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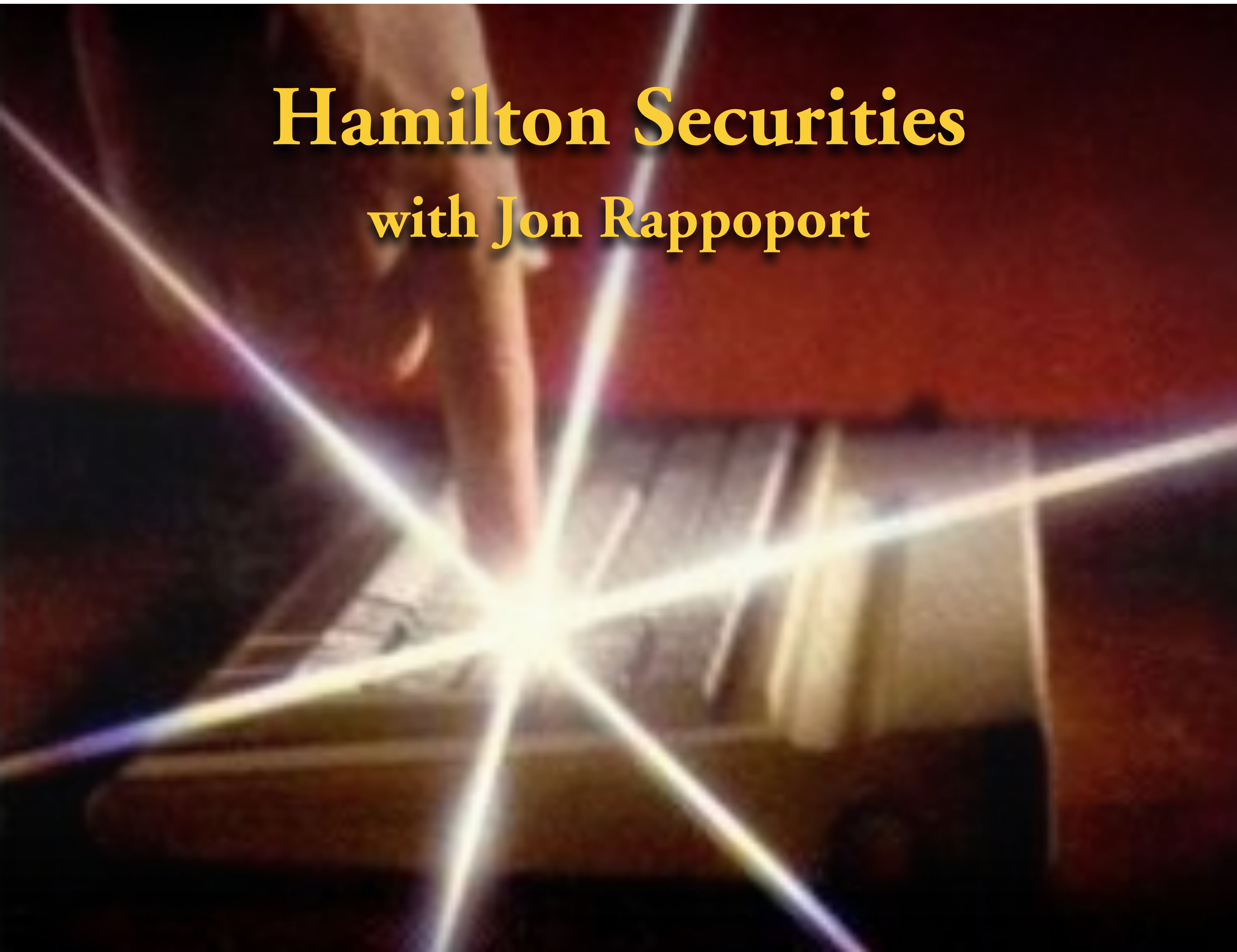
Hamilton Securities

with Jon Rappoport



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C. AUSTIN FITTS: Good evening. This is Catherine Austin Fitts. I am poaching in on Jon Rappoport's week. He and I decided that we would talk about the story of Hamilton Securities Group. In one sense, it's very ancient history. On the other hand, it has a lot of juice in it about where the pathway is to march forward.

Why don't you tell us, Jon, why you were interested in talking about the story of Hamilton Securities Group.

JON RAPPOPORT: Sure. Great to be here, first of all, as always. I think I'm so struck by this story for several different reasons. The first one is that you were able to create something completely new by researching your own experience working inside the government; and also focusing on communities, and what would rejuvenate communities. And what Hamilton emerged with really was not just innovative, but I mean a new model, a new way of looking at the whole situation. So that was the first thing. The first time that we ever talked about this, it struck me as really quite incredible.

And then the second, I guess, would be how that compared with your experience in similar types, you might say, I guess, of analysis within the government, and where they go with their analysis as opposed to where you went with yours. I mean it's so striking and so illustrative of exactly what we're facing in this country.

C. AUSTIN FITTS: That's right. I was trying to birth a new model, and the old model was saying, "No, no. We want to suck all the juice out of the system to keep our old model going a little bit longer."

JON RAPPOPORT: Yes, exactly. So if we could begin with the transition point, that is, what you saw from the old model that give you such pause, and then your decision to move out of that into something new, which turned out to be powerful.

C. Austin Fitts: Yes. So Hamilton Securities was a company that I created when I left the Bush administration in 1990. There were three things that were driving me, John. The first was that what I saw when I worked in government was that if you looked at the financial system by place. For example, the United States breaks down into 3,100 counties. Think of a county as a living ecosystem.

We have an environmental ecosystem and we have people – so people and places. And whether it's the animals and the plants and the other living things or the people, we've got a living ecosystem. So I said I want to map out and be able to look at the financial system aligned with the living ecosystems, because we need our environment and our financial system to start to play win-win - to align with each other.

One of the first things I realized when I started to look at the financial system by place was that government investment by place had what I call a "negative return on investment".

So imagine if you bought a mutual fund, if you in your IRA or 401(k) bought a mutual fund, and every year, it went down ten percent; and every year you have to put in ten percent to make it go back up. That's a negative return on investment. In a world where you have a negative return on investment, there's never enough money. But if instead every year, you put your money into something that goes up ten percent, then it's the gift that keeps on giving. There's more and more money.

So the first thing that I saw when I was in the government was that government money was being used to destroy neighborhoods. So we were spending a great deal of money and doing things that had negative returns as opposed to positive returns. There were enormous political constituencies that grew up for these negative returns.

So, for example, I would find neighborhoods where we were spending $250,000.00 per unit to build public housing. But $50,000.00 could buy and rehab a foreclosed property. So you could get four or five homes for the price of one. But if you tried to change that, you'd run into all these constituencies getting furious. You know, people were very vested in this waste. So the government money had a negative return on investment.

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The second thing I saw was that by using government guarantees, we had created a system where – and I call it a debt-based model – where people really didn't care about the health of the whole. So once upon a time, if I'm a community bank and I'm financing mortgages in a neighborhood, and the education becomes poor, and crime gets going in the neighborhood; I care, because it's going to lose me money. The mortgages are going to default and I will lose money.

If I'm wrapping all those mortgages up and securitizing them with government guarantees, then lots of drugs can come into the neighborhood, and I don't really care because I'm still making money. I'm not losing money, because the mortgages have government guarantees on them. I'm still getting the servicing income – say I sell them into Freddie and Fannie. So you have this debt model that's unhealthy; and, of course, the government subsidy keeps it going.

And then the third thing was, when I was in the Bush administration, I discovered new technology.. I said, "Wow, this technology can so improve the learning speed and the ability to collaborate within a place, that there is tremendous productivity increases we can get that will help small business be very competitive globally, particularly if they'll collaborate within a place.

So those three things came together. I thought, "If we switch to an equity model that integrated this new technology, and we reengineer the government investment to a positive return, there could be explosive wealth opportunities."

Now, that sounds all wonderful, but the nuts and bolts of trying to prototype that was complex – You are basically changing how the money in a place works. And not only that; when you change it in one county, you're changing it in all counties. So you're talking about a lot of money being reengineered.

My notion was, "Well, let's start an investment bank and let's prototype. Let's take this technology; and by integrating in our own enterprises, let's see how it changes the economics of one small business. We'll be the guinea pig. And then let's see what we can do in terms of helping communities finance privately with equity." So we just started.

That was the idea, because we saw these three incredible opportunities when you got deep into the government money that I saw in the Bush administration; and that was the idea of starting Hamilton.

And the other thing I just have to tell you – and this is true confession – I was infamous on Wall Street for protecting my deals and my team from all sorts of greater politics. And then when I got to the Department of Housing and Urban Development, I was in a funny kind of situation where I was trying to operate my operation clean, and there was tremendous political pressure to operate it dirty. I ended up in a situation where I was called into Jack Kemp's office – he was the Secretary – and he spent 20 minutes ordering me to lengthen my skirts. You know, this is sort of how you torture somebody when you can't yell at them for not breaking the law. For refusing to break the law, you torture them for these things.

So I was sitting there and this guy is ordering me to lengthen my skirts, and I knew if I didn't somehow placate him, what he would do since I was wealthy was – you know, he couldn't scare about money. But what he would do is then he would detail, or fire, or hurt one of the career people who worked for me, and I felt very loyal and protective. So I knew if I didn't placate him, somebody would get detailed to Alaska.

So I remember saying to him, "Oh, Mr. Secretary, thank you for your courage in sharing with me your feelings. I'm immediately going to go and lengthen all my skirts." And the whole time I'm thinking in the back of my head, "This is the last time I get myself in between a psychotic political force and 7,000 honest, hardworking people." So I think the time has come that I need to start my own company even though that's something I'd swore I'd never do.

JON RAPPOPORT: Let me ask you one thing about Point 3 you mentioned, starting a small investment bank. This was the idea that you had to do something on your own, or this was an idea that you were proposing within the framework of government as a trial run?

C. AUSTIN FITTS: Well, when I was in the government, I did a lot to encourage both place-based disclosure of government money and place-based optimization of the use of government resources, and ran right into a very significant political wall, which I now believe was the black budget. A lot of the fraud – you know, the mortgage fraud that we seen go on, whether it was in the '80s around Iran Contra, or in the last housing bubble couldn't go on with place-based disclosure.

JON RAPPOPORT: And what exactly does that mean, that disclosure? What does that entail if it was done right?

C. AUSTIN FITTS: If you buy a stock, every year you get an annual report that says, "Here's the sources and uses of money in the company that you've invested in."

Now, in fact, most Americans put a lot more money into their taxes than they do into the stocks that they buy. So if you were going to get the equivalent of SEC standard disclosure for the taxes you pay, you would get financial reports that show for the areas within which you vote for political representation – so for your congressional district. For example, you'd get an annual report and quarterly reports that says, "Okay, here the sources and uses of how your resources worked within your congressional district." So here's all the money in taxes that people paid, here's all the credit that they guaranteed or took responsibility for, and here are the other resources; and here's how they got used, and here are different metrics of performance.

JON RAPPOPORT: So this would explain, for example, how huge amounts of money can be "poured into inner cities" and, yet, we see things getting worse.

C. AUSTIN FITTS: Right. What's interesting is, if you look over the last 50 years as technology has caused the price of everything from computers to autos to drop dramatically in real terms, the cost of government is skyrocketing, but the performance metric is going down. So if you look at any measurement of our well-being and health, many of those measurements are falling. So crime is going up, fraud is going up, blah-blah-blah, and the cost of government is skyrocketing; and that's because government is being used to centralize and finance a whole lot of things off budget, off balance sheet.

So we're using government money to centralize wealth and engineer the society in a variety of ways. It has nothing to do with optimizing resources or the economy.

JON RAPPOPORT: So really, a lot of this money that is supposed to be going into improving life of communities is being diverted into other places. It's just not arriving at all.

C. AUSTIN FITTS: Right. It's being diverted in a variety of ways. It's important to understand, Jon, that this sort of political allocation of resources is not just political allocation for the people at the top. Throughout society, we have many different constituencies who are easily placated by more government money. So this is not just a scheme by the people at the top, this is a serious non-accountability within a democratic structure. Because think of it – if you're a citizen and you're going to vote for political representation and you're going to hold them responsible, then you need to be able to see as sources and uses of financial resources for the world that you walk around, and understand, and know. Let me give you an example.

I tried very hard when I was in government to implement a series of different reforms in terms of financial transparency, one of which was place-based; and, obviously, it fell on dead ears. So when I started

Hamilton, one of the things we did is we built software tools. We were starting to build a suite of software tools called "Community Wizard" that would allow you to identify all the databases in the government about sources and uses of different resources, and start to map out the financial resources, the government resources for your place.

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I had a partner from Wall Street who came to Hamilton in 1995 or 1996, just as we were having the first prototypes of Community Wizard launched; and he came in. He was from Westchester – and is from Bronxville – and he came in, and he was very depressed about the state of government; and he was sort of ranting about, "It's all hopeless, and Washington's corrupt."

And I started to explain my idea of bringing transparency to place-based resources in the extent to which this would help allow different constituencies to start to reengineer and reoptimize government resources in a healthy way. And he said to me, "Oh, this is a completely stupid idea." And I said, "Well, where do you live?" He said, "I live in Bronxville."

So we loaded up all of the comprehensive account financial reporting from Bronxville and started to show it on the monitors in geographic information software and other kinds of ways of mapping it and making it more easily understood. And he took a look at the first item, which was flood insurance, and he said, "Four million dollars for flood insurance? Do you know how corrupt that is?" And I said, "Why is that corrupt?" He said, "Broxville's on a hill; I've lived there for 30 years. There's never been a flood in Bronxville."

So the next day, I had a conference call with him at 10:30am, and he was famous as for always being on time; and I called, his number was busy. I finally got through about 1:00pm and I said, "Where have you been? We had a conference call at 10:30."

He said, "I've been on the phone with the Deputy Mayor of Bronxville for four hours." And he said, "All this corruption is going to stop. I went through every item with him item by item, I've been through the whole thing. It's all going to change."

And I said, "I thought you said it was hopeless." He said, "That's before I had the numbers from my neighborhood."

JON RAPPOPORT: Wow. Yes, that's powerful; that's very powerful.

C. AUSTIN FITTS: Well think about it.

JON RAPPOPORT: I mean because I can see. I mean I'm just thinking about where I grew up, for example, which is also in Westchester. And you know the streets, you know the people, you know some of the businesses. So now if you can overlay that with numbers and facts about where money that's coming in is actually going, as opposed to where you would think it would go, or it should go; it's very riveting if you actually live there.

It's a whole different thing than somebody saying, for example, "Well, did you know that federal monies that were earmarked for such-and-such a place, which you know absolutely nothing about, it didn't really get there, or they were misused, or they were used in some way to make things worse. This is where you live; this is a whole different picture."

C. AUSTIN FITTS: Right. So we used to get inventories, both at the Resolution Trust Corporation and at FHA saying, "Here's where our defaulted mortgages were," and you'd go to that place and there'd be an empty lot. There were no houses there.

JON RAPPOPORT: Wow, wow.

C. AUSTIN FITTS: And one of the most controversial things was, we started to publish geographic information system maps showing where the foreclosed mortgages were; and oh-la-la, the patterns had began to show. And, you know, I used to wonder.

When I was in the administration, I'll never forget being taken on a tour of Chicago and discovering neighborhoods where one property had defaulted five times within a year. How can that be? You know what I mean? But these are the things that if you have small business people and municipal officials within a community who are regularly looking at those numbers, and being able to lead a conversation – I'll give you a perfect example.

Today in America, in 37 states, in the food stamp program, if you call up the customer service hotline and you have a customer service need or a data service thing needed on your food stamps, you get somebody in India working for J.P. Morgan Chase doing a job that you could do; and if you were doing that job, you wouldn't need food stamps. So the government is paying someone in America not to work, and then they're paying J.P. Morgan Chase a markup for somebody in India who's doing a job that that person in America could do. So that's what I get back to about the negative return on investment.

You can see those places in your community where if the federal government is paying a corporate contractor $75.00 an hour to do something that you would love to do for $25.00 plus healthcare, you can see an opportunity to reoptimize and turn the negative return on investment positive. So good for taxpayers, good for the local economy, you know, win-win-win. The problem is that it removes something from corporate earnings, and that's part of holding the stock market and the financial markets up.

JON RAPPOPORT: Okay. So you move out of government, you move into starting your own company. So what was that transition like?

C. AUSTIN FITTS: Well, we started Hamilton and we started to build databases that would allow us to look at real estate ownership and land use by place, and compare how that related to – we were building databases of institutional capital. And as we started the business, we got hired on competitive contract to serve as financial advisor to the Department of Housing and Urban Development, which was a funny situation, because one of the reasons I'd started Hamilton was that the Harvard endowment had a large real estate and property management company that had asked me to essentially start Hamilton and serve as their investment banker. And I had agreed to do it. It was one of the reasons I decided to start the firm.

We were at the Harvard Club in New York to sign the contract. At the last minute, they abrogated the deal and said, "We want 20 percent of your equity." And I said, "No." Because we didn't do that contract, we had the capacity, and I ended up bidding and winning on the FHA lead financial advisor.

And the funny thing was, by working for HUD and making their programs efficient, it meant that the Harvard Company could no longer profit from the inefficiency. And so it's funny, because I was intending to represent the private guys, and instead got bounced to represent the government agency and subsidizer, which at the end of the day cost them a great deal of money.

During the '80s, you had same thing – a housing bubble and then a bust. Same as we've had recently. You know, we go through these cycles. What had happened was, the government had ended up with a fantastic amount of defaulted mortgages that they had put in something called the "Resolution Trust Corporation" and then auctioned off; and there'd been a very successful auction program.

As it was winding down, it turned out that HUD had taken in approximately $12 billion of defaulted mortgages and had just sat on them, had done nothing with them. And so the question was, "What would HUD do?" It was widely considered to be very difficult for HUD to do these kinds of transactions.

The HUD bureaucracy was organized in a matrix structure, and the politics were very intense. And so we were brought in, and it turned out that of the $12 billion of mortgages, they had $ 8 billion, I think, that were multifamily and $4 billion that were single-family. The recovery rate on the mortgages was 35 percent. Let me explain what that means.

Let's say you finance a $100,000.00 mortgage, and then it defaults. If you only get $35,000.00 back for your $100,000.00, that's a 35 percent recovery rate. Okay?

JON RAPPOPORT: Okay.

C. AUSTIN FITTS: We were able, in the course of working for HUD, to get the recovery rate up to 70 percent to 100 percent, depending on the program. And what you need to understand is, the difference between, say, that $35,000.00 and $70,000.00 was something that a private party was getting. So, in fact, what you had was you had a series of private parties, who because HUD was operating at recovery rates way below industry standard, a variety of people were making money off of this inefficiency.

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So during our work for HUD, the Office of Management and Budget and General Accounting Office (now the General Accountability Office) estimated that we saved them $2 billion. So that was $2 billion that was moving out of the pockets of people like the Harvard endowment and into the taxpayers.

JON RAPPOPORT: And what was folks' reaction to that?

C. AUSTIN FITTS: Well, it depends. HUD was thrilled, until they had to manage the political disappointment of private constituency. And here's the reality. The federal government is not run to optimize return on investment to taxpayers. It's run to optimize return on investment to a variety of political contributors.

That's part of what we're talking about, "How do we rebuild alignment so that we can get our politics and our economics in sync here?" So let's go back to the food stamp program.

We're spending a fortune to ship jobs abroad that could be done in this country, but that makes it easier to control centrally; and it also means that the company with a stock that's publicly traded and gets those contracts that help support their stock. So when we allocate governmental resources, we needed clear criteria on what we're trying to do. Are we trying to pump up the stocks of the political contributors and the banks that finance our deficits, or are we trying to get the best economic results for the taxpayers?

JON RAPPOPORT: So what happened to Hamilton after you brought in that bonanza for HUD? How did the company move on?

C. AUSTIN FITTS: Let me talk about the evolution. So the first thing that happened was, we started to do loan sales, and we started off with a portfolio of $1 billion of mortgages. Remember the recovery rate before we started was 35 cents on the dollar. And we did three things that were considered highly unusual in the world of loan sales.

The first thing that we did before we did a transaction, Jon, was to create a design book. We said, "We're not going to do a loan auction. What we're going to do is, we're going to write a design book on how to do a loan auction."

And, in fact, the first one was 2,000 pages long. We finally hired the guy who had done the big loan auctions for the RTC and put them in a conference room, and had them read all 2,000 pages; and he found six changes to the whole book. What was interesting is, my guess is that one or two of those changes, if we hadn't caught it and fixed it, could have gotten the deal stopped. So you're dealing with something very, very complicated. What we wanted to do was use software development process to bring transparency to the process.

And it was thanks to the Internet, we were able to take this 2,000 pages and literally sort of share it collaboratively among all the people in

Congress, in the Administration throughout Washington who would be impacted by the transaction. So we got buy-in for the design of how we're going to do this. And we put the design books up on the Internet so that all the bidders and everyone could understand exactly what was going to happen and how it was going to happen. So it was a very, very transparent process. And at the time, that was considered quite remarkable.

The second thing we did was, up until that date, if you wanted to bid on a loan sale, you had to do a fantastic amount of due diligence – you know, run around and look at all the properties – and we said, "You know, we're going to save everybody that cost, so on a billion-dollar auctions figure, your due diligence cost would be about $150,000.00."

So the second thing we did was we hired a big six accounting firm and we had them run around, and take pictures, and put everything in a database; and then we put it up on the Internet and on Bloomberg. You could literally be sitting in Hong Kong, and for $50.00 get the whole package and lob in a bid. It dramatically opened up who could bid on this stuff. So you didn't have to be part of a world as people who knew HUD and worked in HUD. We invited in a whole different world of people.

Then the third thing was, traditionally, when you have a mortgage auction, you would stratify the portfolio so that, let's say, all the loans in this county would be sold in a pool and you bid for that pool, and then all the loans that were in buildings that were pink with yellow polka dots would be in a pool and you could bid on that pool. And generally what would happen is, the financial advisor way ahead of the bid would have to say, "Okay, well, I think the mortgage guys are going to want this, or I think the real estate guys are going to want this, or I think the securities guys are going to want this," and you would stratify the bid to appeal to one of those markets.

I said, "I'm not smart enough to know which one of those markets is going to bid the best six weeks from now. So we hiring AT&T Bell Laboratories and we said, "They have optimization methodologies that they use to route telephone calls. We're going to have them adapt their models so that everybody from all of those different markets globally can bid and self-stratify."

So the mortgage guys could say, "I want it stratified this way," and the real estate guys could say, "I want it stratified this way," and the securities guys could say, "I want it stratified this way," and they can all bid in whatever way they want. And then we put it in a giant optimization model, and the combination that produces the most for the taxpayer wins.

JON RAPPOPORT: Wow, that's staggering.

C. AUSTIN FITTS: Well, it was really funny because, at the time, it dramatically shifted the pricing in the distressed mortgage market. It completely changed the balance of power between the money managers and the people who were bidding mortgages. You know, it's very unusual for a new technology to power-shift a market and the pricing in a market in a major way; and it did.

I'll never forget – I had to call the head of the Harvard endowment real estate portfolio, who was the guy who squirreled the original deal with Hamilton; and I was calling him for another reason, and he picked up the phone and he just screamed, "F*** you."

And I said, "Mike, it's so nice to talk to you. What is the matter?" And he said, "I hate this optimization model."

I said, "Why do you hate it?" He said, "The only way I can win is to bid more than everybody else."

I said, "Yes, isn't that wonderful. I'm doing a great job for my client." And he said, "Well, I'm used to winning by being smarter."

I didn't say, "Maybe you shouldn't have abrogated your deal, because now I'm on the other side."

The open disclosure combined with the optimization model drove the prices through the roof, because it pitted the mortgage markets, the securities market, and the real estate market against each other; and it was really a first-time in that world that that had happened.

What that meant was, you had a lot of different players who were used to living in a secure cocoon. HUD was a very complicated place. So if you were the Harvard company, you had a tremendous amount of intellectual capital that gave you a tremendous advantage.

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Suddenly, that was being deleted, because the technology could make all the information so accessible. So you could be sitting in Hong Kong and, as I said, lob in a bid. So it really fundamentally changed the process.

So the auctions started and our approach was very successful, and for a while, HUD was pretty happy, because they were getting so many kudos. The loan sale program won awards, the recovery rates were improving; and that was important, Jon, because the recovery rates were a key variable in what's called "credit scoring". So if you're HUD and you're going to issue $100 million new mortgage insurance, a law had been instituted during the Bush administration that said, "If you're going to lose money on that $100 million, you've got to post up front appropriations to fund those losses before you can write that book of business."

The amount of appropriations you posted was very much a function of your default rate and your recovery rate. If you can cut your recovery rate in half, it means you have to post a lot less in appropriations. So by cleaning up the back-ends, you're making the front-ends much more efficient.

And, of course, one of the things that happened was, down the line when they cancelled the loan sale program, they went back to doing it the 35 cents way, but they kept assuming the higher recovery rate. We said our recovery rate's high now, so we're going to cancel the thing that gets us the high rate and just pretend.

JON RAPPOPORT: Nightmare.

C. AUSTIN FITTS: Anyway, so what happened was, as we were proceeding along the loan sales – this is in 1995- 1996 – one of the things we said was, "It's only fair that a homeowner should be able to bid on their loan."

So if I'm a homeowner and I've defaulted on my loan, and if the institutions are going to come along and bid – so let's say they're going to bid 70 cents on the dollar, it's only fair that a homeowner should be able to lob in a bid. Right?

JON RAPPOPORT: Sure.

C. AUSTIN FITTS: Right. So HUD was adamant, you know, they were adamant. They could not do that, and they could never explain why. I think it was, they only wanted the bids to be $1 million or more. But, basically, they shut out the little guy and they were adamant about it.

JON RAPPOPORT: Who just lost his house.

C. AUSTIN FITTS: Right. So what you're saying is that Goldman Sachs can come in and buy this mortgage for $100,000.00, even though the homeowner will pay $120,000.00. And I could never figure out why.

In fact, one of the people who was adamant in stopping it from happening, I used to always get these debates in, was a former deputy of mine; and we used to have these wars. Everything he said made no sense; and he was a terrific guy, somebody I really trusted. It was only many years later when I realized, "Oh, you had so much black budget fraud going on in that portfolio, there was no way they could afford for people to bid one-by-one."

JON RAPPOPORT: And, obviously, there was also a sense of, "You lost. You had a house; you lost the house; you can't get back in the game because you lost." So, now, the winners are going to be the people who have nothing to do with the community, nothing to do with your house. They're just going to make money off of this.

C. AUSTIN FITTS: Well, one of the things that was interesting is, what I said was, "Okay, we've proven that HUD can do this, we've proven that we can get the recovery rate up; but right now, what we're doing is, we're running single-family auctions in the Southwest, and then multifamily auctions in the Southwest."

What we need to do is, we need to auction this stuff by place. So instead of doing single-family in a region and multifamily in a region, let's take everything within this congressional district for this county or this municipality, and let's let somebody bid for everything within the place.

And, in fact, with the optimization technology, we can do it both ways; and the one that gets the higher price wins. And that way, the local guys can get together, team up with the financial institutions, and come up with something by place. In fact, we called it a "Rouse Trust", after Jim Rouse, who was the very famous developer who started the Enterprise Foundation. And I said, because then you're creating a constituency for reengineering, first of all, switching to an equity model within a place, and reengineering government investment so that the place is healthy.

So, for example, if I pick up a lot of real estate at an inexpensive price within a community – let's say I do a Rouse Trust in a community – I pick up a lot of real estate cheap. Well then, what do I want? I want the incomes to go up so the value of the real estate can go up. So I want the place to be successful; that's how I make money.

JON RAPPOPORT: Right. So when you were talking about people within the community, or that district getting together to put in a bid, they obviously have to have a plan. They have to have something in mind. "We're going to do something with this. We're going to build on it, or we're going refurbish, or we're going to make it better. The community is going to become better." This isn't somebody sitting in Paris who has absolutely no interest in the community.

C. AUSTIN FITTS: Right. And, in fact, you could use a vehicle like that. And this is one of the reasons we wanted the transparency. If you look at all the defaulted mortgages and government assets, again, within a congressional district, within a county, within a municipality – there's a tremendous amount of assets across agency, particularly at a time like this.

JON RAPPOPORT: What do you mean across agency?

C. AUSTIN FITTS: Well, so let's take Tulsa. So you have defaulted mortgages at FHA, you have defaulted mortgages at Frannie, you have defaulted mortgages at Freddie Mac, you have defaulted mortgages at VA; you have different agencies that has taken over different assets.

And, in fact, we had the transit authority funding mechanism to transportation, when I was in the Bush administration, had taken over a stripper joint. So you just have an unbelievable amount of land and real estate, and other assets within a place that have come in in these variety of ways. I'll give you an example.

The first time it came to me to do the equivalent of a venture fund or a real estate investment trust for a place was when I Assistant Secretary of Housing. And we were going through the defaulted mortgage and foreclosed property inventories, and we discovered a town in New Mexico where 70 percent of the mortgages in that town were in default and owned by Fannie, Freddie, and FHA.

And I said to myself, "Look, this is really simple. Tell them to start a trust or a REIT," I don't know what the right structure is, "and we'll swap them debt for equity." And they looked at me like I was nuts. They said, "What are you talking about?"

And I said, "Well, just have the town buy the mortgages." And they said, "But the town doesn't have any money."

> **"They have to reinvent their economy; and that means they need to get in an equity model and not a debt model."**

I said, "I'm from Wall Street. We never have any money, we use other people's money. So just have them create a trust structure and create a class of equity, and we'll just swap the mortgages for equity, because you can't get these people to pay off the mortgages by screaming and yelling. They have to reinvent their economy; and that means they need to get in an equity model and not a debt model."

And so my staff looked at me like I was absolutely nuts. And that was the first time I thought about, "Okay, how do we get a community in a venture model or an equity model where we can start to build very powerful collaboration and alignment between the people within that place, and the investors who are investing in that place, and have them all want for the place to succeed instead of making money on it fail and sticking the tab to the federal government."

JON RAPPOPORT: So I'm assuming then that as Hamilton developed, that this became a wider strategy to get people within the community to develop equity models, and to thereby save their community.

C. AUSTIN FITTS: One of the goals of Hamilton was to prototype, because we weren't sure where the opportunity was, we just intuitively knew it was there. So we started to take steps as we made money on our investment banking business, both working for HUD and some of the other things we were doing. As we generated profits, those profits were reinvested in prototyping community venture funds.

The first thing we did was, in fact, not the venture funds. Issue 1 is, "How do you get the education and skills in a place to improve?" You know, we knew the economy was globalizing and so many of the jobs are going away. So if we want people to get new skills, how do we improve education and this circulation of intellectual capital and skills with a place? So that was Issue 1.

During welfare reform, I went to a wonderful conference. It was then called the "Playing to Win Network" that was put together by a wonderful woman named Toni Stone from Boston, and it was a network of computer learning centers; and I went up to her. And she was talking about the cost of a computer learning center; and once you got a computer learning center in a poor neighborhood, how much it could accomplish.

So I said to her, "Look, if Section 8 housing funds the space and the equipment, could that kick-start a dramatic increase in computer learning centers?" And she said, "Oh, it would be incredible."

So one thing led to another, and I spent a significant amount of time and money helping HUD invent a program called "Neighborhood Networks" that would allow communities, or would allow anybody who had the HUD subsidized funding, to use that funding to create computer learning centers; because with welfare going away, people needed to learn the skills to get a job. And so the idea, you know, just like when most people lose their jobs, they start a home business or they sit down and they learn a new skills, and off they go. The idea was to facilitate the transition.

So the first thing that happened was, we worked with HUD to develop the Neighborhood Networks program, and what happened was amazing; because at the time, Jon, you had a lot of people saying – I'll never forget.

I had one of the people very high up in the Clinton administration say to me, "Look, black people are hopeless, so those populations are just going to have to die off, and we'll bring in immigrants and they'll revitalize these communities." And I said, "Well, you know, I just don't feel that way. I just don't feel people are hopeless."

And what was interesting is, all these computer learning centers went in, and there were many predictions. "Oh, everybody's just going to play basketball and nobody's going to go in the computer learning center," and it was quite the opposite. You had a phenomenal experience of people pouring into the computer learning centers learning all sorts of new skills, and just knocking people's socks off with what could be accomplished in terms of building skills and being able to get jobs. It was a phenomenon that really turned the picture around in a lot of people's mind about the potential of people in poor communities, particularly minority communities. So the first thing we did was Neighborhood Networks.

The second thing that happened was, we needed, as a company, phenomenal amounts of data servicing; and of our question was, "How do we get this data servicing when we clearly needed to outsource it?" And, in fact, at one point, I went to China to try and figure out if we could outsource it to China, and finally concluded that it was cheaper and more efficient to outsource it into the United States.

I was at a conference with the head of the Chicago Public Housing Authority, and I asked him what was new in Chicago. And he said, "Oh, we're bussing the mothers at Cabrini Green out into the suburbs to do office jobs." And I said, "Well, that's crazy. Why don't you put a satellite dish on the top of Cabrini Green and bus the jobs into Cabrini Green? Why bus the people out to the suburbs?" And a light bulb went off in my head and I said, "Okay, you know, maybe that's how we get all the data servicing we need."

So we found a property in Washington. Our partner was a Hollywood entertainment company who was very interested in job training and using Hollywood skills for education; and we started a computer learning center in low-income community in Washington. We had a data servicing course, and what we said to everybody in the data servicing course, "If you pass this course, you will get a job for a year in a company that's going to be started. And if the company does a good job on the data servicing, you would get to keep the contract."

And so thus came about Edgewood Technology Services, which was a prototype we did for data servicing. And one of the things we discovered, it was welfare reform, the federal government estimated that they needed $ 6 billion-plus in data servicing just from the passage of welfare reform. And my attitude was, "Well, if you can't send welfare checks into those communities, send the data servicing, you know. You've got $6 billion of work."

And those are jobs that can be shipped anywhere in the world. And I suspect if you look at the government contracting, we're shipping those jobs all around the world.

I remember during the bailouts that I had been told at the time that Citibank was shipping their data servicing over to Korea, where people who do not speak English were doing it. So those are jobs that can be shipped into any neighborhood in the country. So that was our prototype; and it was very, very informative in terms of showing us what the opportunity was.

Now, one of the political problems with it was, as they were doing the data servicing on government money by place, the people who were doing the data serving were learning fantastic amounts about how the money worked in their neighborhoods. So if you're trying to centralize control, it was not necessarily a prototype that you would have loved.

JON RAPPOPORT: Right. So did this program, data servicing, continue to expand, or was there a point in Hamilton's history where it all started to go south and people said, "We don't want this to happen."

C. AUSTIN FITTS: Well, what was happening was, the different things we were working on were all, in one sense, going very well. So the loan sales were going very well, the Neighborhood

Networks was going very well. The data servicing was going slower, but there was clearly a very good business there. And then we started to work on the software tools that would facilitate developing places in this way.

So we started to make this software tool called "Community Wizard", we started to make a software tool called "Community Offering in a Box", so that the small business people, in a place, wanted to get together and do a venture fund. You know, it was a software – you could write a prospectus just by clicking the radio dots and going through the whole process of how you raise capital. And we had a suite of about 10 or 20 tools like that that were quite remarkable.

We had one tool that was fun for Fortune 1000 stocks. If you were a portfolio manager, you could put in the ticker symbols of up to 1,000 Fortune 1000 stocks and it would print out a map of where your employees were so that you could see the companies that you were investing in and what places had an impact on their wellbeing.

So, for example, if there's a Hurricane Katrina, you could say, "Well, what companies are affected?" Anyway, so we're making those software tools.

And then the last thing, and the important thing to pull it together, was we started to prototype venture funds for a place. So the idea was the small businesses in a place that want to participate get together and issue stock in a pool that can help finance the businesses who participate within the place.

"The idea was the small businesses in a place that want to participate get together and issue stock in a pool that can help finance the businesses who participate within the place."

So imagine you're walking down the street in Carlsbad, and imagine there's a little logo over the businesses that are participating in the pool; and imagine if you own stock in the pool, that you know if you shop at those stores, it's going to generate earnings for the companies in the pool, and it'll make your stock go up.

JON RAPPOPORT: Yes, I'm imagining it right now.

C. AUSTIN FITTS: Well, the idea being, you know, because technology should help the little guy. So imagine you're 100 businesses in a place and there are things you can share. You can share accounting, you can share lobbying, you can share tax expertise.

More importantly, you want talent, you want to be able to start an apprentice program and attract young people who can circulate among the businesses, and you can build a deep management bench. There are all sorts of things you can do if you can aggregate and access capital. But more importantly, if you can have a venture pool – so, essentially, what you could do was, you could create a vehicle for small businesses to access equity capital.

We were, at a time, in the beginning of the Bush administration, when I was at FHA. What happened was, after the pump-and-dump of the housing market, you had the housing bust. Small guys who were depending on bank credit got shut out from credit; and the only people who could access capital were the large companies. And so the stock market rose and they could access lots of capital.

What happened as a result was the big companies took market share locally away from the small businesses. So the small guys lost access to capital and the big guys had a field day. Part of my interest was, "Let's create vehicles for small business to raise capital in a way that makes them competitive." Let me give you an example.

Fifty years ago, if we'd gone into any neighborhood in America, we would find lots of small businesses being very successful. And let's say you had 100 business and they're generating $100 million a year in sales. And let's just say you had $10 million of profits.

What happens is, those companies are financed privately by families; and then as the big corporations are financed in the stock market and have price earning ratios (PEs) of, say, 10 and 20 times, but a small company only has a price earnings ratio of about 5 – so that $ 10 million of profits, which is worth $50 million in the hands of small families – if the big companies come in and take it over, they can turn it into $100 million to $200 million. And so there's enormous political pressure on politicians to do things that encourage the big companies to take it over, because then the big companies can afford to spend lots of money on political contributions.

In fact, that's one of the biggest sources in political contributions - capital gains on both real estate and stocks. So we've had this process of centralization where the little guys have been out-competed. So when I looked at that, I said, "Well wait a minute. How do we make it possible for the small guys to improve their P/Es and create liquid equity?"

Part of it was doing it in a model I call it the "Solari stock model", where the control shares and the money shares were separate. We've talked about this in The Solari Report before. If you go back into the archive and listen to "The Story of Comfort Calls", I describe the model in detail.

Media companies are a good example. So the *Washington Post* or the *New York Times* – the control shares are separate from the money shares; and that's so that the investors have limited abilty to influence editorial policy. So you want strategic control to be separate from the economic participation. This is a perfect example within a place where we're creating entities – and, again, it was a venture fund idea – where you pick 12 leaders from the community from diverse areas of the community, and you give them the A share control.

Then you have economic interests that you can sell widely in the community, or to institutions outside the community. So you can sell the non-voting B shares to the state and local pension funds, and you can sell B shares to corporate partners who you want to bring in and use for a variety of specialized things, but it doesn't threaten local control. So you have a balance between strategic governance and economic optimization, because everybody makes their money together on the nonvoting shares.

If you want to know more about the model, again, we did the *Solari Report* called "The Comfort Calls Story" and we go into it in great depth and provide an example term sheet for a start up company.

One of the reasons I'm alive today was because of the A share/B share model. I had structured Hamilton; I controlled the majority of the A shares. So try as they might to compromise the governance, they couldn't. This is exactly what happens when you go to China; that's exactly how the Chinese do it. Foreigners are now allowed to get control shares.

JON RAPPOPORT: So at this point in the history of Hamilton, and everything you've described so far, how are things looking for the company? How are these projects working out?

C. AUSTIN FITTS: On one hand, we're looking great for the company; on another hand, we ran into political problems. And here's what it was.

A variety of interests – and we all understand who – wanted to have a housing bubble; and the reality is, is you can't have a housing bubble, let alone, with a lot of mortgage fraud if you're running the federal credit programs honestly. So if FHA, and Fannie Mae, and Ginnie Mae, and Freddie Mac, and VA are all being run honestly, you can't have a housing bubble, let alone, one with a lot of fraud. So once the assumptions on recovery rates and default rates got cleaned up, the reality is, if you're going to have a housing bubble, you had to get the honest people out. That was Issue 1.

Issue 2 is, if you look at what was happening over at the Department of Justice with private prisons and the war on drugs, part of what was happening with the housing bubble was tremendous gentrification in low-income communities; and, frankly, a lot of people were just being rounded up and moved into private prisons on the pretext of the war on drugs. So whereas we had a model that said, "Let's start data serving businesses in low-income communities, and help people build skills, and get education," the other model was saying, "Let's go round people up and and make lots of money stuffing them in prison."

JON RAPPOPORT: And takeover whatever they do have.

C. AUSTIN FITTS: Right – as globalization moved income and jobs abroad, are we going to retrain and retool populations, or are we simply going to delete them in a variety of ways?

JON RAPPOPORT: Okay, so this loomed up on the horizon. I mean you could see this as being, perhaps, a major challenge. I mean I've never understood it at this depth before. You and I have talked about housing before, but I've never gotten into it in this detail, which really gives me a vision, a real vision of what you were doing. And as this is expanding, with the company and with projects and so on, you had to see looming up on the horizon, that there was going to be a big challenge to this. Right? I mean you could see the clouds forming.

"As this is expanding, with the company and with projects and so on, you had to see looming up on the horizon, that there was going to be a big challenge to this."

C. AUSTIN FITTS: Well, I made a strategic call, and that was, I believed the leadership really wanted to see the United States succeed. I didn't believe that they were committed to the United States failing – or I should say the American people failing. I'll never forget, we had a wonderful group of pension fund leaders who were on an advisory board of one of our subsidiaries. On one hand, we had Hamilton who was sort of getting in the trenches and prototyping what the economics were, and then we had created Solari to be the money manager once we figured it out.

You know, our dream was to figure out a way that pension funds could make a fortune on reengineering America – the hope being that the pension funds needed to be able to build significant wealth if they were going to support the next generations in their retirement. So that was our sort of dream come true.

And we had a wonderful group of pension fund leaders on the advisory board of this subsidiary. And I'll never forget going and making a presentation to them in the spring of 1997, and showing the negative return on investment on all federal investments in the Philadelphia, and then showing them the fantastic wealth that could happen if we finance communities with equity and reengineer the government investment at the same time, and how much money that could make for the pension funds.

I'll never forget, there was a great guy from one of the corporate pension funds in Connecticut. He said, "This is really great. We can save the country and make lots of money." And there was a wonderful guy who, at the time, was President of CalPERS. He looked at me; and he had worked for Saul Alinsky as a young man, and he said, "I don't understand. This is Saul's model, but they were able to stop him." And I said, "Yes, but you couldn't get the learning metabolism up fast enough, high enough, without the technology."

Now it turns out, he was right and I was wrong. But I really believed the top guys wanted this to succeed, or wanted something like it to succeed. So he looked at me and he froze, and there were literally tears in his eyes and he said, "You don't understand, it's too late. They've given up on the country. They've decided to move all the money out in the fall," and that was fall of 1997, which is the beginning of fiscal 1998 when $4 trillion started to go missing from the government, including about $159 billion-plus missing from HUD.

What he was alluding to was the frustration when Congress failed and the Administration failed to reach a financially responsible budget package in 1995, and we ended up having to shut the government down. What he was referencing was the nature of the frustration and the feeling at the leadership that it was impossible to come up with a financially – you know, financial responsibility is never popular in a democracy, because people hear no, and they don't want to. They vote for people who say yes.

But I remember thinking that this was possible; and the President of CalPERS said to me, "You've got to get to Nick," referring to Nick Brady who had been the chairman of my old firm, and then the Secretary of the Treasury, "and tell them that it's absolutely not hopeless."

Now, I just can't imagine anybody would think it was hopeless. But part of it is, if you go back down to the county level, you have a tremendous amount of money being pulled out by a variety of corporate and black budget interests in ways that are fundamentally not economic. And that's what we're grappling with when we look at reengineering the federal budget, because we've let this thing get worse, and worse, and worse by borrowing more and more money. And now we can't keep doing it, and so we're going to have to change.

It's not just everybody in America that's going to change. How do you tell the black budget guys, "You can't keep stealing more money." And we can't keep propping up J.P. Morgan Chase's stock by doing things which are uneconomic. We need to support the stock up by doing things which are fundamentally economic.

JON RAPPOPORT: So at what point would you say was the peak of Hamilton's success after which, as I said, the clouds began to form on the horizon?

C. AUSTIN FITTS: Well, I would say the clouds began to form in the fall of 1995. What happened was – and it was really, I associate it with when the private prison stuff started to really get pushed. You know, it was as though somebody had made a decision, Jon, to pull as much capital out of the country as fast as possible. And I think if you look at the timing, it was also the implementation of the Uruguay Round of GATT. So you had the Uruguay Round adapted, and the creation of World Trade Organization.

At that point, somebody had blown a whistle, and the political and economic incentives to pull as much capital out of the country as fast as possible had been created. It was as though the world had gone mad. I mean I had people that I done business with my whole life behave and act in ways that I would have said were inconceivable. There was so much profit to be made by outsourcing and switching everything abroad. It was almost as though people had lost their minds, whether it was sucking up the capital moving offshore, or engaging in the mortgage fraud, or engaging in the gentrification.

To give you an example: FHA was doing a strategic plan, it was in '95 at the same time that FHA was coming out with affordable housing targets for Freddie Fannie and the GSEs. FHA had traditionally issued all the mortgage credit in the minority communities, and then Fannie Freddie was much more of the burbs and upscale. And FHA had come out with a strategic plan showing them significantly increasing volumes in poor neighborhoods; and then Fannie and Freddie came out under their jurisdiction and regulation with targets that showed them radically increasing the mortgage flow in those neighborhoods as well. If you added up the math, it didn't make any sense.

I remembered turning to one of the lead people at FHA and saying, "Look, people are going to have to refinance their mortgage two and three times a year from prison for these numbers to work." And they looked at me and they said, "Shut up, this is none of your business."

So you're talking about government officials engineering the nuts and bolts of what it takes to have a huge amount of mortgage fraud. What happened was, what I was watching – whether it was that kind of mortgage fraud and predatory lending – you know, I think the hardest thing for me to deal with was the private prison companies; because what we were doing was, we were dropping SWAT teams in communities, rounding up innocent kids, turning off the appropriations for the public defender's office, stuffing them into a prison in a way that made money on people's prison company stock – it was the stock market play – and there was nothing we were doing that was any different than what Hitler was doing with slave labor camps. You know, it was just hidden behind a whole lot of fancy financial engineering.

The hardest thing for me was, we were – whether it was the housing bubble or the gentrification, the private prisons – we were doing things that created lots of cash flow in the short run, but would slowly drain the financial equity and the wealth from the broad middle class. I couldn't understand why literally almost everybody I know was happy to go along with it. I found myself – whether it was with various people in the housing and real estate business in Washington or institutional investors – I found myself increasingly having conversations about, "If you do something that hurts the whole to make money, ultimately that has to fail." We're building a model where we're making money on destroying things as opposed to building them up. How can that possibly work?

JON RAPPOPORT: And what was the reply that you got? When you pointed this out, what was the reply that you got?

C. AUSTIN FITTS: The reply that I got was 1,000 different variations of, "Oh, well, this is the way it's going to go."

JON RAPPOPORT: Okay. So you had little people, relatively speaking, going along with bigger people, going along with bigger people, and so and so forth. The usual model, which is the sort of stratification of motives in what can only be called a conspiracy, because that's what it is – to take money out of the country and to destroy the country. And the people who go along with it at the barnacles who attach themselves to this kind of a program, they see something good for themselves, and that's as far as they want to look.

"The people who go along with it at the barnacles who attach themselves to this kind of a program, they see something good for themselves, and that's as far as they want to look."

C. AUSTIN FITTS: Well, let me talk about – you know, because this story is not so much, one, about good guys and bad guys. Let me talk about the bad things in the loan sale program, because there were problems too.

One of the things that happened from very early on is that the big securities firms were doing the lion's share of the winning. They were bidding, Jon, significantly more amounts of money than others. And the firm that won the most during the bids was Goldman Sachs. I could never figure out how it was that they were so successful. And then after the loan sale program got shut down, I went back and studied a lot about PROMIS software, and how these different firms team up with different intelligence agencies to basically hack into banking systems.

To this day, I have profound questions about how it was that Goldman Sachs won so much, and whether or not they were bidding on behalf of the government and the Exchange Stabilization Fund; because many of those mortgages had files, and had been part of things going on that I think were probably corrupt. And so I wonder if they're weren't bidding to get a hold of the files and kill the criminal liabilities.

We've talked, in fact, about how some of the mortgage files from Arkansas and Texas that got blown up in Oklahoma City when the federal building was bombed in 1994 right before our due diligence teams were scheduled to get them. So you and I have talked about that before. So to this day, I wonder how it was – you know, frankly, I wonder if some section of the government wasn't teamed up with Goldman Sachs, and compromising the banking system to get a hold of the bid deposit information they needed to make sure that they won the bids, or bidding with money from the Exchange Stabilization Fund so they could afford to bid more; or they were laundering money back in from Russia.

So one of the questions was, "Were the winning bidders part of the black budget game?" And to this day, I don't know the answer to that, but I have a lot of questions.

JON RAPPOPORT: One of the questions that I have is, obviously, we're talking here about a juggernaut of tremendous power making the decision to move money out of the country and to destroy in the process. So why did they come after Hamilton at all? In other words, they must have felt, "We're succeeding beyond our wildest dreams, nobody can stop us, we're invincible," etcetera, etcetera.

Here's a player that understands, to some degree, what's going on; but, certainly, they have no ability to harm us. But yet at some point, Hamilton – as you'll relate here – came under severe and heavy attack. Why was that?

C. AUSTIN FITTS: Well, the first thing they did was, we were falsely accused of all sorts of things. There was kind of like an allegation du jour. You and I would be here for a week if we had to go through all the allegations.

So they attacked us in sort of this immersive – we had 18 audits and investigations. And it was a fishing expedition. They were never able to come up with anything. The only thing they used was a mistake that we had made – or a subcontractor had made that we had reported a year before the litigation started. And so there's a kind of a fishing expedition, and all sorts of allegations smeared. There was a smear campaign.

I think, basically, what they were trying to do was get rid of the honest people and do it in a way that would scare every honest person in Washington to death; because if they're going after somebody that clean, what could they do to me?

JON RAPPOPORT: Or how it's supposed to make an example.

C. AUSTIN FITTS: Yes, you make an example. And it puts a chill throughout the federal credit programs, and then you're free to do whatever you want. So I think part of it was just getting rid of the honest people.

The second thing is, at one point, they seized all of our databases; and it was clear, they wanted control of all the software tools and databases. And it took me six years to get them out of court to control them. When I finally got them, the most valuable pieces were gone completely. I could never get them back.

So what was very interesting – at one point, when they seized all the digital sort of infrastructure – right after everything got back up, one of the government people came into our offices. And we had gone in that night when we got control back and taken the most valuable server and put it over at our law firm; and this government inspector said, "Where's the server?" And we said, "We took it last night."

And he said, "You can't take it; you can't have it." We said, "What do you mean we can't have it? It's our server, it's private property."

He said, "I'm under instructions, I'm under orders. Under no circumstances are you allowed to have a copy of the digital infrastructure."

And I think it was because when you took out the databases of all the mortgage defaults and mortgage originations, all the federal data that we had, what it showed was that there was a fantastic amount of mortgage fraud. Let me give you an example. I think at the heart of this, that was the problem. It was that the mortgage markets could never afford to see and hear the extent of the mortgage fraud.

In 1994, I was sitting at Hamilton, and one of my staff said, "There's a mortgage broker from New York that I used to deal with," they worked over in the Senate, "and he wants to meet with you. And please, please, please," they kept pushing me.

Finally, I met with him. And the guy comes in with this huge pile of paper and he says, "My family, for three generations, has had a mortgage broker up on Long Island; and our competency is, "We track all FHA mortgages in the country." I guess it was '95. And he said, "There's a terrible mistake."

HUD has just issued financial statements. In the Bush administration I had been part of a group getting laws passed that required federal agencies to produce audited financial statements. And HUD had issued financial statements that they couldn't get audited, but they done their best.

And he said, "There's a terrible, terrible mistake in these financial statement. It says the outstanding mortgage insurance in force is about $400 billion." He said, "You don't understand, it's several multiples of that."

Now, Jon, I thought the guy was nuts; I thought he was certifiably nuts. He said, "Look, I brought you a copy of my database." I said, "No, no, that's okay; you keep it."

And he was saying that the outstanding FHA insurance was like $1.2 trillion-plus, that there was literally almost a trillion dollars fraud that was not on – you know, they'd issued mortgages that were not on the book.

Now, having lived through what I've learned since, I think he was telling the truth, and that the financials were fraudulent. But I think our databases, mapping of the mortgages, both the originations and the defaults by place. And comparing them to what was being publicly traded in the stock and the bond derivative markets, I think that illumination would have illuminated so much collateral fraud it would have absolutely trashed the markets. So let me fast-forward.

In August of 2008, Fannie and Freddie were shut down. They were basically taken over by the government and their shareholders wiped out. Now, at the time, you had a very famous money manager in San Francisco lose a billion dollars. In March of 2008, they had invested a billion dollars of their investors money in Fannie Mae stock; and then literally five months later, Fannie Mae goes under, they take a billion dollars write down, and they put a letter up on their website saying, "We did extensive due diligence; we had no idea."

Now, what was interesting is, I as a former Assistant Secretary of Housing had regularly been on the radio at KPFA Radio in the San Francisco Bay Area for years, talking about the extent of the fraud, that there was trillions of dollars of collateral fraud in the mortgage market engineered through Fannie Freddie and FHA. So how could these – they didn't know. Do you know what I mean?

There was this disconnect between the extent of the fraud and the belief that somehow, this system could keep it going and nobody needed to know or care. It was almost as though we're up here in the overt world, and this is going down in the covert world; but we can pretend it's not, because it'll never pop its head up.

"It was almost as though we're up here in the overt world, and this is going down in the covert world; but we can pretend it's not, because it'll never pop its head up."

And what was interesting is, and right before Fannie got taken over, I was thrown off of KPFA Radio and censored. I was not allowed on.

JON RAPPOPORT: Really? I find that very interesting, because I know something about the Pacifica Network, because I used to do a segment on a show at KPFK in Los Angeles for some years. And, eventually, I began to feel a chill. It had nothing to do with financial economic information, but it was other things.

I could see that there was indeed a political agenda operating, and that I was outside of that agenda, or I was running into it and the whole idea of free speech radio really was about, "Yes, you can say anything you want to, as long as you are within this territory here. But if you walk outside, then it's not going work, we don't want you around, and goodbye.

C. Austin Fitts: So you had several things going on. You had Fannie and Freddie being taken over, you had San Francisco money managers taking huge write-downs, you had the San Francisco Fed, which is the most powerful on the West Coast, grappling with that situation, and you had the Bohemian Grove going on right outside of San Francisco. So that was not the time for me to be on the radio explaining, "Oh, well, we all knew. How could we not know? Every trucker in America knows this. What do you mean, you don't know?"

Jon Rappoport: So let me ask you this now about Hamilton. How did you win? I mean if they said, "Okay, we're going to make an example out of these people and we're going to grind them into the dust, which involves, of course, plugging into the inherent corruption legal system."

I mean they've got so many cards at their disposal to play, and yet, you emerge from the other end of the tunnel. How is that possible?

C. Austin Fitts: Well, you know, it was a miracle, is the only way I can describe it. And it's a long shaggy dog story, because these things get to be like trains, you know, and people get on and off in their different phases. But what happened? The first thing that happened was – and I told this story up on the blog.

This guy came to me and he said, "We tried to get you fired through the White House," which they did. HUD was ordered to fire us, and then HUD didn't do it. And he said, "We tried to get you fired through the White House, that didn't work. So now the fix is in – you know, the big boys have gotten together and you're going to prison."

And so what started was a process of 18 audits and investigations, 12 different tracks of litigation, and a smear campaign and physical harassment. It's very immersive, because at the same time, you have 18 audits and investigations going on, you have all sorts of lawsuits flying at the same time.

You've got a smear campaign, you've got people following you, and breaking into your house, and running your car off the road. That's why I say if you've ever seen the movie *Enemy of the State*, I played Will Smith in real life, because it's just completely immersive.

And what's amazing, Jon, the thing that's amazing about it is, you're going along, you're rich, you're successful, you're used to being a credible person; and all of a sudden, everybody in your family and all your friends think you're an axe murderer and want nothing to do with you; and you didn't do anything. It's *The Puzzle Palace*, and it's a very deeply unnerving process, because what you discover is that what everybody thinks of you is controlled by these invisible forces. The facts are irrelevant It's quite amazing.

Anyway, so what happened was, I started off dealing with everything in good faith, and spending tremendous amounts of time and money on managing the legal process, etcetera. And then I reached a point where I discovered that the law really didn't matter and the facts didn't matter. This was a fix. And the goal was to just exhaust you and exhaust your resources.

And so what we decided to do – it was in early 2000 – we had heard what happened with Gary Webb, when Gary Webb put all the legal documents for his *Dark Alliance* story up on the Internet. What we did is, we spent four-and-a-half months – I had a team of five people scanning all the documents and very complex summaries, and put it all up on the website and launched it on the Internet. And when I tell you - what a turn!

JON RAPPOPORT: This is in the middle of all your legal maneuvering and cases and so forth. In other words –

C. AUSTIN FITTS: We launched this webpage – and sure enough we got significant movement in the courts. [See litigation summaries at dunwalke.com/gideon]

JON RAPPOPORT: Let me just ask you one thing about this, because I'm very interested in it. I was just writing something about this today.

Normally, during the legal process, the attorneys tell the client, "Shut up, don't say anything, disappear, do not make any public statements; because everything that you say can be used against you in court. And I've always thought that in certain circumstances – many in fact – that this is completely destructive and stupid; because the thing that you actually want to do is to expose the truth. And from what you just said, it sounds like that's what you were doing.

C. AUSTIN FITTS: Yes. It was very interesting, because it was – one of the things that I discovered was the situation, what we were litigating, was so complicated, that many of the people on the other side didn't understand the basics; and the only way I can educate them was by making it public through the web.

JON RAPPOPORT: I see.

C. AUSTIN FITTS: And we were able to get the allegations and the debate down to much less simply by our team educating the opposition. It's pretty funny. Well, I'll give you a perfect example.

JON RAPPOPORT: So explain what your case against us is, right, so that you can understand it finally.

C. AUSTIN FITTS: Right. Well they didn't have intellectual mastery of the core information. So I'll give you an example.

I was in one meeting once with a group of attorneys from the government; and what had happened was, our insurance company was very dirty in the thing, and at the last minute, pulled the money on our attorneys. They dropped and they stuffed new attorneys in. And this is typically done to kind of lose you a year-and-a-half.

So we had the new attorneys and then the government attorneys. The whole situation was so overwhelming. I'm sitting in the meeting and they're having a debate about whether I rigged a loan sale or not, and they're talking about a loan sale. Well, while it was going on, I was in Boston for a month. But I didn't mention it, because that's the facts. Nobody was interested in the facts, so I sat there and listened for them talk for two hours about whether or not I'd rigged this loan sale, and they had no basic information whatsoever about the loan sale when it happened. No one had bothered to stop and get the facts.

"Nobody was interested in the facts, so I sat there and listened for them talk for two hours about whether or not I'd rigged this loan sale, and they had no basic information whatsoever about the loan sale when it happened."

So, finally, I let them go on for two hours, because you know, they're all billing by the hour and they're making money. So at the end of two hours, I said, "Could I just interrupt and point this out?" at which point, they said, "Oh, oh, oh," then proceeded to invent something new to kind of –

But you were in a *Puzzle Palace* ; facts didn't matter, evidence didn't matter. It had nothing, you know, it was pure politics. I'll give you another example.

During 1998, the Department of Justice, and a HUD Inspector General, and the FBI – when they seized the digital infrastructure, were caught falsifying the evidence. And the property manager was so outraged at their efforts to falsify evidence, he gave us an affidavit describing it; and we turned it into the court, and the court said, "Oh, this is standard operating procedure," and never explained what that meant, and didn't seem to care.

So I called up a guy who used to work in the HUD Inspector General's Office. I said, "Actually, the court has said it was an SOP and then dismissed it. What's SOP?" He said, "Standard Operating Procedure. If you can't find any evidence of wrongdoing, then you just falsify an obstruction of justice charge. So that was SOP." And so it didn't succeed, but the court didn't think it was relevant that the government was engaging in criminal conspiracy stuff.

So what happened was, we made all the information transparent; and it took about a year. But a wonderful reporter at *Insight Magazine* got very interested in this story and wrote a cover article. So this guy published an article; and what was amazing was, the article went up on the Web on

Friday. *WorldNetDaily* picked it up on Saturday; it rocked around the Internet. And on Tuesday, the HUD Inspector General who had led this effort was fired.

JON RAPPOPORT: That's beautiful.

C. AUSTIN FITTS: Okay, so transparency Strike 2. You ready for the third one?

JON RAPPOPORT: Yep.

C. AUSTIN FITTS: I had been working with a different reporter at *Insight Magazine* on all the money going missing from the federal agencies, including the $59 billion that went missing from HUD; and then it turned out to be, I think, $150 billion ultimately that went missing from HUD.

And HUD, right after the HUD Inspector General basically got fired, HUD had come out with its newest financial statements. And they refused to say how much in undocumentable transactions they had. And I spend a great deal of time reviewing and unpacking the financials, and then sat down with the reporter to describe all the different questions they needed to ask.

They've been doing a series on the trillions going missing from HUD and DOD, so they were clearly working up to the next one. The kinds of questions that they were asking, somebody who had to be very familiar with the whole FHA and mortgage insurance, and securities operation, that it would have taken somebody with deep expertise in that area that put together those questions.

So three weeks after the HUD inspector general retires, they send in these questions to the HUD IG Office on the missing money. The questions go in by email at 12:30. That afternoon, approximately 3:30, my attorneys get a fax from the HUD IG's Office saying that all investigations of me have been ended.

JON RAPPOPORT: Wow.

C. AUSTIN FITTS: So that was Transparency Strike 3.

JON RAPPOPORT: Wow.

C. AUSTIN FITTS: Well then, but here's the thing. Then Cuomo, who's the Secretary of HUD, cuts a negotiated deal with one of the private parties who was litigating against us, gives them basically $2 million, at which point, he can file the lawsuit against us on a civil basis, and I end up with another five years of having to deal with that guy.

JON RAPPOPORT: Oh, my god. When you said this is a miracle about emerging, it's definitely like a miracle.

C. AUSTIN FITTS: Well, it's funny, because we kept coming to court. We had sued the government, because the government owed Hamilton its last payment; and we won in 2003. And what was really a miracle was just a very clean judge, and we were lucky – it's a much longer story. But that was the big one.

So the government said, "Yep, the government owes you money." Or the court said, "Government owes Hamilton money; Hamilton's in the right." So that was the big one.

So then we had this sort of sleazy whistleblower who was working with HUD and the Department of Justice. Anyway, so when that trial came up, they kept trying to force me to settle on the eve of trial; and I refused, I just refused. And that's one that I was poisoned several times, and the poisonings got started, and it got very ugly. But finally, they had to come to court. And after canceling many times on the eve of trial, they came to court.

Jon, it was the funniest thing I'd ever seen, because they had not a shred of evidence; they had none, no evidence of any wrongdoing. My attorneys couldn't believe it, because they kept saying, "There has to be something." I said, "I'm telling you, it's a complete empty suit. They never dreamed they would be forced to go to court."

And they fought like cats and dogs not to go to court. You had the judge screaming at the attorneys, because the question was, "Who was going to rig this thing?" And the judge didn't want to have to be the one to rig it if there was case. You know, couldn't they at least go off and make something up? And it finally came down to one of the last days.

One of the funniest moments was, there were three attorneys on the other side arguing about whether something was true. And one of them said, "Well, you don't know if that's true." And then other guy says, "Yes, I do, because Fitts said so. Look, here's the document. Fitts says it's true."

And then they all said, "Oh, well then it must be true." And we had reached the point where I was the only one that everybody trusted.

Anyway, so that happened in 2004; and then, of course, things then go to appeal. But once we'd been through the first round of litigation on the major cases, there was no point in going any further. You know, I've made the point that it was an empty suit from the beginning.

JON RAPPOPORT: What I'm interested in hearing now about is the applicability of lessons learned, what you discovered in all of this incredible Kafka journey about what's happening now.

C. AUSTIN FITTS: Right. The only reason to go back and sort of revisit the story of Hamilton is – you know, I always say to people, "I'm an optimist, because I understand what is causing wealth to shrink, and I understand how much wealth could be created if we simply stopped the negative.

In theory, if we were to say, "Forget political considerations. Let's manage the economy to make the economy as strong as possible, and to build as much financial wealth as possible," there's tremendous opportunity, Jon, to do that. And we really don't have an economic problem, we have a political problem. And that's not to say that the political problem isn't severe; but let's just talk about a couple of things.

So I said, "Imagine if we were to optimize or to switch government investment from a negative return to taxpayers to a positive.

So, for example, I used the food stamp example. If government needs work to be done, you know, if somebody a community will do it for $25.00 instead of outsourcing to a corporate contractor for $50.00, let's do the $25.00. So let's get the most efficient solution and let's let small business compete to do that if they're more efficient than the big business. So optimizing government resources by place is one of them.

"Let's get the most efficient solution and let's let small business compete to do that if they're more efficient than the big business."

An example that I gave from government spending is, if we're spending $250,000.00 per unit to build public housing, why not let that money be competitive within a county or municipality, so if we can rehab or fix up foreclosed properties for $50,000.00; well, for heaven's sakes, let's do four or five of those instead of constructing new public housing.

I mean there are thousands and thousands of these examples. But one of the reasons I believe in bringing transparency to government money by place, is then you can have a very healthy conversation within that place about what is optimal.

There was a wonderful process that began in Latin America during the economic hard times in the '90s called "participatory budgeting", where the communities would come together and start to look at the numbers and take responsibility to work with government officials to create budgets.

When I was on Wall Street, I knew the head of the budget for New York City, and she used to say, "We're spending $150 million a year on litter. Imagine if people would just pick up their own litter, and we could spend that money on something more important, imagine what could be done with it."

So part of this is taking a broader citizen responsibility for where our money's going and making the most of it. The opportunities are tremendous. So one of the things that the Hamilton story told me is, there's tremendous opportunity to reengineer government spending and investment bottom-up.

The second thing is that we lose a tremendous amount in this country by being on a debt model. Debt throws people out of alignment; and we are suffering from way too much debt. In one sense, what we need to do is what I call "planetary debt-for-equity swap." If we can get communities and we can get the economy on a much more equity-based model, there's a tremendous opportunity for collaboration and communication that we don't have now with a debt model. So that's another one.

We see the passage of the Jobs Act, and the advent of crowdfunding. That's a very positive development, I think, that can help us kick-start the shift to equity.

If there is anything that drains our economic performance, it's having the wrong people in charge. And as the corruption has grown, as the debt model has grown, as centralization has grown – you get the wrong people in leadership positions locally, or you may still have the right people in positions, but they are very afraid of offending. So nobody wants to have happen to their business what happened to Hamilton Securities.

We're watching in the political process, players who play dirty. So if you're working for HUD and you're being clean, you get targeted in these kinds of situations. So I think we've really seen quality leadership locally have had their hands tied. If we could free local leadership to just perform without fear of these kinds of dirty tricks, a lot can happen.

The next thing is, another thing which has really hurt our economy is, you know, the biggest investment that you make locally in any one of these counties, is you raise and educate your kids. Increasingly, those kids are going off to the Army, they're going off to Wall Street and to Washington, and they're dealing drugs and going off to prisons. They're not staying on Main Street and really building up the local economy.

So think about it, you pour time and money into building this human and intellectual capital, and then it leaves. So another thing that could happen is if we started to do these things, we could really attract and keep the young people of America busily engaged in rebuilding the economy in a way that could be quite wonderful for everybody.

That brings me to my next-to-the-last point, which is, we have an explosion of new technology in this country. So you and I have been talking mostly about a world where digital technology made a huge impact. But we now have new energy and new manufacturing technology that can mean that small business can be much more competitive globally if that technology is integrated. And when you add that new technology along with an equity model and reengineering government investment, you're talking about financially a pow-pow-pow and just tremendous opportunity.

And, lastly, what I have to say is, I get back to this idea of aligning with the physical environment. If we're going to heal the environment, then we need to make money healing the environment, we need to make money reducing consumption; and if you start to get places on an equity model, that can happen. It's a lot easier than many people think; because if you have, for example, a venture fund in a community, and you heal the environment, what's going to happen to the value of the stock? It's going to go up. Right?

JON RAPPOPORT: Sure, absolutely.

C. AUSTIN FITTS: Right. So the final piece of this is realigning life with money, and doing it place by place; and it's the beginning. So all those things are possible, and I think the question is politically, "How do we make it politically feasible for that to happen?" Because the story of Hamilton Securities is the story of a new model that's young, it's being prototyped, and it bumps into the old model.

And now that we've pulled so much capital out of the country – and the question is, "Okay, are we ready to prototype and work towards a new model?" And the reality is, I don't see that we have a choice other than to do that.

JON RAPPOPORT: Well, you start with individuals, families, and communities. You're educating them.

C. AUSTIN FITTS: Right. The way to come at this is to say, "Okay, I'm an individual and I live in a community. And listening to this story, what are the things I can do to start to take advantage of the kind of opportunities that are being discussed here?"

So, for example, where is the opportunity for me in my community as a small business person or as a municipal official? Where is my opportunity to start looking at the reengineering opportunities in a way that builds up employment and small business in this place? And, you know, every place is different, so it's very granular.

But the first thing you certainly want to do is to start to bring transparency to how the government flows work around you, and to identify where the opportunities are for the young entrepreneurs and for small business to use these new technologies to do new things.

JON RAPPOPORT: And one of the things that I see where I am – and I've seen it in other places where I live – is that people who live in communities, not all communities, certainly, but many communities don't even know each other.

C. AUSTIN FITTS: Right.

JON RAPPOPORT: So that requires a real human change. So it's on the most basic level to find out, "Where do I live, where am I, and who's around me here; and how can I find out what's going on?"

But the one thing I mean I think that's a tremendous advantage – I can drive around my neighborhood within five miles of here, and I can see many small businesses. They are very visible. When people go into their houses or their apartments and shut their doors, I don't know who's who or what's what. But when I see the economic life of where I live, that's quite different; because I can go into stores, I can talk to people, I can find out more about what they're doing. They're always interested in talking if you start asking them questions.

"When I see the economic life of where I live, that's quite different; because I can go into stores, I can talk to people, I can find out more about what they're doing."

And as you say, there are so many remarkable possibilities if people can turn away from their old ideas, the old models, "This is the way it works," and consider something new. That, to me, would be the big step. "Yes, there is such a thing as new, and here is what it could be."

C. AUSTIN FITTS: Here are two ways to start, because I think we all have to start in ways that save us time and give us energy.

The first thing to do is, if you have a good local bank or credit union, bank local; because a lot of the smartest financial talent within a county or a community is in the good local banks. And they're the ones that are really keeping the money circulating locally and supporting small business in many cases. And banking locally puts you in the flow of those relationships and that sort of local muscle; and it's one of the steps you can do.

And, generally, it protects you, because then you're banking at a bank that doesn't have a big speculative trading in derivatives position. So I think you were just usually much better off in those banks. You're going to get much better service, because doing a great job for you is their bread and butter. So the first thing you can do is, you can bank local.

The second thing you can do – if you can look at opportunities to buy and participate in the fresh food businesses locally; because I think one of the hardest things – you know, the question is, "What can be done locally that is more efficient than can be done globally?" if you always want to focus on doing that which is the most efficient.

And one of the things we're finding, Jon, is increasingly, you can't buy healthy fresh food in a corporate context. It's simply not safe; and in many cases, what you're getting is poison. And so what we've seen around the country is the development of local food movements and local food markets that really do provide an alternative, and are quite competitive compared to what you can do in the corporate vehicles. So banking local, and then accessing the local food movement are usually, for most people, two steps which are very, very productive.

JON RAPPOPORT: I see that here with local food, and I know people all over the country see the same thing. You can have greater trust in what grows locally, you can get to know people who do grow it locally; and when you step into a market, you just don't know the same kinds of things. It might be okay; it might not be okay. The bigger the market, the longer the transport; the less you know.

And the same thing with money really. But you're saying here, I mean if you know the people who are the local bankers and credit people, you stand a much better chance of being able to find out what the community is really all about as opposed to money that's coming from Mars, you know, or the digital printing presses of the Federal Reserve. It's not the same thing.

C. AUSTIN FITTS: Well, what you're trying to do is, you're trying to create intimacy, and you're trying to create intimacy in connection with people who you think are excellent. So I assure you, in every area, there's a small business that's not excellent. That is to be avoided. So we're looking for excellence and we're looking for intimacy, because excellence and intimacy delete a lot of the kind of risks that we're running into in this environment.

JON RAPPOPORT: And looking back on the story of Hamilton now, the way I see it is that you had a master plan for making that possible in any community in the United States, or anywhere really. The idea was to look at all of this and to say, "Okay, we want to make prosperity work locally; and now we're going to develop the tools so that any community can pick up these tools and make it happen locally."

C. AUSTIN FITTS: You know, my passion all my life has been, "I love to build wealth, but I love to build financial wealth in a way that builds up people."

And, you know, I never had any interest in making money from things that were fraudulent or destructive. It just seemed to me to be – Real men don't do that. Like you can't get a kick from making money out of genocide, you know, there's no kick in that. That's the Yuk side, making money from doing things that have a negative return.

And before we close, I want to just touch on the Solari model, because that's sort of the point of the whole thing. So I get a kick out of building real wealth. And, you know, Jon, I spent my whole life looking for a way to do that and help other people to do that. I think one of the reasons that we were able to move through and ultimately win the big part of the litigation on Hamilton was, you know, I wasn't trying to win the litigation, I wasn't trying to make money; I was trying to find a way to live in this world where we could build wealth in a positive way.

And my number one goal when I came out of the Bush administration is, "How can we create a new investment model?" because it's clear the central banking - warfare model that this planet has been operating on for 500 years can't succeed if we're going to globalize and integrate new technology." So what's the model going to be? And at the heart of everything I was doing, I was trying to figure that out.

I'll never forget – in 1997, I got it, and it was the most exciting time of my life. What I couldn't believe thereafter was that nobody was interested. But let me just describe where I came out. And I'm looking at this from the point of view of an institutional investor – so if I'm a big pension fund manager, or any manager of big pots of money.

If you look at an investment, it has a return to the investor. So I buy a stock, it's got a return to the investor, but then it's also got an impact on the whole ecosystem. I call it the "Total Economic Return" that divides between the "return to the network" and the "return to the investor." And so what I realized is that it's really pretty simple. If institutional investors will make an effort to understand what their total economic return is and use that information as a navigation tool to find and make sure they get positive returns to investors, they will avoid a whole lot of very negative and contradictory behavior.

So, for example, all the guys who were financing private prison companies didn't understand that they couldn't make money on that stock without causing them to lose money on their mortgage related stocks. In other words, they were financing two activities that were going to harm or destroy each other, or that were contradictory to each other.

So what I realized was, you know, that if we simply adopted a technology that said, "You know something?; I'm going to make an effort to understand what does make the pie get bigger and what makes it smaller. I am going to use that intelligence to make me smarter. And I'm going to try to avoid investing in things which shrink the pie "

That's a few simple changes in protocols that all institutional investors can make. And if they make those two changes, it can shift extraordinary amounts of money and hold extraordinary amounts of money to discipline where we don't have these kinds of crazy economic cycles and pump-and-dump that do so much damage to the environment, and ultimately, to the economy.

We've reached a point in our evolution as a society in our globalization as an economy where if institutional investors don't adopt these protocols, they're going to lose money and the economy is never going to work. So it's a simple change, but it's kind of an earthquake change in the world of money, and it's a change we're going to have to make, because the old model doesn't work anymore.

JON RAPPOPORT: As you say, it's a simple shift in one sense. But it's so profound, because it takes in the human beings who are making these decisions at every level, whether from the individual, all the way up to the institution; because, you know, everybody's proposed these kind of moral conundrums, "What would you do in a situation where if you do this, this is what happens; and if you do that, that's what happens?"

And they usually play these little games, and sometimes kids do that – smart kids. But what's really happening is that these are decisions that are made every day in life; people make these decisions. "Yes, I'm going to opt for this kind of gain and advantage, and I'm not going to look at what the consequences are over here. I'm not going to think about the larger picture, I'm not going to think about what happens beyond what I do."

"What's really happening is that these are decisions that are made every day in life; people make these decisions."

And then if you have everybody going along with that model, you get total destruction – simple as that. And if you don't, the thing that's so wonderful to me about the Hamilton story – and as I said earlier, I now understand it in much greater depth than before – is that it was an actualization of the right thing to do in the most sophisticated terms.

It was, "Okay, what would be the right thing to do vis- à-vis money? This is an investment, this is what the right thing to do would be, and this would be how to do it. And this would be how to map how to do it, and this would be how to educate everybody who can be educated on how to do it – where they are, where they live as individuals, families, and communities – and so that's what we'll do."

And as you so tellingly said, you weren't really trying to win the battle so much as to do the right thing – to build prosperity and wealth, while at the same time, building up environments and human beings who live in the environment. And that's what's so wonderful to me about the Hamilton story. So I thank you for telling it, because it's very inspiring.

C. AUSTIN FITTS: Well, I appreciate your listening. It's quite a tour through the past.

JON RAPPOPORT: It sure is; it sure is. And it will be quite a tour through the future. We're not going anywhere.

C. AUSTIN FITTS: Well prosperity, you know. Just in closing – we had a little Solari circle that I was a part of for seven years; and it was funny, Jon. We sat down and we said, "Okay, the total wealth on planet earth. What percentage of what could be – " in other words, if we just optimized total wealth on planet earth, how big could it be and how does that compare to what's now?"

We had ten investors. The group said that the current wealth was 1-20 percent of what was possible. So can you imagine if what is possible is 100 times the current wealth, what could be? Once you dig deep and you understand centralization and what it's doing, what you realize is, there's no reason for poverty. There is no economic or environmental reason for poverty, it doesn't have to be.

You know, the message of the Hamilton story is, "We have a problem, but it ain't economic."

JON RAPPOPORT: Yes, absolutely.

C. AUSTIN FITTS: Anyway, I can't thank you enough. This was wonderful.

JON RAPPOPORT: Thank you. Thank you, Catherine.