“CREATIVE” WALL STREET AND MONEY-LAUNDERING

I have long maintained that we will eventually learn that Citibank took over where BCCI and then Riggs Bank left off: serving as a money laundering vehicle used by drug cartels and other organized crime, terrorists, and spooks. But this article (h/t scribe) on the role of big banks in laundering Mexican drug money reports that—while Citibank has been implicated in money laundering (but took the appropriate regulatory steps in response)—there are a number of other banks deeply implicated:

- Wachovia (now owned by Wells Fargo)
- Bank of America
- American Express
- HSBC
- Banco Santander

Most of these banks were implicated in Mexican legal filings. But in March, Wachovia entered into a Deferred Prosecution Agreement with the government that reveals some of the details behind its money laundering.

The DPA lays out the means by which Wachovia enabled money laundering as follows:

- Allowing Mexican Casas de Cambio (exchange houses) to wire through Wachovia. From May 2004 through May 2007, Wachovia had processed at least $373 billion in CDC wire activity.
- Offering a “bulk cash” service, in which Wachovia

would arrange physical transport of large amounts of US dollars collected by the CDCs into the US. From May 2004 through May 2007, Wachovia processed over $4 billion in bulk cash for the CDCs.

- Providing a "pouch deposit" service, in which CDCs would accept checks and travelers checks drawn on US banks, aggregate them into a pouch, and then forward them to Wachovia for processing. By May 2005, Wachovia had set up a digital scan system for this service. From May 2004 through May 2007, Wachovia processed $47 billion in digital pouch deposits for all its correspondent banking customers, including what it did for the CDCs.

The DPA also describes how Wachovia helped telemarketers steal directly from victims' accounts–the subject of an unrelated lawsuit going back some years.

So here are two key details of this.

First, it appears that Wachovia deliberately got deeper into money-laundering for CDCs in 2005 even as the government issued more alerts about the way drug cartels were using CDCs.

> As early as 2004, Wachovia understood the risk that was associated with doing business with the Mexican CDCs. Wachovia was aware of the general industry

> warnings. As early as July 2005, Wachovia was aware that other large U.S. banks were exiting the CDC business based on [anti-money laundering] concerns.
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> Despite these warnings, Wachovia remained in the business. And in September 2005, Wachovia purchased the right to solicit the international correspondent banking customers of Union Bank of California ("UBOC"). Wachovia knew that UBOC was exiting the CDC market due to AML problems. Wachovia hired at least one person from UBOC who had a significant role in the CDC business at UBOC. After UBOC exited the CDC business, Wachovia's business volume increased notably.

September 2005 was definitely before most people realized the giant shitpile—of which Wachovia held more than its fair share—was going to explode. But Wachovia was already deep into it.

So $373 billion in wire services (some of which were surely legal), $4 billion in bulk cash services, and some portion of $47 billion in digital pouch services (again, some of which is surely legal and may pertain to remittances). Compare those numbers to the $40 to $60 billion or so in Wachovia subprime losses Wells Fargo ate when it took over Wachovia. Was Wachovia laundering money for drug cartels because it was so badly exposed in mortgage-backed securities, or was it so heavily involved in products that could be used for money laundering just for fun?

Now, for all of this, DOJ made Wells Fargo pay $160 million: $50 million that is an outright fine, and $110 million for what DOJ said it had identified as clear drug proceeds laundered through Wachovia. Now, granted, DOJ is fining Wells Fargo (beneficiary of huge amounts of free money from the Fed in recent years and the recipient of huge tax deductions for taking over Wachovia), not Wachovia. And granted, this was the largest fine ever for money laundering. But as the Bloomberg story notes, that's less than 2% of Wells Fargo's profits last year. And isn't even as much as Wachovia got in deposits—$418 million—from the fraudulent telemarketing scheme.

Then there's the bigger question. Who else was using these vehicles? Banks that enable this kind of money laundering tend to be indiscriminate about their client base. And as I noted when I started this post, money laundering for drug cartels tends to go hand in hand with money laundering for other organized crime, terrorists, and spooks. Given the scale of what Wachovia was doing, where are the other busts?

And while we're looking for those other busts, note that the investigation of Wachovia started in May 2007, 17 months before the government brokered the Wells Fargo takeover. Is there any chance that Treasury, which would have been involved in this, was unaware of the massive amounts of money laundering Wachovia had been engaged in when they brokered that deal? Recall, too, the weirdness over the competition between Citi and Wells Fargo for the privilege of taking on the Wachovia shitpile. The Federal government was at one point prepared to take on a portion of Wachovia's shitpile to allow Citi to take over the bank for a dollar a share. And when Citi CEO Vikram Pandit lost out on the deal, Andrew Ross Sorkin reported in *Too Big to Fail*, he told Sheila Bair, that "This isn't just about Citi … There are other issues we need to consider. I need to speak to you privately. … This is not right. It's not right for the country. It's just not right!"

I don't want to get too tinfoil about this. But it strikes me that the efforts to keep Wall Street and all its celebrated creativity intact serves to make it easier for banks like Wachovia to engage in widespread money-laundering. That is, it's not just shadow banking as it is politely understood, but banking for entire shadow networks, both our own and our enemies.

Update: Aaron v. Andrew fixed–thanks SaltinWound.

Update: Here’s the full Bloomberg story.