



## Bill Black Invited — Than Disinvited — to Brief Congress on Derivatives

May 31, 2012

**We Must Not Speak Uncomfortable Truths to Power: Why I Won't be Briefing Congress about Derivatives Posted on May 29, 2012 By William K. Black When I was the Deputy Director of FSLIC, House Banking Committee Chairman St Germain was helping Speaker Wright hold the FSLIC recapitalization bill hostage to extort favors for Texas control [...]**

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When I was the Deputy Director of FSLIC, House Banking Committee Chairman St Germain was helping Speaker Wright hold the FSLIC recapitalization bill hostage to extort favors for Texas control frauds, including Don Dixon's Vernon Savings (which was providing prostitutes to the State of Texas' top S&L regulator and was building towards having 96% of its ADC loans in default – which is why we referred to it as “Vermin”). The attack on our agency was that we were mad dogs biased against Texas S&Ls and causing the Texas crisis by closing too many insolvent but well-run Texas S&Ls. Our response had many elements, but one of our principal points was that the Texas S&Ls we were closing were typically control frauds. At this juncture, St Germain's staffers made a mistake. They requested that we testify on a host of issues, but the invite letter had a zinger, premised on an article saying that the Feds were slow to prosecute frauds in the Southwest. The invite specifically called for us to respond and discuss the role of fraud in the Southwest. We used the opportunity to explain the extensive role of fraud in Texas S&L failures.

The day of the hearing, I walked toward the witness table, but was called over by St Germain's chief of staff. He proceeded to disinvite us from testifying on the grounds that we had filed non-responsive testimony. (We had, of course, responded to every inquiry they made. They simply hated the response because

we documented the enormous role that control fraud was playing in causing Texas S&Ls to fail.)

Today, I received definitive word that I had been disinvited from a bipartisan briefing of members of Congress on the subject of financial derivatives. I have deleted the name of the staffer because he is not the issue. The relevant email thread is below.

The member of Congress putting the event together is one of the strongest advocates of the need for banking reform. I have assisted the Member's staff in the past in such efforts. The Member's chief of staff called me today. His position is that I was never invited to participate and that it was unfortunate that I booked the flights and put UMKC on the hook for the non-refundable fares and hotel before informing his office that I was accepting their inquiry about participation (as opposed to invitation). He explains that it is impossible physically to have me participate and that the decision not to have me participate has nothing to do with concerns about "balance" or "bank bashing." I emphasize also that, unlike St Germain's disinvitation the email thread states an interest in inviting me to speak at future briefings. I hope that such invitations will be made. The Member and the Member's staff were polite while St Germain's chief of staff was deliberately rude.

Nevertheless, I think that the Chief of Staff's phone call to me explaining their view that I was never invited makes my point. We all know that is simple to add a panelist. What is really going on is that things are so toxic in Congress now, and the largest banks are so sensitive to any criticism, that the progressives fear that any criticism of bank practices that will cause the next financial crisis will be considered "bank bashing" and will cause Republicans to be unwilling to participate. The fact that I have a 30 year record of non-partisan service to the nation on banking matters, including service as a banker with the Federal Home Loan Bank of San Francisco, does not count in such a world. We must not speak uncomfortable truths to power. You will see that it is his staff that informed me that the concerns that prevented me from joining the panel were maintaining a "consensus" about the panel's "balance" and avoiding "bank bashing."

I remain supportive, of course, of members of Congress reaching out and getting facts about our financial system, so I hope that the Member's efforts to create a series of bipartisan briefings succeed. Self-censorship, however, is most debilitating form of censorship. A "consensus" that seeks to minimize any criticism of the "too big to fail" banks on the grounds that criticism equates to "bank bashing" is a consensus to play ostrich.

Excerpts from the e mail thread:

From:

Sent: Wednesday, May 23, 2012 5:34 PM

To: Black, William

Subject: Re: Financial Services Panel Series: Derivatives

Mr. Black,

It was nice speaking with you earlier and I thank you for your consideration. Currently, the panel information is as follows:

Financial Services Panel Series: Derivatives Thursday, May 31

2:00 p.m. to 4:00 p.m.

Rayburn 2226

Moderator: – CNBC or Bloomberg

Panelists:

-Wallace Turbeville – Senior Fellow, Demos (Formerly of Goldman Sachs) -John Parsons – Senior Lecturer in Finance, MIT -Nela Richardson – Senior Economic Analyst, Bloomberg Government (formerly of Freddie Mac and the Commodities Futures Trading Commission) -Marcus Stanley – Policy Director, Americans for Financial Reform (AFR) -Chris Young – International Swaps and Derivatives Association (ISDA) -Mark Calabria – Dir. Of Financial Regulation Studies, CATO Institute

Please let me know if you have any questions or suggestions.

From: Black, William [mailto:[blackw@umkc.edu](mailto:blackw@umkc.edu)]

Sent: Thursday, May 24, 2012 10:28 PM

To:

Subject: RE: Financial Services Panel Series: Derivatives

,

I am pleased to accept your invitation to participate on the panel. My cell is [redacted]. I'll be flying in from California. Please send me information on logistics/venue etc. as soon as you have more details.

Best,  
Bill

Best regards,

May 25, 2012 10:36 a.m.

I want to sincerely thank you for your willingness to participate and contribute to the discussion. Unfortunately, we cannot add any additional participants to the panel. In efforts to proceed in a bipartisan manner, we have achieved a nice balance of individuals who will accommodate various points of views on derivatives regulations. Accordingly, adding another participant at this time would disrupt that balance and will spark concerns with our Republican colleagues.

I apologize for any inconvenience this may have caused, but I do hope you will consider joining us for the next panel we are convening to discuss the Volcker Rule. Next week's panel is intended to be the first in a series and I intend to reach out to you again and Mr. Greenberg.

Thanks again for your assistance and the resources you provided earlier in the week. And I hope you enjoy the Memorial Day weekend.

Best regards,

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Sent using BlackBerry

> From: Black, William [mailto:[blackw@umkc.edu](mailto:blackw@umkc.edu)]  
> Sent: Friday, May 25, 2012 02:17 PM  
> To:  
> Subject: Re: Financial Services Panel Series: Derivatives  
>  
> We have already booked the flights and hotel in response to your invitation. Please reconsider.  
>  
> This will cause our school a serious loss and me considerable embarrassment after I called in favors to be able to accept.

From: Black, William [mailto:[blackw@umkc.edu](mailto:blackw@umkc.edu)]  
Sent: Friday, May 25, 2012 02:33 PM

To:

Subject: Re: Financial Services Panel Series: Derivatives

FYI, I have testified to Congress five times about this crisis and two of those appearances (once in each chamber) were as the Republican designated witness so I won't throw off any bipartisan balance — quite the opposite.

Best,  
Bill

Sent: Sun 5/27/2012 11:16 AM

In case you did not receive my voice message I wanted to once again apologize for any inconvenience you may have incurred and thank you for your willingness to participate. As I mentioned before, in the time between my initial call to your office and when we spoke last week, I had confirmed the participation of several others who agreed to do so under the understanding that the panel would be bipartisan and non confrontational. Quite frankly, many of the trade associations were hesitant to speak in public because of what they thought would be a public 'bank bashing.' So for this initial panel, we have tread carefully because we want Republican participation and we want to keep these forums ongoing. It is my hope that your colleagues and university will understand that we tried to accommodate another participant, but we just could not make it work without disrupting consensus. I will be in touch with you regarding the next panel we are organizing to discuss the Volcker Rule.

Tuesday 5/29/12 10:41 a.m.

Unfortunately, we cannot accommodate an additional participant. I understand and appreciate your experience, but the factors I outlined in the previous email still exist and this change would compromise the consensus we have achieved. I do wish you would have confirmed your availability with me before making arrangements. When we last spoke, it was my understanding that you had to check your schedule first. So I was a little surprised that you were so quickly able to clear your schedule and make flight arrangements before we had a follow-up conversation. In any event, your previous work as a regulator during the S&L crisis is highly noted and I do think your primary knowledge and insight is helpful as Congress and the agencies grapple with the 21st century financial regulation. To that end, I do hope you will consider participation in the follow up panel, and I sincerely apologize for any inconvenience you have incurred.

Best,  
Bill Black