

# WHAT IF WE SCRUBBED WACHOVIA LIKE WE DID THE LEBANESE CANADIAN BANK?

I'll have several things to say about Jo Becker's story on the big Hezbollah money laundering ring. For the moment, I'm most interested in how Treasury Department authorities uncovered the ring: by first declaring Lebanese Canadian Bank a money launderer, providing reason to break it up. When an affiliate of Société Générale agreed to buy the bank, they also agreed to scrub its money laundering accounts. To do so, it specifically had someone beyond the Big Four accounting firm that had "overlooked" the accounts in the past scrub the books, including bringing in John Ashcroft.

As part of its own agreement with Treasury officials, Lebanon's Central Bank set up a process to scrub the books. But compliance officers at S.G.B.L.'s French partner, Société Générale, were skeptical of the Central Bank's choice of investigators. One of them, the local affiliate of the international auditing firm Deloitte, had presumably missed the drug-related accounts the first time around, when it served as the Lebanese Canadian Bank's outside auditor.

And, according to people knowledgeable about Lebanese banking, the central bank's on-the-ground representative had been recommended to that post by Hezbollah.

As an extra step, to reassure wary international banks, the chairman of S.G.B.L., Antoun Sehnaoui, commissioned a parallel audit, with the help of

Société Générale's chief money-laundering compliance officer. And to make sure that his bank did not run afoul of Treasury officials by inadvertently taking on dirty assets, he also hired a consultant intimately familiar with the Patriot Act provision used to take the bank down: John Ashcroft, the former attorney general whose Justice Department wrote the law.

And then it investigated (presumably using pattern analysis) each and every account at the bank.

Initially, the auditors looked only at records for the past year. As they began combing through thousands of accounts, they looked for customers with known links to Hezbollah. They also looked for telltale patterns: repeated deposits of vast amounts of cash, huge wire transfers broken into smaller transactions and transfers between companies in such wildly incongruous lines of business that they made sense only as fronts to camouflage the true origin of the funds.

Each type of red flag was assigned a point value. An account with 1 or 2 points on a scale to 10 was likely to survive. One with 8 or 9 cried out for further scrutiny. Ultimately, the auditors were left with nearly 200 accounts that appeared to add up to a giant money-laundering operation, with Hezbollah smack in the middle, according to American officials. Complex webs of transactions featured the same companies over and over again, most of them owned by Shiite businessmen, many known Hezbollah supporters. Some have since been identified as Hezbollah fronts.

So effectively, they took a bank known to ignore

money laundering controls and took it apart, piece by piece, to see all the money laundering it had sheltered.

Compare how the US dealt with Wachovia, which was involved in laundering a far greater chunk of money for drug cartels: \$363 billion.

US authorities partly became aware Wachovia was helping cartels launder money when they captured a plane in 2006. In addition, the DEA first noted their role in launder Casas de Cambio money in 2005, and a British whistleblower had identified signs that same year.

But it's clear that by 2007 officials from top regulators were aware of the problems.

Late in 2007, Woods attended a function at Scotland Yard where colleagues from the US were being entertained. There, he sought out a representative of the Drug Enforcement Administration and told him about the *casas de cambio*, the SARs and his employer's reaction. The Federal Reserve and officials of the office of comptroller of currency in Washington DC then "spent a lot of time examining the SARs" that had been sent by Woods to Charlotte from London.

"They got back in touch with me a while afterwards and we began to put the pieces of the jigsaw together," says Woods. What they found was – as Costa says – the tip of the iceberg of what was happening to drug money in the banking industry, but at least it was visible and it had a name: Wachovia.

But the prosecution of Wachovia wasn't initiated until after Wells Fargo took it over in 2008. Which means Treasury could have insisted on the same process—an examination of a bank with known problems with money laundering to find all of its criminal clients.

It's possible Treasury did—or is still doing

that. Though reports suggest they primarily looked at the methods already identified—CDCs and travelers checks—as laundering vehicles Wachovia facilitated, which is the reverse of what seems to have happened with LBC. Note, too, the cartel plane belonged to Sinaloa, which has had a very odd cooperation agreement with US authorities. What would Treasury find if it examined all of Wachovia’s accounts for money laundering activity? Or any of the banks salvaged with the help of bailouts from taxpayers?

The former head of the UN’s drug and crime office has explained that the liquidity crises banks have faced in the last decade has made them a lot more interested in handling the cash of organized crime.

During Costa’s time as director for economics and finance at the EC in Brussels, from 1987, inroads were made against penetration of banks by criminal laundering, and “criminal money started moving back to cash, out of the financial institutions and banks. Then two things happened: the financial crisis in Russia, after the emergence of the Russian mafia, and the crises of 2003 and 2007-08.

“With these crises,” says Costa, “the banking sector was short of liquidity, the banks exposed themselves to the criminal syndicates, who had cash in hand.”

Costa questions the readiness of governments and their regulatory structures to challenge this large-scale corruption of the global economy: “Government regulators showed what they were capable of when the issue suddenly changed to laundering money for terrorism – on that, they suddenly became serious and changed their attitude.”

Shouldn't every bank that becomes insolvent be examined for such laundering?