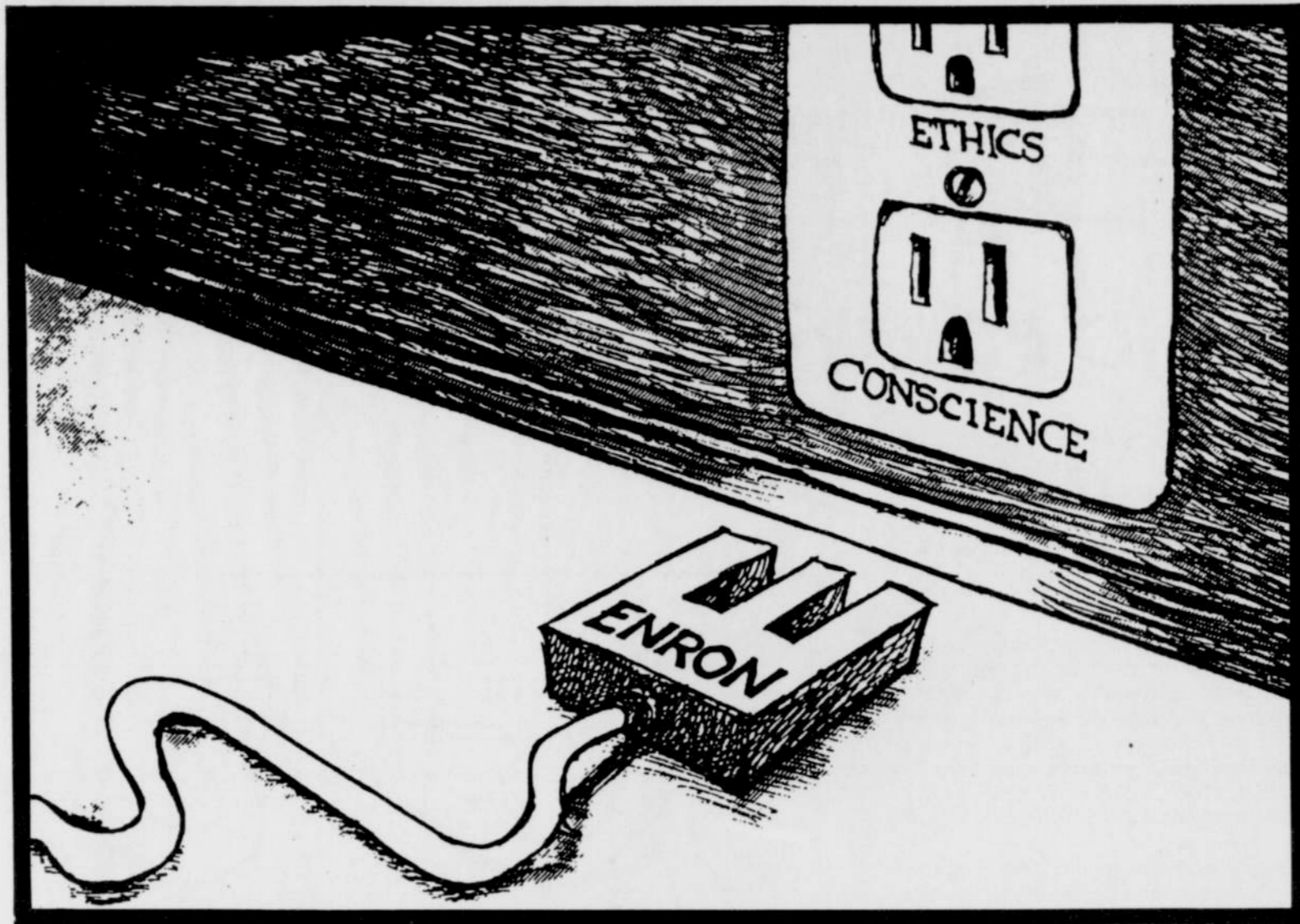


THE REAL DEAL ABOUT ENRON

AN INTERVIEW WITH CATHERINE AUSTIN FITTS



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'If my years working on the clean up of BCCI and the S&L crisis taught me one thing that I would communicate today to shareholders, retirees and employees who have been harmed, it is this: people like those on the board of Enron absolutely make money from insider trading, bid rigging and fraud, and they do so with help from the highest levels.'

~CATHERINE AUSTIN FITTS

BY DAN ARMSTRONG

What investment banker Catherine Austin Fitts invariably emphasizes in her discussion of global money flows is the extent to which criminal proceeds play a part in the real world economy. This should come as no surprise to anyone. Not after all America watched their pension funds stripped away, while dot.com CEOs pocketed millions of dollars in profits from stock market "pump and dump" schemes. Not after energy traders like Enron, Dynegy and Reliant have been accused of using the California energy crisis to manipulate the market, causing vicious price hikes, rolling brownouts and power shortages. No. In this past year our naïveté and trust in Wall Street, perhaps the world in general, has collapsed much like the World Trade Center did that fateful September morning.

The world really isn't any different, it's just that some of the veils have been shorn away, and long-time Wall Street insider Fitts figures there's no sense pretending innocence any longer. Tax evasion, insider-trading, drugs sales, black budgets and terrorism are significant parts of global economic dynamics. It's simply how the money works in a financial system where so-called creative accounting methods are as transparent as mud and money laundering is part of the quantum mechanics of financial law. "The real deal," as Fitts refers to her straight analysis of money flows, "is that financial fraud in all its wide variety of deceptions, is the most profitable business on the planet today." Based on her eleven years experience on Wall Street and eight years working with federal agencies cleaning up HUD and several large banking scandals, my guess is that Ms. Fitts knows what she's talking about.

The U.S. Department of Justice estimates that \$500 billion to \$1 trillion in criminal proceeds are laundered annually worldwide. It may be twice that. And the *Real Deal* is you can't do accurate economics if this isn't accounted for. Sums this large — tens or hundreds of billions of dollars, says Fitts, can only be laundered into the system through Wall Street and the central banking system. Companies like Worldcom, Tyco and Global Crossing. Banks like Citigroup, JP Morgan-Chase and the New York Fed. This isn't wild talk. We've heard it all in the

unraveling of the Enron web already. The largest banks do the largest business transactions and they are the only ones capable of disguising the underside of these vast financial flows. This is curious and profound commentary from a former Managing Director and board member for the elite New York firm Dillon Read, Inc. and onetime Assistant Secretary of HUD. When she looks at the Enron bankruptcy, with her BCCI (known as the "Bank of Crooks & Criminals") and Savings & Loan (S&L) cleanup experiences to draw upon, she aptly quotes Yogi Berra, not Paul Volcker, to describe what she sees: "It's déjà vu all over again."

Catherine Austin Fitts began her career in 1978 at Dillon Read in corporate finance and mergers and acquisitions. Eight years later she became the firm's first woman Managing Director and board member. Her success raising capital for renovation of New York's subway system, City University of New York, and several other major projects prompted *Business Week* to refer to her as a "Wonder Woman" and provoked a reputation in financial circles that she could fix anything.

Fitts left Dillon Read in 1989 to join the first Bush administration, working as assistant secretary to Jack Kemp at the Department of Housing & Urban Development with the task of "fixing" HUD and the Federal Housing Administration, and cleaning up the S&L scandals. In 1990, she was named to the Securities & Exchange Commission's Emerging Market Advisory Committee. A year later Treasury Secretary Nicholas Brady and Chief of Staff John Sununu asked her to be a governor on the Federal Reserve Board and a member of the board of Sallie May. Heady stuff for a woman of 40. But she had already started her own investment bank and software firm, Hamilton Securities Group, Inc., and respectfully turned down the Federal Reserve offer.

In 1993, Hamilton Securities, Inc. successfully won a competitive contract bid with HUD to reengineer portions of its \$500 billion portfolio of mortgage insurance, mortgages and properties. While fulfilling its contract, repackaging and auctioning off \$10 billion of defaulted FHA loans, Hamilton Securities developed a package of software tools to access publicly available online government financial records. This included an online disclosure and bid optimization system for the sale of defaulted

HUD loans and an easy-to-operate program called *Community Wizard*, which allowed local users to create "place-based" data bases to track government money flows and facilitate business in their own neighborhoods.

Hamilton Securities' efforts and loan sales software would save the FHA funds billions of dollars and earned Vice President Al Gore's 'Hammer Award' for reengineering government. Also *Community Wizard*, perhaps Hamilton's most powerful innovation, became the central piece in prototyping a computer learning center and data process service in the Edgewood Terrace apartment building, as part of Fitts' idea to move neighborhoods from government subsidy to entrepreneurial business through private markets and investment. Following her very successful career line, Fitts again was a shining light in the dark of federal credit and balance sheets.

However, an unforeseen side-effect of online tools like *Community Wizard* was that while clearly showing how clean money worked in neighborhoods, the software also showed how the dirty money worked, inadvertently providing a checks-and-balances for the use of federal housing moneys. Certain HUD problems became more visible. The detailed "place-based" data provided the basis to estimate who had been getting inside sweetheart deals or where fraud was indicated. There were also many discrepancies in HUD's books — later it became apparent that they ran into the tens of billions of dollars.

The next thing Fitts knew she was under investigation by the Department of Justice (DOJ), FBI and HUD Inspector General in response to a series of lawsuits filed by a HUD contractor, Ervin Associates, whose servicing contracts and responsibilities dealing with defaulted mortgages had been displaced by Hamilton Securities' loans sales auctions. This began a process of audits, investigations and inquiries as well as a smear campaign to discredit Fitts personally and professionally. As it turned out, for all its benefit to accounting clarity and the efforts of honest people, *Community Wizard's* open window to federal money and credit was not what the politically inbred contractor fraternity wanted.

Seven years and all-hell-to-pay later (she compares her life during this period to that of a character played by Will Smith in the movie *Enemy of the State*), Fitts and Hamilton Securities,



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