Mike responded in a tone that made clear he didn't subscribe to th old adage that there is no such thing as a stupid question.

I explained that the timing really wasn't right. I was getting married in a few months to my fiancé Karen, for one thing, and I was preparing to try a big case against the lawyer Joseph Collins, who ha been charged in a multibillion-dollar accounting fraud related to the collapsed giant commodities brok Refco. I'd worked like a rented mule to get the case indicted. It had become my "white whale," and couldn't imagine walking away from it. Not only that, but I was also just getting the mortgage frau group off the ground. These were some of the most appalling cases imaginable, with predators feastir on struggling borrowers and clueless banks while lining their own corrupt pockets. I was lookir forward to bringing these criminals to justice. Mike's face told me that he wasn't buying any of m excuses, so I rolled out the big gun.

"And, Mike, you know that I'm a Democrat, right?" I said, pausing for a moment for effect, the delivering my coup de grâce. "And just last week I donated to Obama's campaign."

I was sure that would be a deal killer, but Mike persisted.

"I thought of you exactly because of Collins and the mortgage fraud group. Those cases are exact the types of experiences that the White House is looking for. As for your politics, they won't care; this is merit appointment."

I wondered for a moment where Mike had found the unicorns and fairies to hand out those "meri Bush nominations to Obama-contributing Democrats.

Then Mike pulled out his "God and country" speech. The Southern District office stands just a fe blocks from Ground Zero, and he reminded me of the sacrifices some of the recent legends of the offi had made after the terrorist attacks on September 11, 2001, dropping everything to work around th clock chasing down the terrorists.

"They had expertise in terrorism, and it was never a question that they would step up. That is wha this office does. Our people step up and sacrifice when they need to."

Now he had my full attention. On that perfect blue-skied morning as I walked up the stairs out of th subway on my way to work, I saw a woman crying hysterically and pointing at the smoking gash in th North Tower. She told me that she had just seen an American Airlines plane strike the building, and stood next to her along with dozens of others as we watched the rest of the terror unfold.

When what seemed like strange debris began falling from the towers, I commented to a man next me about it, uncomprehendingly, and he responded simply, "Debris don't move like that." With horror immediately realized we were watching people jumping to escape the raging fire. I had tried hard forget those images, along with the sound of the blast and the heat of the fireball that burst from the gu of the South Tower when the second plane struck. Every night for months when I tried to close my ey to s~~leep, I would relive those moments. It is still difficult to look at 9/11 footage on television~~ witho breaking down.

“What we’re going through now is the economic equivalent of 9/11,” Mike continued. “It’s time fo you to step up. The American taxpayer has paid a lot of money to train you and give you this unique s of skills. Who else is going to protect the public from what could be a $700 billion clusterfuck of fraud?

It was a good speech.

There was no question that the country was in the midst of a true crisis. The Dow Jones Industri Average had plunged more than 5,500 points over the past year, and once iconic New York firms suc as Bear Stearns and Lehman Brothers had melted down. Unprecedented sums of money were bei poured into the insurance giant AIG to keep it afloat. The value of people’s 401(k)s, including my own would lose a third of their value, $2.8 trillion in all, between September 2007 and December 2008 Foreclosures had also been exploding nationwide, with more than 2.3 million properties receiving filin in 2008 alone, an 81 percent increase from 2007 and a 225 percent increase from the year before tha As chief of the mortgage fraud group, I had seen one of the causes: widespread fraud involvi sophisticated rings of professionals who took advantage of the lenders’ complete disregard of the underwriting standards as part of Wall Street’s blind quest for profit and fees. I had seen the predato practices of those criminals, which still had the capacity to shock me even after spending yea prosecuting international narcotics kingpins. Though I knew in my heart that Mike was right, that it w my duty to put in for the job, I also couldn’t imagine giving up the only job I’d ever wanted, disrupti my marriage before it even really began, and leaving the city that I loved.

THE OFFICE OF the U.S. Attorney for the Southern District of New York, known simply as “the Office,” just one of the ninety-four U.S. Attorney’s Offices in the country. But the Office is different: it has lo been the preeminent prosecutor’s office in the country. In recent years, it has handled a string of hig profile cases, including landmark Wall Street prosecutions against executives like Michael Milken, Iva Boesky, Bernie Ebbers, and Bernie Madoff, as well as those against the terrorists responsible for the 19 World Trade Center attack and the bombings of the U.S. embassies in Tanzania and Kenya in 1998.

I got the bug to work in the Office while at law school at New York University, when Profess Andrew Schaffer regaled my criminal procedure class with war stories from his own time in the Office. knew I needed experience at a law firm before I could get a job there, so after I graduated, I joined one the large New York City firms before moving to a smaller litigation boutique to begin a three-and-a-ha year apprenticeship under two brilliant white-collar defense lawyers, Robert Morvillo and Elk Abramowitz. They taught me both the nuts and bolts of being a lawyer and the necessity of following strict ethical code while doing so. They had each served as chief of the Criminal Division of the Offic and I hoped that by working my tail off I could gain their support for my application.

I distinctly remember sitting in my office in the spring of 2000 when the call came in. “Please hold f Mary Jo White.” I was ecstatic. It was widely known that Mary Jo, who’d been running the Office fo eight years, called applicants only with offers, not rejections. I was going to be an assistant U.S. attorn for the Southern District of New York.

Like all new prosecutors, I started in General Crimes and then graduated to the Narcotics Unit. I never aspired to work on narcotics cases, but I knew all prosecutors spent a year in Narcotics aft completing General Crimes, and I figured I wouldn’t spend one day over the required minimum.

That changed after I started working for Richard Sullivan, the Narcotics Unit's chief. He was actuall an ~~odd match for me. A tall, intense, deeply religious man who had never touched a drop of alc~~ohol his life, Rich worked tirelessly: he was always already at work when I arrived, and he often stayed aft I'd left. There were a lot of brilliant lawyers at the Office, and Rich was definitely one of them. But wh struck me about him was how deeply committed he was to the work. Working for Rich was a revelatio and I started following him around like a puppy.

In 2002, Rich formed the International Narcotics Trafficking Unit, known as INT, to go after th most sophisticated transnational narcotics organizations. He saw evil in the drug world and believed th he could make a difference. Joining INT meant buying into that mission completely and learning how be a prosecutor under Rich's exacting standards wasn't easy. But it proved invaluable. Rich firml believed that the greatest sins a prosecutor could commit were being outworked or under-prepared. Yo would have a short and miserable time in his unit if you ever went into court without having done yo homework.

Once he assigned me to a case that was set to go to trial in just three weeks. The defendant was th first to be extradited from Colombia solely on money-laundering charges, and Rich let me know th gravity of the case when he assigned it to me.

"Losing is not an option," he told me. "If you lose this case, extradition from Colombia will end as w know it." He repeated that warning to me every day through the end of the trial. I didn't sleep muc and I probably lost about ten pounds, but the anxiety and hard work paid off: the jury was out for le than an hour before convicting the defendant on all counts.

Years later, when I had a staff of my own at SIGTARP, the question "What would Sullivan do?" w an important guidepost in navigating the treacherous waters of Washington. I tired to make his ethos "always the right thing, rarely the easy thing" my own.

Little did I know how relevant the experiences I would gain through investigating, prosecuting, an fighting over those cases would be when I later tried to gain my bearings in Washington as the speci inspector general for TARP.

In early 2004, Rich had asked me to jump onto an investigation into what would prove to be th world's largest narco-terrorist cartel, the Revolutionary Armed Forces of Colombia, or FARC. FARC wa one of South America's oldest insurgencies, an old-school Marxist-Leninist guerrilla organization th had fallen on hard times after one of its sources of funding, the former Soviet Union, collapsed. To fun its terrorist activities, FARC forcibly moved into the nuts and bolts of cocaine production. It wasn't you typical cartel of powerful traffickers, it was a 20,000-member army that operated out of the Andea jungle and controlled a large portion of the Colombian countryside. As we later learned from o investigation, they ruled with an iron fist, ripping children from local peasant families and forcing the to "enlist," routinely raping their female recruits, and often engaging in the gruesome torture and murd of those who dared to steal from their narcotics enterprise (including dismembering a suspected thi alive with a chainsaw in front of his friends and family). The FARC would even murder the chil "recruits" who later tried to escape, often ordering other children to carry out the executions.[3] When asked Rich how I was supposed to proceed, he told me simply to go down to Bogotá and figure it out.

In doing so, we were going to be stepping on the toes of the Justice Department, a preview of th hostility I would later have to deal with at Treasury. The Office had an occasionally contentio relationship with Main Justice, or DOJ, the Washington division of the Department of Justice. All U. Attorney's Offices report to the deputy attorney general of the United States, who in turn reports to th attorney general. Also reporting to the deputy attorney general is an assistant attorney general wh oversees a bevy of Washington-based prosecutorial sections that are divided into subject matter are such as fraud, organized crime, money laundering, narcotics, civil rights, and terrorism. Those section have ~~overlapping jurisdiction with the U.S. Attorney's offices, which occasionally leads to turf~~ battl over which office gets to prosecute high-profile cases.

The Office, though, had become an island of independence from Main Justice, with prosecuto generally able to avoid the usual politics. We were allowed to just be prosecutors, while the U.S. attorne fought the necessary battles to keep DOJ at bay.

In the FARC case, however, Rich was asking us to be the ones to invade someone else's turf. He gav us marching orders to essentially pick a fight with three different offices in Washington that had bee investigating the FARC—unsuccessfully—for years: DOJ's Narcotics and Dangerous Drugs Section, th Counter Terrorism Section, and the U.S. Attorney's Office for the District of Columbia. Together wit the leadership at the Drug Enforcement Administration (DEA) and the FBI, they had developed a official FARC narrative: though certain rogue groups within FARC, called "fronts," might have bee engaged in narcotics trafficking, the organization as a whole was not.[4] That narrative was fully supporte by the State Department, which likely wanted to keep its options open in case an opportunity arose broker peace between FARC and the Colombian government. It also justified DOJ's tepid results aft years of investigation: only a handful of charges against FARC guerrillas. I was to learn while SIGTARP that "adopting a narrative" was a tried-and-true tactic in Washington: define the status quo a success, and then ignore all evidence that suggests otherwise.

Rich was stepping in on the FARC case because the Office had received a request from a DEA grou working in Colombia. By working with nontraditional sources, including military intelligence agenci from both Colombia and the United States, our agents had gathered evidence that proved that FARC leaders had transformed their "revolution" into a sophisticated and fully integrated drug-traffickin organization. But when the agents had taken their preliminary findings to the DOJ attorneys handlin the FARC case, they were rebuffed. They then brought the evidence to us.

Once I jumped on board, my partner on the case, Eric Snyder, and I soon established a near-consta presence in Bogotá, supported by two DEA groups, one in Bogotá and another in New York. Befo long, we were awash in evidence that the FARC was the world's largest narcotics cartel, responsible f producing more than half of the world's cocaine. Within months we'd developed enough proof support an indictment that would charge the top fifty FARC leaders in a sprawling conspiracy to impo cocaine into the United States—a remarkable accomplishment by some of the most committed an hardworking law enforcement agents whom I have had the pleasure to know.

If, like me, you'd never worked in Washington, you'd think that DOJ and the higher-ups at DE would've been thrilled. After all, in a few short months we had advanced a moribund case to th precipice of becoming one of the largest narcotics prosecutions in U.S. history. The political reality wa far different. DOJ apparently viewed our success as proof of its own failure, and following the logic th is unique to Washington, it worked to kill our case. By July 2004, the three different groups prosecutors were working with each other with an energy that they had never applied to actual investigating FARC. On July 15, 2004, I was summoned out of Colombia to Washington to "brief" th DOJ leadership team. It was, as Rich later described, an "ambush." I spoke for less than five minute before a preordained "consensus" was reached by everyone in the room—except, of course, o investigative team—that the New York–led FARC investigation would take a backseat to th Washington-based prosecutors.

We ignored the edict and continued to move forward, but we started receiving pressure from all side The DEA leadership in Washington became hostile, and our agents began getting messages that pushin too hard on the case could be detrimental to their careers. When the head of our Bogotá group w hauled up to DEA headquarters, I went too and had to watch him get dressed down by DEA's chief o operations for simply doing his job.

The State Department also started getting into the act, and several times I was called in from the fie to the embassy in Bogotá to be yelled at by the deputy chief of mission (the number two person in t embassy), who threatened to toss me out of the country for imaginary offenses, such as violating count clearance protocols and supposedly "duplicating" the efforts of the DOJ prosecutors—all apparent planted by DOJ sources in Washington. That summer we easily spent as much time fighting DOJ as w did investigating FARC.

Apparently the State Department had played this role in drug cases before. On one of my train rid between Washington and New York, I was working on my laptop when a man sat down next to me an started looking over my shoulder. I twisted the computer screen around so he couldn't see what I wa working on, but he arched his head and moved so close that I could smell the coffee on his breat Annoyed, I turned to him to tell him to back off when I recognized that he was then Senator Josep Biden. We chatted at length about narcotics law enforcement, and he told me that he worked extensive on international narcotics legislation. Right as we were approaching his stop in Wilmington, he turned me, handed me his card, and told me to stop by his offices next time I was in Washington. Then h offered a parting thought.

"Neil, you know what the biggest single hurdle is to enforcing the narcotics laws internationally?" asked.

"What, Senator?" I dutifully responded.

"Not the traffickers. Not the corruption. The State Department. The United States State Department He turned and headed off the train.

By August 2004, notwithstanding the interference from Washington, we had made tremendo progress. I was in Bogotá preparing the agents to go to the grand jury in New York to seek th indictment of dozens of the top FARC leaders when Rich forwarded to me a memorandum from t Washington-based prosecutors to the deputy attorney general, or DAG. The memo essentially requeste that the DAG order us to shut down our case and fall in line behind the Washington prosecutors.

I was dumbfounded. I knew turf battles were normal when you were going after big traffickers, b this was different. We were in the midst of a fully developed investigation, and I couldn't believe that a of our hard work might end up being for nothing, buried in a filing cabinet.

The DAG's office made the Solomonic decision to split the baby in half. Though we would continu to "lead" the case, we were going to have to charge and try the case out of the prosecutors' offices Washington.

It was maddening. The DOJ attorneys had done little work on the case except disrupt o investigation, and instead of being punished for their obstructionism, they were now being reward with a prize. Because the case would be brought out of their offices, they would be able to claim landmark conviction without having done any of the work.

After I hung up the phone and relayed the news to the agent I was having a drink with in Bogotá declared, "I'll tell you what I learned from this whole thing. I will never, ever take a job in Washingto The people down there don't care about justice or protecting the United States. It's all about bullshi ego, politics, turf, and credit."

I had no idea at the time how wrong I was about myself and how right I was about Washington.

ULTIMATELY, IT WAS the FARC case, in a roundabout way, that put me on the path to SIGTARP. One o the ~~breakthroughs in the case was the Colombian army's willingness to share the names of former~~ FAR guerrillas who had defected and sought asylum. One of the best was "Jane," who gave us detaile corroborated evidence of FARC's dominance of the Colombian cocaine trade. During my third meetin with Jane in Bogotá, I told her that she was going to be one of a handful of witnesses whom we'd b bringing back to the United States and putting into the Witness Protection Program. Pregnant, sh seemed excited by the news. As we wrapped up the meeting, Jane told me, "Mr. Neil, there's something must tell you."

"Okay," I said.

She looked around the room at the DEA and Colombian agents, and said, "If it's okay, I'll tell you i New York, okay?"

"Sure," I responded. By that point I'd spoken to scores of former FARC guerrillas and knew all to well about the sadistic violence and abuse that FARC leaders inflicted on their female members. thought that she was too embarrassed to talk about it in front of her Colombian handler.

A couple of months later, back in New York, she told me her news. The FARC, she said, had learne of our case and sent fake defectors to infiltrate the investigation. The most successful of them was Jan herself, who had gone back into the jungle to debrief the FARC after our first two meetings. Before o last meeting, the FARC had directed her to kill me, but she had refused. Instead, they had sent her bac to Bogotá with a militia group that would kidnap me, if possible, and murder me if not. Jane w supposed to call in the location of our last meeting to the waiting terrorists during one of our breaks.

She told me that she had been fully prepared to carry out the plan, but had changed her mind after offered to put her into U.S. witness protection, which she considered a better deal. Her decision was n without consequences, though. Jane was shot at before we took her out of Colombia, and she lost th baby. She told us that FARC had also killed her last remaining family member, a brother, in retaliatio for her betrayal.

I was lucky. We had offered to bring only a few witnesses to the United States, and it was pu happenstance that I chose that particular meeting to tell Jane that she was one of them. To remind me o that luck, I still keep an inscribed bayonet knife on my desk that I was told was taken off a dead FAR soldier and given to me by the Colombian National Police.

Though we were eventually able to charge the top fifty leaders of the FARC and extradite a handful defendants (including one of the leaders responsible for plotting my kidnapping), I decided after th near miss that my days of chasing drug lords in Colombia were over, and I soon transferred to th Office's Securities Fraud unit.

MY NEXT BIG CASE came a year after my transfer and was against the executives of the commodities gia Refco, which had collapsed in 2005 under the weight of a multibillion-dollar accounting fraud. It w the latest in a string of massive accounting frauds that had brought down firms such as Enro WorldCom, and Adelphia.

I threw myself into the case, which would later prove instrumental in my understanding of some the causes of the financial crisis. I also received an amazing education in securities fraud and Wall Stree My professors included forensic accountants, investment bankers, experienced securities lawyers, priva equity executives, and, for the lessons in fraud, a cooperating witness, Santo "Sandy" Maggio. He ha spent almost his entire career on Wall Street committing fraud, and at Refco he had acted as the hatch