The Subprime crisis and John Key.

Let's start with a few quotes

“The products which underpinned the sub-prime boom - then bust - were hatched in 2004-2005, long after Key had left Merrill. Indeed, he says when he went back to London in 2007 he was "horrified" at the level of risk Merrill was running. "It was enormous and I just didn’t think that enough had changed to warrant that level of risk."

Eugene Bingham about the subprime Crisis and John Key’s banking career in the NZ Herald 19 July 2008.

“Not since the Great Depression has the world experienced such a significant financial crisis as we have seen in recent months. We have seen an expansion of credit and leverage at levels that were so unprecedented and arguably so uncontrolled that they now threaten the very stability of the world’s banking system.”

“These forces were, in turn, fuelled by excessive optimism in asset markets, and a more relaxed, and in many cases, recklessly complacent attitude to risk.”

What is now apparent is that as the pressure to boost profits grew, Wall Street assumed more and more risk. The quantity, and also the complexity, of this risk saw investment banks evolve into pseudo hedge funds with balance-sheets and risk exposures well beyond what anyone would have previously deemed acceptable. John Key, APEC speech Nov 22 2008

But Key, who made an estimated $50 million buying and selling the New Zealand dollar as a trader in the 1980s, ducked any blame for the current situation, saying the system was now radically different to when he was a trader. Colin Espiner 22 Nov 2008 Fairfax media.

Much has been made of John Key’s squeaky clean banking image. He only worked with Andrew Krieger after he attacked the NZ dollar, avoided the Asian crisis and the LTCM hedgefund and the subprime did not happen until 2004-2005. But how much of this is true and how does John Key really fit in the scheme of things and when did the subprime scheme really start?

On order to understand what is happening now and what role John Key played in the Wall street/ City of London banking disaster we need to understand how it could have come to this and the first thing that happened was that

1987 Alan Greenspan became the Chairman of the Federal Reserve of New York.

With the ascent of Alan Greenspan a new era dawned on Wall street and the international investment banking world.

In the years that Alan Greenspan ruled the banking world would be totally deregulated, opening the world up to unprecedented financial speculation and speculative mayhem with at it’s pinnacle the repeal of the Glass Steagall act unofficially in 1997 and officially in 1999 when Pres. Clinton signed the act into oblivion.

The act voted into existence in 1933 after the first “Great” depression kept commercial banks and Investment banks separate in order to prevent the speculative investment bankers from running roughshod over the economy as they had done in the years leading up to the Great depression.

It had long been a thorn in the side of the big investment banks and it had taken from 1987 until 1999 and $100- $ 200 in lobbying fees to get it repealed.

It was a huge deal to the Bankers of Wall street and the City of London!

It was the final obstacle in a long list of clearing the road to unfettered speculation and greed.

However this was only one of the elements leading up to the financial disaster we are now facing and which has been caused by Investment bankers such as John Key.

The second factor leading up to the collapse of our financial system is the fact that Alan Greenspan after the crisis of 1987 introduced the trade in Derivatives.

Derivatives in and of themselves are old and more or less respected instrument to lower the risk of certain transactions but the way Alan Greenspan intended for the Wall street/ City of London bankers to use them was in an entirely new way.

He wanted them to use Derivatives solely as instruments of speculation and unfettered money creation.

Especially in the International Foreign Exchange trade. The very trade that made John Key so very, very rich.

And the third factor leading up to the destruction of our Global economy was the way Alan Greenspan and the Wall street/ City of London bankers engineered several speculative bubbles and busts each ending in spectacular busts in which the International Investment bankers where always bailed out by the Federal Reserve of New York.

In other words after Alan Greenspan took the throne no matter how much risk the Wall street bankers took they knew that they would always be rescued by the Federal Reserve.

These crisis where:

The Asian Crisis

A crisis, the result of Foreign Exchange speculation on an unimaginable scale through hedgefunds such as LTCM (Long Term Credit Management) which had to be bailed out by the Federal Reserve of New York.

The Russian Crisis

Again the result of Foreign Exchange speculation ending in the collapse of the Russian Rouble.

The IT bubble.

A bubble created around the nascent IT industry but facilitated with huge amounts of easy credit and finally

the Housing bubble

Again facilitated by irresponsible amounts of cheap credit with the full blessing of Alan Greenspan.
Now that we have established that Alan Greenspan and the international investment bankers set a pattern of speculative bubbles and irresponsible Derivatives trades from as early as 1987 and not after John Key left banking let’s have a closer look at

The Subprime timeline:

Eugene Bingham suggested in his “Unauthorized” biography on the 19th of July 2008 that the products which caused the Subprime crisis were only hatched in 2004-2005.

But what were those products?
The products Bingham refers to are a combination of products and a combination of actions allowing for the housing bubble to grow.

1. **Cheap credit.**
   
   As explained previously Alan Greenspan and the FRNY pumped irresponsible amounts of cash in the Global financial system

2. **The order of the US Congress to Fanny Mae and Freddy Mac to start selling houses to subprime candidates in 1997.**
   
   In 1987 the congress of the US ordered it’s biggest state owned housing companies to start selling mortgages to people who had previously not been able to borrow money to buy their own home.

3. **The Repeal of the Glass Steagall act unofficially in 1997.**
   
   As explained previously the act kept the to banking systems separate and the banks could now speculate even more. In fact this is what happened:

   In as early as the beginning of 1998 the level of Subprime mortgages rose from almost nil to a whopping 14%. Not in 2004-2005 but in 1998 well an truly smack-dab in the time that John Key was the Global head for Foreign Exchange and European head for Bonds and Derivatives for Merrill Lynch a bank who was at the forefront of the Derivatives trade not crashing around our ears.

In other words: John Key was dealing in the very products now crashing our Economy in the very time the bubble was set up and well into the Bubble’s growth.

Was it easy to predict the outcome?

Well, this is what John Key had to say about it:

*Did he foresee the problems which resulted in the subprime crisis? "Was it hard to predict? Not really."

19 July 2008 NZ Herald

How did the bankers make it so hugely profitable for themselves?

This is how they did it:

After the repeal of the Glass Steagall act they bought up Commercial banks told them to sell mortgages to every Tom, Dick and Harry. Than the bought the mortgages, bundled Prime Mortgages with the subprime mortgages and sold them to each other and to unsuspecting Pension funds and other investment companies such as the ones who have gone belly up in New Zealand recently.

**Indeed a Perfect Model for Fraud.**

John Key was a high echelon Wall street/ City of London banker in the most speculative era in banking history is now the Prime Minister of New Zealand and has lied about his involvement with the subprime market and the speculation in Derivatives.

Would you have voted for him if you had known?

Interesting links:

Speech of John Key for the American/New Zealand partnership forum in which he tells that he worked and lived of and on in New York during his tenure for Merrill Lynch from 1995-March 2001:


http://www.nzherald.co.nz/politics/news/article.cfm?c_id=280&objectid=10522310&pnum=0

http://www.engdahl.oilgeopolitics.net/Financial_Tsunami/The_Financial_Tsunami_Part_III/the_financial_tsunami_part_iii.HTM

http://www.engdahl.oilgeopolitics.net/Financial_Tsunami/The_Financial_Tsunami_Part_V/the_financial_tsunami_part_v.HTM

http://www.chrismartenson.com/crashcourse

http://themessthatgreenspanmade.blogspot.com/

http://aotearoaawiderperspective.wordpress.com/