The Fed Reopens Its Landfill for Distressed Assets

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The Fed is reopening its most controversial and despised crisis-era bailout facility, the Primary Dealer Credit Facility. The Wall Street Journal describes the PDCF as "an overnight loan facility for primary dealers (that) provides round-the-clock backup source of funding to banks." The WSJ's description grossly understates the facility's real purpose which is to transfer the toxic bonds and securities from failing financial institutions and corporations (through an intermediary) onto the Fed's balance sheet.

The objective of this sleight of hand is to recapitalize big investors who, through their own bad bets, are now either underwater or in deep trouble.

Just like 2008, the Fed is now doing everything in its power to save its friends and mop up the ocean of red ink that was generated during the 10-year orgy of speculation that has ended in crashing markets and a wave of deflation. Check out this excerpt from an article at Wall Street on Parade. Here's an excerpt:

> "Veterans on Wall Street think of the PDCF as the cash-for-trash facility, where Wall Street's toxic waste from a decade of irresponsible trading and lending, will be purged from the balance sheets of the Wall Street firms and handed over to the balance sheet of the Federal Reserve – just as it was during the last financial crisis on Wall Street." ("Fed Announces Program for Wall Street Banks to Pledge Plunging Stocks to Get Trillions in Loans at ¼ Percent Interest" Wall Street on Parade)

In other words, the PDCF is a landfill for distressed assets that have lost much of their value and for which there is little or no demand. And, as bad as that sounds, the details about the resuscitated PDCF are much worse.

First, the Fed is going to provide the 24 Primary Dealers (The Fed's exclusive trading partners) with unlimited zero-rate loans. (0.25 percent)

Second, the loans will be issued for a period of up to 90 days after which they will be rolled over for as long as needed. (which basically transforms a collateralized loan into a permanent cash transfer.)

Third, (and this is from the text of the Fed's March 17 announcement):

> "Collateral eligible for pledge under the PDCF includes all collateral eligible for pledge in open market operations (OMO); plus investment grade corporate debt securities, international agency securities, commercial paper, municipal securities, mortgage-backed securities, and asset-backed securities; plus equity securities.

“Equity securities”? You mean the Fed is going to buy stocks???

Indeed, that is precisely what it means. The Fed is going to load up on stocks during the biggest crash of the decade. That’s what you call a “bailout”, a multi-trillion dollar welfare check gifted to the crooked Wall Street banks in exchange for their dodgy toxic assets. It’s infuriating.

And the Fed plans to load up on other discarded offal too, such as “corporate debt securities… commercial paper… mortgage-backed securities”.

Of course there’s no market for any of this effluvia currently, but that’s not going to stop the Fed. Oh no. The Fed is generously offering infinite-duration loans at whatever amount is requested to preserve the illusion that these corporate and financial zombies are still solvent, which they certainly are not.

It’s worth noting, that the corporate debt market has been frozen for nearly two weeks which means there are no buyers and no new issuance. The market is a ghost-town devoid of anything but the chirping of birds, and yet, the Fed wants to buy debt in this wasteland, trading boatloads of cash for B-rated corporate sludge that may be worth just pennies on the dollar. The Fed has no idea of how it will get rid of these bonds since the market is not likely to rebound in the near future, but, even so, it is willing to accept the loss, even if it undermines its own credibility, even if it adds trillions more to its already-bloated balance sheet, and even if it assumes the credit risk these sketchy securities pose, after all, many of these poorly-managed corporations are likely to go bust in the very near future leaving the Fed with a pile of dreck it will never be able to unload. None of this seems to bother to the Fed who is determined to buy anything that isn’t bolted to the floor. It’s madness.

The Fed has known for more than 3 years that the corporations have been ripping off investors by selling them garbage bonds from which the proceeds would be used –not to develop new products or train workers or build factories or increase productivity— but to boost executive compensation via stock buybacks. That was the whole deal in a nutshell, more loot for greedy CEOs. It was a swindle from the get go. The Fed knew that, because everyone knew that. Now the Fed wants to make these hucksters ‘whole again’ because their bunco scheme blew up in their faces and they can’t tap into the credit markets like they did before. Too freaking bad.

Many of these corporations need to be euthanized which undoubtedly would be their fate if Sugar Daddy Powell didn’t intervene. But that’s why he set up the PDCF, to prevent the market from imposing its own rough justice on these charlatans by thinning the herd.

Why doesn’t the Fed try to find out which corporations are just struggling (due to the coronavirus) and which ones are actually insolvent? Wouldn’t that be the sensible thing to do? Why doesn’t the Fed try to determine which corporations put their money to good use and which ones blew it on stock buybacks? Isn’t that something you’d want to know before you buy their bonds?

And why didn’t the Fed use its regulatory powers to stop the debt-market chicanery before the whole thing went pear-shaped?

The Fed is not going to answer any of these questions, and no one in Congress is even going to ask. Instead, the Fed will simply issue a press release in the media, rev up the printing presses, and flood the system with another 4 or 5 trillion dollars. That's what they did in '08 and that's what they're going to do now. Here's more from Wall Street on Parade:

> "**We learned from the GAO audit that the Primary Dealer Credit Facility was the largest Wall Street bailout program during the financial crisis. It issued 1,376 loans that cumulatively totaled $8.95 trillion**. Just as is happening this time around, the Fed spun the story that the program would help American workers and businesses. It did no such thing. **It went to bail out the trading and derivative operations of sinking ships on Wall Street as those same firms paid out millions of dollars in bonuses to their derelict executives and traders…**.
> ("Fed Announces Program for Wall Street Banks to Pledge Plunging Stocks to Get Trillions in Loans at ¼ Percent Interest" Wall Street on Parade)

Let's summarize:

The Primary Dealer Credit Facility is not "an overnight loan facility…that provides a… backup source of funding to banks", as the Wall Street Journal says. That's baloney. The PDCF "was the largest Wall Street bailout program during the financial crisis" which issued roughly $9 trillion to underwater banks for their low-grade-dogsh** collateral. The facility was used to bail out the banks casino operations ("trading and derivatives") while providing lavish multi-million dollar bonuses to voracious, thieving executives.

And, remember, the PDCF is just one of the many bailout facilities the Fed is currently reviving to prevent the market from clearing and to save the gangsters who have the country by the short-hairs. There will be plenty more to come.

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