A Critical and Ignored 2008 Email by Fed Chairman Ben Bernanke on the Lehman Collapse

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A little noticed 2008 email from former Federal Reserve Chairman, Ben Bernanke, raises serious questions about his official narrative on the collapse of Lehman Brothers. We'll get to the email in detail, but first some necessary background.

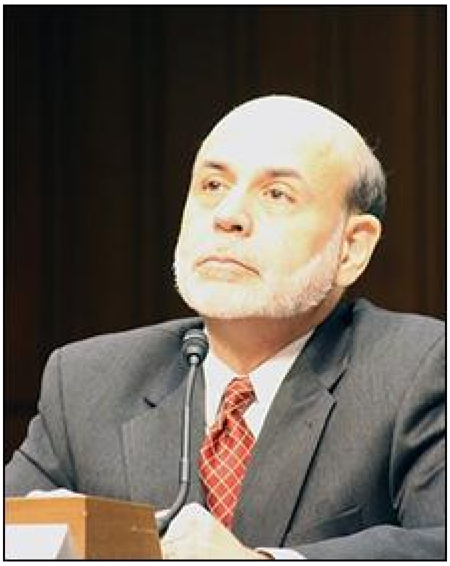
A lot of eyes rolled on Wall Street last October when Ben Bernanke, who chaired the Federal Reserve in the lead up to and during the financial collapse in 2008, released his memoir of the financial crisis with the title: "The Courage to Act: A Memoir of a Crisis and its Aftermath." Many Wall Street observers felt the title would have more correctly captured the facts on the ground had it read: "The Lack of Fed Courage to Supervise Mega Banks Led to an Epic Collapse." (In the leadup to the crisis, the Fed allowed Citigroup CEO Sandy Weill and JPMorgan Chase CEO, Jamie Dimon, to sit on the Board of its Federal Reserve Bank of New York, among numerous other conflicts of interest.)

Throughout his memoir, including Chapter 12 titled "Lehman: The Dam Breaks," Bernanke goes to great pains to paint a portrait of the Fed and himself as being intensely on top of the situation at Lehman Brothers from March 2008 forward, following the Bear Stearns collapse and its absorption by JPMorgan Chase.

For example, Bernanke reveals that the Fed had placed bank examiners at Lehman Brothers, writing as follows:

> After JPMorgan Chase bought Bear, the New York Fed staff conferred frequently with the SEC and Lehman – up to three times per day. We would eventually send a small number of bank supervisors to Lehman and the other remaining investment banks.

We also know that Bernanke was briefed in great detail on the Lehman situation by Fed economist Patrick M. Parkinson on July 20, 2008, almost two months before the Lehman bankruptcy, because Parkinson's email was included among the thousands of pages of text and exhibits of the Financial Crisis Inquiry Commission Report, the official analysis of the crisis. In that email, Parkinson wrote:



…Focusing for the moment on LB's [Lehman Brothers] vulnerable tri-party borrowings, as of July 14 it was financing $200 billion of collateral. Of that amount, all but $12.8 billion was PDCF-eligible [PDCF was an emergency loan program set up by the Fed]. Of the non-PDCF-eligible, $8.7 billion was equities. JPMC [JPMorgan Chase], LB's clearing bank, is likely to be the first to realize that the money funds and other investors that provide tri-party financing to LB are pulling back significantly. If some morning it fears that the investors are unlikely to roll their repos, it may threaten not to unwind LB's previous night's repos. If it did that, LB would be done because the tri-party investors would control its securities inventory. The investors presumably would promptly liquidate the $200 billion of collateral and there is a good chance that investors would lose confidence in the tri-party mechanism and pull back from funding other dealers. Fear of those consequences is, of course, why we facilitated Bear's acquisition by JPMC. We could try to dissuade JPMC from refusing to unwind by pointing out that if the investors don't roll the repos LB can borrow from us through the PDCF. Even if we did so, for two reasons JPMC might still balk. The first is the non-PDCF collateral. We could address that concern by making the equities and other non-PDCF collateral eligible. Or we could try to get LB to wire $12.8 billion of cash into JPMC to cover the rollover risk. The other reason is a fear that LB could be placed in bankruptcy intra-day, before the next day's tri-party repos and any PDCF loans are settled, in which case JPMC would be stuck with $200 billion in secured loans to LB. I'm not sure that this is at all likely, but JPMC and BNYM [Bank of New York Mellon] are sufficiently concerned that they have arranged a meeting Monday afternoon with SIPC [Securities Investor Protection Corporation that insures brokerage accounts]. (LB's PD [Primary Dealer] is a SIPC member (as are some but not all of the other PDs) and its bankruptcy would be administered by SIPC.) Board staff plan to sit in on this meeting. But even if we are willing to extend as much as $200 billion of financing to LB, absent an acquirer our action would not ensure LB's survival… [Information in [ ] brackets has been inserted by Wall Street On Parade.]

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