

Fed secretly loaned trillions to big banks

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The US Federal Reserve Board secretly handed out trillions of dollars in virtually free loans to major American and European banks at the height of the financial crisis between 2007 and 2010, according to an article posted Sunday by Bloomberg News. The article, based on an independent investigation carried out by Bloomberg of previously sealed Federal Reserve documents, is headlined "Wall Street Aristocracy Got \$1.2 Trillion in Loans from Fed."

The amount cited in the headline is somewhat misleading, as it refers only to the highest single-day amount of outstanding Fed loans under seven emergency programs the US central bank launched to cover the bad debts of the Wall Street elite. The \$1.2 trillion figure is undoubtedly lower than the total amount in loans disbursed over the course of the programs' existence, including loans to banks that came to the Fed for money multiple times.

The amounts involved were far greater than the cash injections provided the banks under the US Treasury's \$700 billion Troubled Asset Relief Program (TARP). Under that program, the ten biggest US banks received a total of \$160 billion in cash, while, according to Bloomberg, they obtained \$669 billion in emergency loans from the Fed.

The article quotes Robert Litan, a former Justice Department official who in the 1990s served on a commission investigating the savings and loan crisis "These are whopping numbers," he said. "You're talking about the aristocracy of American finance going down the tubes without the federal money."

The Bloomberg report sheds additional light on the manner in which the American capitalist state, under Bush and then Obama, looted the public treasury to bail out the financial elite, and the colossal scale of the sums involved. Money--taxpayer money, that is--was no object when it came to protecting the wealth of the parasites who triggered the financial crash and economic slump with their Ponzi schemes. Yet when it comes to helping millions of families losing their homes to foreclosure or

providing jobs to the unemployed, the universal cry is "There is no money!"

The Bloomberg article points out, for example, that the \$1.2 trillion peak in emergency Fed loans reached on December 8, 2008 roughly equals the \$1.27 trillion in unpaid principal on 4.38 million US homes whose owners are delinquent on their mortgage payments and the 2.16 million properties that are already in foreclosure.

Now the Obama administration in the US and its counterparts across Europe are seeking to impose the full cost of the bankrupting of the state on the working class, demanding the destruction of all of the social gains achieved by workers in the course of the 20th century.

Bloomberg was able to obtain access to Fed documents on the loan programs only after months of Freedom of Information Act requests, which the Fed denied, litigation culminating in a Supreme Court refusal to hear an appeal from major Wall Street banks, and the passage of last year's Dodd-Frank financial overhaul bill. That toothless law requires only that the Fed disclose the identity of its borrowers and the amounts borrowed two years after the event.

The Fed's policy of secrecy had two purposes. The first was to assist the banks in concealing the real state of their finances. Bloomberg points out that Morgan Stanley, the biggest single recipient of emergency loans, issued a press release in late September 2008 announcing it had "strong capital and liquidity positions," while concealing the fact that virtually all of its cash came from a \$107.3 billion loan from the Fed.

The second purpose was to conceal from the American people the scale of the diversion of public resources to the bankers.

Now, nearly three years after the Wall Street crash and government bailout, no serious financial reforms have been implemented, no banking monopolies have been broken up, let alone seized by the government, not a single major banker has been prosecuted, and none of those responsible for the worst crisis since the Great Depression have been held to account. On the contrary,

the banks have recorded record profits and CEO pay has soared, even while the banks continue to sit on billions of dollars in worthless mortgage securities.

Over the same period, mass unemployment has been used to slash the wages and benefits of workers and intensify their exploitation. Social inequality is greater than ever.

Nor has the plundering of society for the benefit of the financial elite resolved any of the underlying problems that led to the economic disaster. As recent developments have shown—the slowdown in global economic growth, the downgrading of US debt, the gyrations on world stock markets, the European sovereign debt crisis, the increasing pressure from financial markets on major European and American banks—the crisis is entering a new and even more destructive stage.

Bank of America, which received \$45 billion in TARP money, \$300 billion in government guarantees on its debt and \$91.4 billion in emergency Fed loans, is once again teetering on the edge of collapse. Its stock has fallen nearly 50 percent this year and nearly 30 percent this month alone. The bank's bond insurance prices last week surged to a higher level than for Lehman Brothers the week before that bank collapsed in September 2008. Last week, Bank of America announced 3,500 layoffs on top of 2,500 announced earlier this year, and the *Wall Street Journal* reports that it is planning some 10,000 job cuts in the coming months.

Citigroup's shares are trading below the price of \$28 they hit on the day the bank's loans from the Fed peaked in January of 2009.

The Fed's secret loans to Wall Street highlight the corrupt relations that pervade the financial industry and its dealings with government regulators and the credit rating agencies. Last April, the Senate Permanent Subcommittee on Investigations released a voluminous report documenting the systemic fraud and criminality that led to the Wall Street crash of September 2008.

At a press conference announcing the report, the chairman of the committee, Senator Carl Levin (Democrat from Michigan) said that the report "discloses how financial firms deliberately took advantage of their clients and investors, how credit rating agencies assigned AAA ratings to high-risk securities, and how regulators sat on their hands instead of reining in the unsafe and unsound practices all around them. Rampant conflicts of interest are the threats that run through every chapter of this sordid story."

Among other things, the report documented in detail

how Goldman Sachs and Deutsche Bank sold mortgage-backed securities to investors on the basis of false information at the same time that they were betting the securities would fail.

This report became a dead letter on the day it was released, and none of those on the committee, including Levin, have pushed for criminal investigations into the illegalities cataloged in the document.

Instead, the Securities and Exchange Commission (SEC) has settled civil fraud suits against Goldman Sachs and the sub-prime mortgage giant Countrywide Financial out of court, so as to avoid public trials that might expose the corrupt dealings of the financial firms and the collusion of the government.

The government cover-up for the banks is continuing. On Monday, one day after the appearance of the Bloomberg article, the *New York Times* reported that the Obama administration is seeking to quash state government investigations into bank fraud in the marketing of mortgage securities. The article explained that administration officials are pressuring New York Attorney General Eric Schneiderman to drop his opposition to a Wall Street-backed settlement of charges arising from the banks' forging of foreclosure documents. The settlement would bar state governments from pursuing investigations into other criminal actions by the banks.

This follows the revelation last week by an SEC whistleblower that the agency destroyed thousands of documents stemming from probes into the practices of major Wall Street firms.

These facts show that the crisis is neither temporary nor an aberration. It is an expression of the failure of the capitalist system, whose putrefaction is embodied in the criminality and rapacity of the social elements that dominate it economically and politically. The only way out for the working class is the fight for socialism.

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