Fed Report Reveals Multi-Trillion-Dollar "Shadow Bailout"

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The US Federal Reserve on Wednesday posted details of its multi-trillion-dollar "shadow bailout" programs, showing that nearly every major US financial institution benefited from billions in unreported government loans.

The data from 21,000 Fed transactions carried out between December 2007 and July 2010 involves eleven special lending facilities set up by the US central bank at the height of the financial crisis to funnel trillions of dollars into large financial companies. The money was lent at close to zero interest with no strings attached. The banks and corporations on the receiving end of the massive bailout were not required to even report what they did with the government cash.

The vast scale of the bailout underscores the fraud of the endless claims that "there is no money" for jobs, mortgage relief or even extended unemployment benefits. The publication of the Fed data simultaneously with the refusal of Congress to extend long-term jobless benefits, Obama's pay freeze for federal workers and the preparations to extend the Bush tax cuts for the rich while slashing social programs and tax benefits for the working class, highlights the naked class interests pursued by the government and both big business parties.

The figures were released in accordance with a provision of the Dodd-Frank financial overhaul law, passed in July, which was included over the objections of the Fed. The provision required the central bank to release by December 1 the list of banks and other corporations that benefited from its emergency lending facilities.

The figures released Wednesday cover only loans made by the Federal Reserve and do not include the Treasury's $700 billion Troubled Asset Relief Program (TARP) or the Federal Deposit Insurance Corporation's guarantees on bank debt.

The total in outstanding loans at any one time from the Fed's various bailout programs reached $3.3 trillion, or more than one fifth of the gross domestic product of the United States. The aggregate amount loaned out, however, is in the tens of trillions. The loans provided by the Term Auction and Primary Dealer Credit facilities alone added up to nearly $13 billion.

The Primary Dealer Credit Facility, the largest program by transaction volume, made an aggregate $9 billion in overnight loans to the largest investment banks. The program, which started in early March 2008, made 1,381 transactions, averaging $6.5 billion.

Every major investment bank, including those that claimed to be healthy, used the facility. Goldman Sachs borrowed money from the facility 84 times between March 18, 2008 and November 26, 2008, with the largest transaction, amounting to $18 billion, taking place on October 15, 2008. Its loans under the program totaled $600 billion.

Merrill Lynch used the facility 226 times. Its largest overnight transaction, carried out September 26, 2008, was $35 billion.

Citing the repeated recourse of Goldman Sachs and Morgan Stanley to the Fed's low-cost overnight loan facility, the *Wall Street Journal* editorialized Thursday: "This news makes it impossible to argue that either bank would have survived the storm without the Fed's cash."

The *Journal* went on to note that non-bank corporations also dipped into the government till: "The same goes for General Electric, which from late October to late November 2008 tapped the Fed's Commercial Paper Funding Facility 12 times for more than $15 billion."

Among the beneficiaries of the Fed's program were foreign banks, including the London branches of Goldman Sachs and Merrill Lynch and the US subsidiaries of UBS, Deutsche Bank and BNP Paribas.

The Term Auction Facility, which provided longer-term loans to a broader range of banks, lent a total of $3.8 billion. The average loan was $900 million.

The *New York Times* on Thursday noted that hedge funds and big investors made huge speculative profits from the Fed lending programs. One of these programs, the Term Asset-Backed Securities Loan Facility (TALF), extended low-cost loans for firms to buy securities backed by mortgages, auto loans, student loans and other forms of commercial credit. Among those who profited from such loans, the *Times* reported, was Kendrick R. Wilson III, a former executive at Goldman Sachs who had been a top aide to Henry Paulson, Bush's treasury secretary and author of TARP and other bank bailout schemes.

The data also shows that 40 percent of the Federal Reserve's lending to American International Group, the failed insurance giant, went to its life insurance subsidiaries, which were engaged in wild speculation and would have failed without the Fed bailout. The central bank provided these firms with billions of dollars in financing despite the fact that it had no mandate to regulate or assist them.

While the Federal Reserve insists that virtually all of the money given to the banks has been repaid, this does not alter the fact that upwards of $20 trillion of public funds was doled out to rescue Wall Street from the results of its own recklessness and criminality, and these virtually free loans enabled the banks to continue their speculative ways and reap hundreds of billions more in profits. No small portion of the windfalls underwritten by the Fed and the Bush and Obama administrations went into the personal accounts of bank and hedge fund CEOs and top executives.

One of the ways the banks profited from the crisis was by using their low-cost government loans to buy Treasury securities, in other words, to lend the cash back to the government at double or quadruple the interest rate at which it was borrowed.

The scale of the bailout reflects the scale of the financial elite's criminality. The entire boom of the Clinton and Bush years was based essentially on a Ponzi scheme. When it came crashing down, as it was inevitably bound to do, the public treasury was looted to make good the financial aristocracy's losses.

While most of the Federal Reserve emergency programs were wrapped up by 2010, the government has continued to hide losses incurred from them. For instance, the Federal Reserve is holding over $1 trillion of largely worthless mortgage-backed securities on its balance sheet, insisting that they can eventually be sold at full price.

The direct beneficiaries of these policies were the super-rich. Wall Street used its repayment of the TARP loans in 2009, at least in part with money loaned by the Fed, as an excuse to award itself record bonuses. The largest Wall Street firms set aside $145 billion for compensation that year, breaking every previous record.