Another Secret Federal Reserve Bailout, $7.7 Trillion This Time

It's unclear from the methodology explained by Bloomberg's analysis of some 29,000 Federal Reserve documents released how much overlap there is with the Government Accountability Office audit published last July that counted some $16 trillion in Federal Reserve loans to major Wall Street banks. Bloomberg's explanation of its methodology does indicate at least some overlap.

Throughout the financial crisis, Congress remained blissfully unaware that trillions of dollars were being committed by the Fed with the implicit guarantee of the U.S. taxpayer. "We were aware emergency efforts were going on," Massachusetts Democrat Barney Frank told Bloomberg, but "we didn't know the specifics." Frank, who announced his retirement November 28 after the Massachusetts state legislature gerrymandered him out of his district, served as Chairman of the House Financial Services Committee at the time the bailouts began. That committee is charged with oversight of the Federal Reserve and the banking industry.

Bloomberg noted that most of the major banks receiving the below-market-rate loans made billions in profit from the Federal Reserve policies. The Federal Reserve Bank loaned funds to major Wall Street banks at rates of between 0.10 percent and 0.25 percent and at the same time banks were encouraged to purchase U.S. Treasury bills. Two-year Treasury bills the federal government was selling were fetching more than one percent interest. The deal — borrowing at a discounted rate from one agency of the federal government and taking loans earning interest at a higher rate from another agency of government — amounted to a cash transfer from the federal government to the big banks that Bloomberg estimated netted the banks some $13 billion in profit.

The deal produced expressions of outrage from many political candidates, including longtime Federal Reserve critic Representative Ron Paul (R-Texas), who condemned the special favors being conferred on the politically connected few. Official Ron Paul for President blogger Jack Hunter, quoting a key part of the Bloomberg report, noted that "details suggest taxpayers paid a price beyond dollars as the secret funding helped preserve a broken status quo and enabled the biggest banks to grow even bigger." Rep. Paul had predicted the housing and financial crisis with astonishing accuracy as early as 2001.

The Bloomberg report noted that top Wall Street banks benefited most from the deal. “The big six — JPMorgan, Bank of America, Citigroup, Wells Fargo & Co., Goldman Sachs Group Inc., and Morgan Stanley — took 63 percent of the Fed’s emergency-loan money as measured by peak daily borrowing,” the *San Francisco Chronicle* observed November 29 of the Bloomberg data.

Ron Paul wasn’t the only presidential candidate to take note of the Federal Reserve bailout’s favoritism. Texas Governor Rick Perry announced November 28 that “these outrageous secret federal loans to bail out big banks are why Americans are disgusted with business-as-usual Washington.”

The evidence also reveals that Federal Reserve intervention in the market helped the “too big to fail” banks get bigger still. “Records shows that during the past five years, total assets at the largest six banks increased by almost 40% and executive compensation rose by 20% — more than $146 billion in compensation last year alone,” *USA Today* reported November 28.

Meanwhile, some observers saw nothing wrong with the transfer of taxpayer funds to big Wall Street banks. Derek Thompson of *The Atlantic* wrote that the Federal Reserve was being criticized “for doing its job.” Thompson stressed that the “job” of the Federal Reserve is to prevent a financial collapse, which he posited would have happened had more major banks failed.

The bailout revelations have already produced calls for congressional hearings on Capitol Hill. “Many Americans are struggling to understand why banks deserve such preferential treatment while millions of homeowners are being denied assistance and are at increasing risk of foreclosure,” Representative Elijah Cummings of Maryland, the ranking Democrat on the House Oversight and Government Reform Committee, said in a letter released to Bloomberg.com.