Global Banks and Hedge Funds are the Beneficiaries of the Financial Bailouts

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Fed Data Shows Foreign Banks Huge Beneficiaries of Emergency Lending Programs, Hedge Funds, McDonald's, Harley-Davidson and Others Also Bailed Out

Under orders from Congress pursuant to the Dodd-Frank financial legislation, the Fed has finally released details of its emergency lending starting in 2007.

As Bloomberg notes:

> Bank of America Corp. and Wells Fargo & Co. were among the top borrowers from the Term Auction Facility [TAF]…
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> Bank of America had three loans for $15 billion each outstanding from the facility as of Jan. 15, 2009, while Wells Fargo had three loans for $15 billion each on Feb. 26 …
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> Citigroup Inc. and JPMorgan Chase & Co. also availed themselves of the TAF. Citigroup's Citibank NA subsidiary had three loans under the facility totaling $20 billion on Jan. 15, 2009. JPMorgan's JPMorgan Chase Bank NA had two loans totaling $25 billion on Feb. 26, 2009.

Bloomberg notes that foreign banks borrowed heavily from TAF as well:

> Banks with headquarters outside the U.S. were among the first to begin using the facility in December 2007 and were also among its heaviest borrowers. These included the U.S. affiliates of banks such as Manama, Bahrain-based Arab Banking Corp., Madrid-based Banco Santander SA, and Paris-based Societe Generale SA. Beginning on June 18, 2009, Barclays Bank Plc had two loans totaling $23.45 billion outstanding.

In a second article, Bloomberg points out that despite Goldman's statements that it would have survived even without help from the Fed, Goldman was a big borrower as well:

> Goldman Sachs Goup Inc., which rebounded from the financial crisis to post record profit last year, was a regular borrower from two emergency Federal Reserve programs in 2008 and early 2009, new data show.
>
> The firm borrowed from the Fed's Term Securities Lending Facility most weeks

> from March 2008 through April 2009, data released by the Fed today show. Two units of the New York-based firm borrowed as much as $24.2 billion from the Fed's Primary Dealer Credit Facility in the weeks after Lehman Brothers Holdings Inc.'s bankruptcy in September 2008, the data show.
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> Chief Executive Officer Lloyd Blankfein, 56, was quoted by Vanity Fair last year as saying the company might have survived the credit crisis without government help. The firm's president,Gary Cohn, was more definitive, according to the magazine: "I think we would not have failed," he was quoted as saying. "We had cash."

Business Insider quotes the Fed to show that many banks tried to avoid the stigma attached to discount window borrowing by using the TAF program:

> **Many banks were reluctant to borrow at the discount window out of fear that their borrowing would become known and would be erroneously taken as a sign of financial weakness.**
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> The PDCF functioned as an overnight loan facility for primary dealers, similar to the way the Federal Reserve's discount window provides a backup source of funding to depository institutions. By providing a source of liquidity to primary dealers when funding was not available elsewhere in the market,

Business Insider also notes that, "Morgan Stanley, Citi, and Merrill were the biggest users of the PDCF [the Primary Dealer Credit Facility]."

CNBC points out that foreign banks used the PDCF as well:

> In addition to Barclays, BNP Paribas Securities , Daiwa Securities America, Deutsche Bank Securities, Mizuho Securities USA, Dresdner Kleinwort Securities and UBS Securities all received support from the PDCF.

In a third article, Bloomberg reports that foreign banks were also among the biggest users of the Fed's emergency commercial paper facility:

> The U.S. subsidiaries of European financial institutions, led by Zurich-based UBS AG and Brussels- based Dexia SA were among the largest users of a government program to provide emergency short-term funding to U.S. companies and banks during the credit crisis.
>
> Six European banks were among the top 11 companies that sold the most debt overall to the the Commercial Paper Funding Facility. They sold a combined $274.1 billion, according to data made public today by the U.S. central bank. UBS sold $74.5 billion, the most among all borrowers. The largest U.S.-based user was insurer American International Group, selling $60.2 billion.
>
> UBS's figure of $74.5 billion represents the company's total sales over the life of the program. The bank's CPFF borrowings peaked at $37.2 billion, an amount the firm rolled over, or re-sold at maturity, once. Other companies rolled over debt in the program as well.

Zero Hedge writes:

> One may be forgiven to believe that … the Fed only bailed out foreign Central Banks, which in turn took the money and funded their own banks. It turns out that is only half the story: we now know the Fed also acted in a secondary bail out capacity, providing over $350 billion in short term funding exclusively to 35 foreign banks, of which the biggest beneficiaries were UBS, Dexia and BNP. Since the funding provided was in the form of ultra-short maturity commercial paper it was essentially equivalent to cash funding. In other words, between October 27, 2008 and August 6, 2009, the Fed spent $350 billion in taxpayer funds to save 35 foreign banks….

(click for larger image)

Zero Hedge also reports that California pension giant Calpers was the largest user of the TALF program, and provides details on the big foreign central bank users of the Fed's emergency swap lines:

- Looking at the TALF data, we see that the biggest borrower by subscription is Calpers, with a total of about $5.4 billion
- More curiously, now disgraced and embroiled in an insider trading scandal hedge fund FrontPoint seems to have been a very active borrower on the TALF facility, having received $4.136 billion on subscription, the bulk of it going to a FrontPoint Michigan Strategic Partnership Investment entity, which has borrowed $2.6 billion
- Foreign central bank borrowings
    - **ECB [European Central Bank] – 271 borrowings for gross rolling total of just over $8 trillion.**
    - **SNB [Swiss National Bank] – 114 borrowings, for a gross rolling total of $465 billion**
    - **BOE [Bank of England] – 81 borrowings for a gross rolling total of $918 billion**

Huffington Post is providing an excellent live-blogging round up as new discoveries are made from the Fed's data release. Here are some of the more interesting insights:

> Mutual funds, hedge funds and bond funds borrowed more than $71 billion from the Fed's Term Asset-Backed Securities Loan Facility, the WSJ reported. This includes $7.1 billion borrowed by the massive bond fund PIMCO, run by veteran investor Bill Gross. Gross's involvement in the details of the bailout, which included a campaign for public-private partnerships to unwind toxic assets, raised more than few eyebrows from critics.
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> ***

> Two European Megabanks Got A Windfall From The Fed … Two European megabanks — Deutsche Bank and Credit Suisse — were the largest beneficiaries of the Fed's purchase of mortgage-backed securities. The Fed's dollars also flowed to major American companies that are not financial players, including McDonald's and Harley-Davidson, through unsecured short-term loans.
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> Wall Street firms teetering on the verge of collapse pledged more than $1.3 trillion in junk-rated securities to the Federal Reserve for cheap overnight loans….
>
> The fact that Wall Street was able to pledge junk to the Fed in exchange for cheap financing is likely to enrage lawmakers who view the Bush and Obama-era crisis programs as largely benefiting Wall Street while "Main Street" has been left behind.
>
> Adding insult to the perceived slight, banks have ramped up their requirements for new loans to borrowers, making it ever more difficult for cash-strapped households and businesses to take out new commitments.

Huffington Post also reports that many of these banks borrowed at ridiculously low interest rates.

Karl Denninger argues that the fact that the Fed took stock in two of AIG's largest foreign insurance subsidiaries violates Section 14 of the Federal Reserve Act, which prohibits the Fed from taking an equity interest in a company irrespective of the means or terms.

While Bank of America and Wells Fargo were the biggest TAF recipients, AP reports that – when total government loans and aid are added up – other American banks borrowed much more:

> New documents show that the most loan and other aid for U.S. institutions over time went to Citigroup ($2.2 trillion), followed by Merrill Lynch ($2.1 trillion), Morgan Stanley ($2 trillion), Bear Stearns ($960 billion), Bank of America ($887 billion), Goldman Sachs ($615 billion), JPMorgan Chase ($178 billion) and Wells Fargo ($154 billion).

However, it may be too early to call the horse race in terms of totals and rankings for emergency loans and aid to the banks. Because of the way that the Fed presented the data, there is a possibility of double-counting across different program categories, or failing to take into account that loans were repaid and then new loans taken out. So it may take a couple of days for a definitive analysis.

Articles by: **[Washington's Blog]**