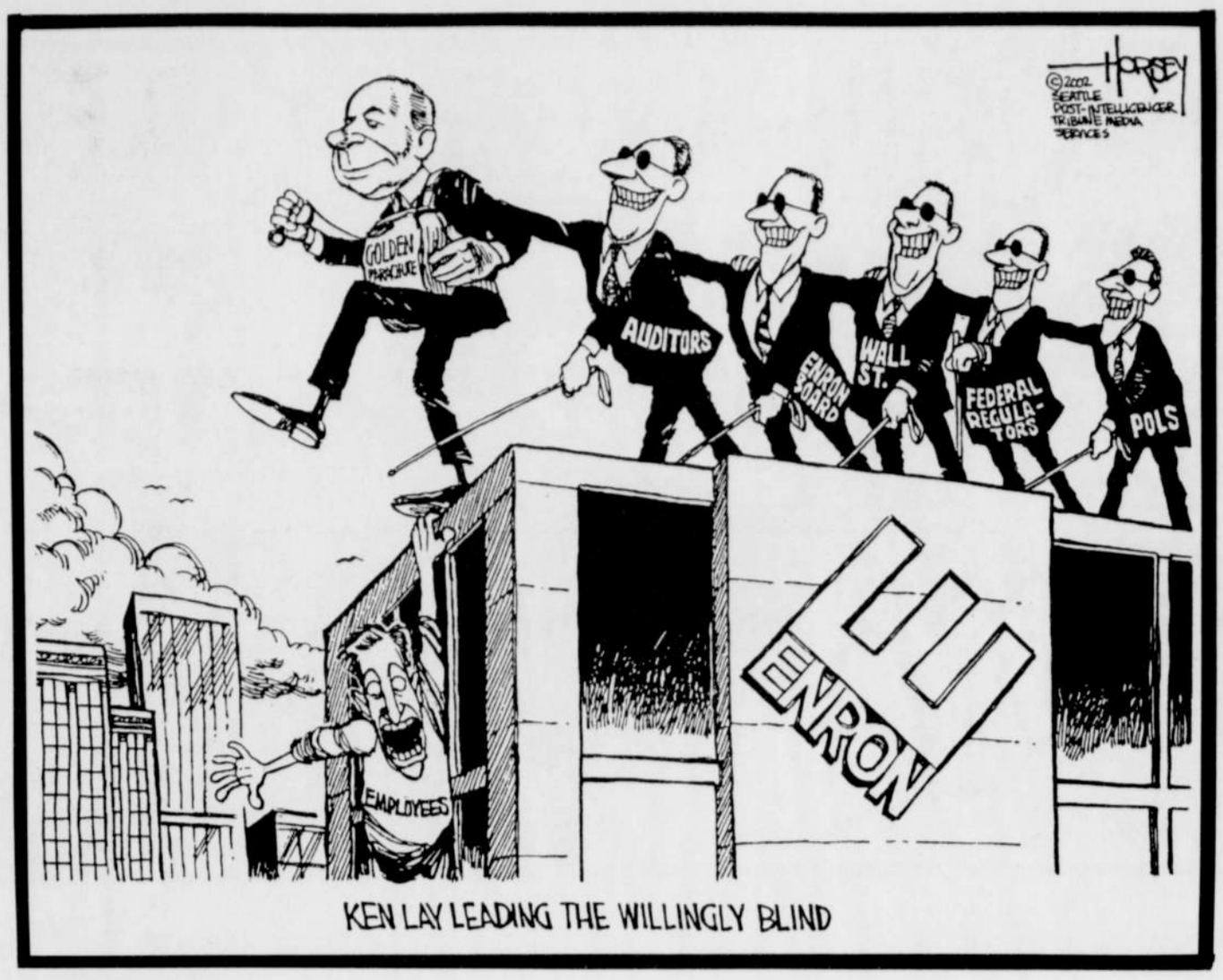
Inc. emerged entirely exonerated from all allegations of wrongdoing — more than that, it was proven she had done a lot of good for the taxpayers and communities. In these times, when honesty and accountability must be held at a premium, Fitts' bold revelations into the holes in HUD's books and several other federal agencies, as well as her insights into the relationships between government and banking syndicates, have made her more respected in serious financial circles than ever before.

Today Catherine Austin Fitts is Solari Inc., a pioneering investment advisory firm aimed at bringing the power of investment databases and equity finance to neighborhoods. That is, she's out there with a positive vision, offering to all communities what she prototyped at Edgewood Terrace in 1994.

Make no mistake about it, Fitts is all Wall Street experience and straight-ahead common sense. She minces no words bringing transparency to the (now more than a year old) Enron fiasco. "I will bet the last dollar I have that Enron was part of the largest laundromat of stolen and tax evading dollars in American history and that the Department of Justice's primary goal is cover-up," she says. And as the following interview will attest, she has seen enough in her time to lay out a pretty convincing case.



KEN LAY LEADING THE WILLINGLY BLIND

DAVID HORSEY*

THE INTERVIEW

***DA**: In 1989 and 1990, Catherine, you worked for HUD Secretary Jack Kemp in the first Bush administration. Kemp was a member of the oversight board for the Resolution Trust Corporation (RTC) that was set up for the S&L cleanup. Part of your responsibilities at HUD was to provide regulatory support to Kemp and to the RTC people and its operation, regarding mortgage and property disposition. Also, between 1994 and 1996 you served as a board member of First American Corporation after former New York Banking Commissioner Harry Albright was appointed trustee of the First American Resolution. You were there to assist in selling First American financial assets and unraveling its BCCI connections.*

CAF: That's correct. I was initially brought into the Bush administration to ensure that the Federal Housing Administration at HUD was sound and to help clean up the Iran-Contra fraud at FHA/HUD. There were also fraud issues related to regulatory responsibility in the Freddie Mac, Fannie Mae, Federal Housing Loan Bank system, and the U.S. mortgage market — that dovetailed into the S&L work. After I left HUD, I became a member of Carteret Savings & Loan to help some old partners with more S&L cleanup. Since my days at Dillon Read, I had a reputation for successfully reengineering financial situations that others thought were hopeless.

***DA:** Beginning in 1996, your company Hamilton Securities, Inc., which was on a competitive contract with HUD as a financial advisor was sued by HUD contractor Ervin Associates and then investigated by the Department of Justice for alleged insider trading, bid rigging, fraud and other conflicts of interests. No basis was found to support any of those allegations by their investigators in 1996, then again in 1997, and finally a year ago they dropped all investigations. Those allegations against Hamilton are similar to those filed against Enron Corporation. So not only have you been part of the cleanup of several large and complex fraud cases, but you have also been on the receiving end of a DOJ investigation — on allegations not terribly different than those in the Enron case. Additionally, you were a member of the SEC's Emerging Market Advisory Committee from 1990 to 1993. Clearly, you must have a pretty good sense of corporate law and firsthand knowledge of what goes on in government investigations.*

I know from articles you have written that you are not fully convinced the investigation of Enron is in good faith — also that you feel a lot of mistakes and omissions were made in the way the DOJ initiated its investigation. Can you explain some of this?

CAF: There are seven steps that should have been taken if the federal intelligence, regulatory and prosecution agencies were serious about stopping the Enron fraud, getting our money back and holding guilty parties accountable. All seven are based on two fundamental principles that you always see working when prosecutors and investigators are doing a competent job.

The first fundamental principle is: Make sure you have control of all the data and information about money and how that money is used in the organization.

The second fundamental principle is: Make sure you use that control — of the data and information — to gain control of any cash that was stolen or wrongfully used.

Let me emphasize at the outset that Enron's management and board of directors and their accountants and banks have admitted to securities violations, gross negligence, sham transactions and obstruction of justice. So let's not skirt the issue: we have a self-proclaimed criminal enterprise. I believe that Enron was also engaged in additional financial fraud and money laundering.

***DA:** Michael Kopper, the first Enron employee to be arrested, pleaded guilty to one count of conspiracy to commit wire fraud and one money-laundering charge in late August last year. Is that what you meant by additional financial fraud?*

CAF: This is just the narrowest edge of what I was suggesting. I will expand upon that as we go along. When there is a possibility of any of these kinds of crimes, the first thing a serious investigation, regulatory and enforcement effort does is to establish control of both the records that document how the money works and the cash. It helps to compare financial fraud such as Enron participated in to a game of basketball. The ball is the cash and you want to keep your eye on the ball at all times. Keeping that in mind, let's walk through the seven steps of what a competent investigation and prosecution effort should have done.

The first step is to get all the documents.

By all the documents I mean all the papers and digital records of Enron and its 3,000 subsidiaries and special purpose entities that inform "how the money works," both onshore and offshore. You also make sure you get control of all the Enron-related records at their banks, auditors and other vendors, both onshore and offshore. It's impossible for us to tell, from where we are, the exact extent of the supoena or other discovery actions that have been taken, but clearly there's a great deal that has not been done —particularly offshore — just based on the public record. We know the government permitted extensive shreddings of documents by Arthur Andersen and Enron, something that is incredibly disturbing because it proves that months into the investigation, the SEC and DOJ chose not to assert the initial control that was essential to the success of any investigation.

***DA:** In your case with Hamilton Securities, an instance where government auditors later verified your innocence, the DOJ wasted no time seizing your office, your records and your cash.*

CAF: Yes. To me this is the big giveaway. The DOJ simply did not take timely control of Enron's documents. In Hamilton Securities' case DOJ and their informant were responsible for destroying the digital infrastructure of a company whose operations and equity value was dependent on those databases, software tools and documentation. They took extreme measures to get control of all digital and paper records — even when their own investigators documented there was no need. In Enron's case, the DOJ politely skipped over all this — and the second step in an investigation: You never allow the transfer of assets before you assert the appropriate controls. And yet we've seen the government readily permit the transfer of Enron Online to the Union Bank of Switzerland (UBS), one of Enron's largest creditors. So now it's very possible that a great deal of information that would be needed for a proper investigation is under the protection of the privacy laws of a Swiss bank.

***DA:** As I understand it, Citigroup and Morgan-Chase, who have been mentioned in the Enron web, were also part of the holding process for Enron Online that took place in January 2002.*

CAF: Yes, one would expect that. Like UBS, they were major Enron creditors. But what's interesting, and perhaps significant to note, is that a recent addition to the UBS board is Lawrence Weinbach, a former chairman of Arthur Andersen, the accounting firm that shredded Enron documents.

***DA:** I saw that. Lawrence Weinbach had been CEO at Unisys since 1997. Prior to that he spent nine years as managing partner and chief executive for Andersen Worldwide — which includes Arthur Andersen where Weinbach began his career in 1961. UBS announced Weinbach as chairman of their Audit Committee Board on February 22, 2002. UBS bought Enron's North American wholesale electricity and natural gas trading business on January 18, 2002. The timing is certainly curious.*

CAF: Enron was also permitted to sell and transfer its gold bullion and gold derivatives trading operation. Understand that to be able to make these two sales and transfers of Enron Online and the gold operations as quickly and quietly as they were, in the middle of an initial bankruptcy filing, was nothing short of miraculous based on what I've been told by bankruptcy attorneys. In combination with the illegal shredding, it would have permitted the coordination of the cover up of possible money laundering or financial fraud between the banks and Enron Online. These sorts of things will be easier to keep hidden because one of the creditors and trading partner banks now controls what is probably the most likely guilty entity. Thus the ability of any prosecutor to play the banks and the target off against each other in the discovery and investigation process is diluted or lost.

***DA:** So the government allowed the transfer of assets in a way that may prevent access to the documents and personal necessity for a successful investigation and recapture of stolen moneys. Does this also mean that the bank records can be coordinated with Enron Online discovery behind the protection of attorney/client privilege?*

CAF: It would appear that way. Sales and transfers of assets have proceeded without complete and timely federal control of paper and digital records, including computers and all data storage devices. Unlike Enron, Hamilton Securities did not shred documents and provided redundant copies of records and backup computer tapes to counsel who provided assurances to the federal government that no originals would be destroyed. The documents sequestered by Hamilton Securities included records of all subsidiary entities.

***DA:** In these first two steps, controlling records and assets, above and beyond collecting Arthur Andersen's documentation, communication with Enron's banks surely must be a critical part of this initial process. We've already mentioned Morgan-Chase and Citigroup as Enron creditors. But there is a specific accusation that senior credit officers at Citigroup manipulated records to hide a $125 million Enron debt to Citigroup. From what I've read, it's unclear if the federal investigators will fully pursue this. But don't the banks have to be largely involved? Compliant, perhaps complicit, to the point of assisting?*

CAF: Indeed, both Citigroup and J.P. Morgan-Chase, Enron's two lead banks, were called to task and to testify before the Permanent Subcommittee on Investigations of the Senate Government Affairs Committee on July 23, 2002. Both banks had been verified as complicit in creating "Special Purpose Entities" (SPEs) to round trip transactions as a way to loan money to Enron without calling it a loan. In the course of this maneuver, Enron and its trading as well as lending partner, Morgan-Chase, created the façade of a business/trading activity as opposed to a borrowing activity thereby falsely boosting their revenues. While both banks denied this, the testimony and documents provided to the Senate clearly support the Senate's position — making this even more egregious and suggesting the banks themselves created and controlled the SPEs.

***DA:** On September 13, 2002 a federal judge dismissed Morgan-Chase claims against its insurers, perhaps preventing the bank from collecting $935 million in losses on gas and oil trades with Enron. Then in its own defense, Morgan-Chase attorneys argued, incredibly, that the insurers knew the deals were shams intended to hide loans to Enron.What does all this doubletalk by Morgan-Chase mean?*

CAF: That we need to know if Enron, or at least Enron Online, was essentially a SPE for New York Fed member fraud and money laundering. This brings us to a question critical in getting to what was really going on at Enron — the part outside investors played in the Enron game. We can get from that the third step of our investigation: You always get document and cash control, if you can, before a bankruptcy filing.

***DA:** Enron filed for bankruptcy protection December 2, 2001.*

CAF: Before the feds asserted control, and well after numerous members of the Bush administration were informed that Enron was teetering on the verge of collapse — and after what appears to be many efforts by the administration to help keep them going, and long after the SEC investigations had begun.

When Enron filed for bankruptcy, its own board worked over a four-month period to "investigate what went wrong." This was only possible because of DOJ complicity at the time. And this is important. A bankruptcy filing gives Enron additional powers and rights to protect itself, particularly from the class action lawsuits that, on a private basis, could dig out some of the data about how the money worked and those bank relationships you brought up — even if the DOJ and SEC don't succeed in digging this out or are, in fact, covering it up.

***DA:** What you're saying is, yes, an investigation is going on, but as Congressional investigators slowly stumble through*

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David Horsey, editorial cartoonist for the Seattle Post-Intelligencer, has been awarded a Pulitzer Prize for 2003. He was awarded his first Pulitzer in 1999.