The New York Fed, Pumping Out More than $9 Trillion in Bailouts Since September, 2019, Gets Market Advice from Giant Hedge Funds

By Pam Martens and Russ Martens – Wall Street On Parade
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John Williams, President of the New York Fed

The New York Fed, the unlimited money spigot in times of need by Wall Street's trading houses, has been conducting meetings with hedge funds to get their input on the markets. More on that in a moment, but first some necessary background.

Millions of Americans have seen the movie *The Big Short*, based on the Michael Lewis bestselling book by the same name. A key character in the movie is Mark Baum, played by Steve Carell. The character is based on Steve Eisman, who, during the financial crisis of 2008, was employed at FrontPoint Partners LLC, a hedge fund unit of Morgan Stanley. A***s widely acknowledged, FrontPoint was shorting subprime residential mortgages that were packaged into CDOs (Collateralized Debt Obligations). Shorting means to make a bet that a financial instrument will lose value. FrontPoint was, in fact, hoping American homeowners would be foreclosed on and their subprime mortgages would become worthless.***

But here's what else FrontPoint was shorting. ***Lewis writes in his book that during the financial crisis Eisman, while at FrontPoint, "shorted Bank of America, along with UBS, Citigroup, Lehman Brothers, and a few others." Lewis notes further that "They weren't allowed to short Morgan Stanley because they were owned by Morgan Stanley, but if they could have, they would have."***

The New York Fed was in charge of almost all of the secret $29 trillion in bailouts during the 2007 to 2010 financial crisis. Congress never approved these loans or was even aware of where the money was going. After the Fed lost a multi-year court battle to keep its bailouts a dark secret from

the American people, we learned that Morgan Stanley was one of the largest recipients, receiving a cumulative total of $2.04 trillion according to the audit conducted by the Government Accountability Office (GAO).

Buried deep in the GAO audit is this bombshell:

"Morgan Stanley funds include TALF borrowing by funds managed by FrontPoint LLC, which was owned by Morgan Stanley at the time TALF operated."

TALF was one of the Fed's bailout programs. Which means the Fed was subsidizing FrontPoint with super cheap funding as it was shorting the hell out of the very banks that the Fed was desperately attempting to prop up with trillions of dollars in secret loans.

How viable was Morgan Stanley at the time the Fed was flooding it with emergency lending? According to the Financial Crisis Inquiry Commission report, both ***Lehman Brothers and Morgan Stanley had reached leverage ratios of 40:1 by the end of 2007 – "meaning for every $40 in assets, there was only $1 in capital to cover losses. Less than a 3% drop in asset values could wipe out a firm."***

Neil Barofsky, the former Special Inspector General of the Troubled Asset Relief Program wrote a book about the crisis titled: *Bailout: An Inside Account of How Washington Abandoned Main Street While Rescuing Wall Street*. ***Barofsky writes in the book that then Treasury Secretary Hank Paulson told him "that he believed Morgan Stanley was just days away from collapse, and Ben Bernanke, the chairman of the Federal Reserve, similarly confided that he believed that Goldman Sachs would have been the next to go. After that, all bets on the country's financial system would have been off."***

Which brings us to today. The New York Fed is back in charge of a vast roster of emergency lending facilities. It won't provide information on to whom or how much it has loaned individually in three of those facilities: **the Primary Dealer Credit Facility; the Commercial Paper Funding Facility; and the Money Market Mutual Fund Liquidity Facility.**

On top of those facilities, beginning on September 17, 2019 – months before the first case of COVID-19 was reported in the United States – the New York Fed embarked on a massive emergency repo loan operation, which had reached $6 trillion cumulatively in loans by January 6. (See Federal Reserve Admits It Pumped More than $6 Trillion to Wall Street in Recent Six Week Period.) The Fed has provided data on the total amounts of the daily loans, but not the names of the recipients. All it will say is that the loans are going to its 24 primary dealers, which are the trading units of the big banks on Wall Street. The last time we tallied its data in March, it had sluiced over $9 trillion cumulatively to these trading houses.

According to a research report released in December by the Bank for International Settlements (BIS), ***four large banks and hedge funds were responsible for the repo blowup in September.***

Which brings us to the New York Fed's Investor Advisory Committee on Financial Markets (IACFM) which it initiated in the midst of the last financial crisis on July 24, 2009.

Today, half of the Committee's participants are executives of giant hedge funds, including: William A. Ackman, Chief Executive Officer, Pershing Square Capital Management, L.P.; Paul Tudor Jones, Co-Chairman & Chief Investment Officer, Tudor Investment Corp.; Ray Dalio, Chairman & Co-Chief Investment Officer, Bridgewater Associates, LP; Dawn Fitzpatrick, Chief Investment Officer, Soros Fund Management; Bob Jain, Co-Chief Investment Officer, Millennium Management; Scott Minerd, Global Chief Investment Officer and Managing Partner, Guggenheim Partners.

The group meets quarterly. The minutes are so scrubbed that they barely provide any idea of what was actually discussed. The October 9, 2019 meeting minutes, which followed the onset of the New York Fed's massive repo loan operations, contains this well-scrubbed assessment:

"They [the participants] also noted that the Fed repo operations had alleviated funding strains, though they remained focused on year end pressures. Some of these attendees thought that over time some investors may set aside cash to deploy in the event of a reoccurrence of funding pressures, which may also mitigate some of these pressures in the future."

Since the Fed's inception in 1913, the statutory role of the Federal Reserve has been to serve as lender of last resort to *commercial* banks – so that those *commercial* banks could help the overall economy by making sound business and consumer loans.

The statutory role of the Fed has never been to be a lender of last resort to the trading houses on Wall Street or hedge funds. But beginning with the 2007 to 2010 financial crisis, the New York Fed has simply arbitrarily decided to provide an unlimited money spigot to Wall Street's trading houses whenever they are at risk of blowing themselves up as a result of their own hubris.

To say that Congress has been negligent in reining in this abuse barely captures the reckless irresponsibility of what the New York Fed has been allowed to continue to do with barely a whimper from Congress or mainstream media.

For just a sampling of its captured regulator status, see the related article below.

These Are the Banks that Own the New York Fed and Its Money Button

By Pam Martens and Russ Martens: November 20, 2019 ~

The New York Fed has now pumped out upwards of $3 trillion in a period of 63 days to unnamed trading houses on Wall Street to ease a liquidity crisis that has yet to be credibly explained. In addition, it has launched a new asset purchase program, buying up $60 billion each month in U.S. Treasury bills. Based on the continuing escalation of its plans, it appears to be testing the limits of what the public will tolerate.

We thought it was time to answer the question: who exactly owns the New York Fed and its magical money spigot that can pump trillions of dollars into Wall Street at the press of a button.

The largest shareowners of the New York Fed are the following five Wall Street banks:

JPMorgan Chase,

Citigroup,

Goldman Sachs,

Morgan Stanley, and

Bank of New York Mellon.

Those five banks represent two-thirds of the eight Global Systemically Important Banks (G-SIBs) in the United States.

The other three G-SIBs are:

Bank of America, a shareowner in the Richmond Fed;

Wells Fargo, a shareowner of the San Francisco Fed; and

State Street, a shareowner in the Boston Fed.

G-SIBs have the ability to inflict systemic contagion on the entire global banking system (as happened in 2008) and thus must be monitored closely for financial stability.

JPMorgan Chase, Citigroup, Goldman Sachs, and Morgan Stanley are also four of the five largest holders of high-risk derivatives. (Bank of America is the fifth.)

The five mega banks that are the major shareowners of the New York Fed are also supervised by the New York Fed, despite participating in the election of two-thirds of its Board of Directors. James Gorman, Chairman and CEO of Morgan Stanley, currently sits on the New York Fed Board. Jamie Dimon, Chairman and CEO of JPMorgan Chase, previously served two three-year terms on the Board.

These same Wall Street banks also participate in various advisory groups with the New York Fed where they hash out "best practices" for their industry. Those "best practices" were not sufficient to prevent JPMorgan Chase from becoming a three-count felon, Citigroup a one-count felon, and four of the banks (all but Bank of New York Mellon) from actively engaging in creating and selling subprime investments that blew up the U.S. financial system, the nation's economy and a good swath of Wall Street in 2008.

****** There are 12 regional Federal Reserve banks of which the New York Fed is only one. But during the financial crisis, the New York Fed was given unprecedented powers by the Federal Reserve Board of Governors in Washington, D.C. to create over $29 trillion in electronically-engineered money to bail out Wall Street. ********

A significant portion of the $29 trillion went to loans that were collateralized by stocks and junk bonds – an unprecedented action for the Federal Reserve. In some instances, the Fed threw its rule book under the bus and didn't make loans at all, opting instead to buy up toxic assets outright through Special Purpose Vehicles it created. And despite its mandate to make properly collateralized loans to only solvent banks, it made over $2.5 trillion in loans to Citigroup, much of that after the bank was clearly insolvent.

The $29 trillion created electronically by the New York Fed from 2007 to the middle of 2010 is astronomical compared to the loans made by the Federal Reserve following the 1929 financial crash and early years of the Great Depression. Those Fed loans aggregated to only $1.5 million or approximately $25.5 million in today's dollars.

Consider that $25.5 *million* in today's dollars that was distributed by the Fed from 1932 to 1936 to just one day in 2008. On September 24, 2008 the New York Fed pounded away on its money button to pump out $110 *billion* to the miscreants of Wall Street. (See chart below: where Bank of New York Mellon and JPMorgan Chase are listed in capitalized letters, they were acting as intermediaries for the New York Fed to disburse Primary Dealer Credit Facility (PDCF) money to the securities firms listed directly below each entry.) ***The $25.3 billion that Morgan Stanley received on just that one day is 1,000 times all the money the Fed disbursed during the 1930s.***

The listing below came directly from the Federal Reserve when it was forced to hand over its Discount Window documents on March 31, 2011 after losing a multi-year court battle with the media to keep its money spigot secret.

	Type*	Borrower Name	MKSM**	Matures	Loan Amount
Dist: 02	NR	BANK OF NY MELLON PDCF-Morgan Stanley	LMCB	9/25/2008	$25,324,000,000
Dist: 02		BANK OF NY MELLON PDCF-Barclays	LMCB	9/25/2008	$14,000,000,000
Dist: 02		BANK OF NY MELLON PDCF-Citigroup	LMCB	9/25/2008	$13,550,000,000
Dist: 02		BANK OF NY MELLON PDCF-Goldman Sachs	LMCB	9/25/2008	$10,000,000,000
Dist: 02		BANK OF NY MELLON PDCF-Morgan Stanley London	LMCB	9/25/2008	$9,999,000,000
Dist: 02		JPMORGAN CHASE BK NA PDCF-Merrill Lynch	LMCB	9/25/2008	$8,521,000,000
Dist: 02		BANK OF NY MELLON PDCF-Merrill Lynch	LMCB	9/25/2008	$7,024,000,000
Dist: 02		JPMORGAN CHASE BK NA PDCF-UBS	LMCB	9/25/2008	$6,200,000,000
Dist: 02		BANK OF NY MELLON PDCF-Bank of America	LMCB	9/25/2008	$5,000,000,000
Dist: 02		BANK OF NY MELLON PDCF-Merrill Lynch London	LMCB	9/25/2008	$4,809,250,000
Dist: 02		AIG IPC-AIG	NONR	9/22/2010	$2,500,000,000
Dist: 02		AIG IPC-AIG Commitment Fee	NONR	9/22/2010	$1,699,500,000
Dist: 02		BANK OF NY MELLON PDCF-Goldman Sachs London	LMCB	9/25/2008	$1,000,000,000
Dist: 02		BANK OF NY MELLON PDCF-Mizuho	LMCB	9/25/2008	$234,965,000
Dist: 02		FIRST NB OF LONG ISLAND	SCBK	9/25/2008	$57,000,000
Dist: 02		BALLSTON SPA NB	SCBK	9/25/2008	$5,200,000

A Sampling of Loans Made on Just One Day, September 24, 2008, by the New York Fed (Source: Federal Reserve Board of Governors)

The banks of New York and their foreign derivatives counterparties were the largest beneficiaries of the $29 trillion bailout and yet Congress has

allowed the New York Fed to continue to supervise these Wall Street banking behemoths just as if the collapse in 2008 never occurred.

Unlike the Federal Reserve Board of Governors in Washington, D.C., which is considered an independent federal agency, the regional Federal Reserve banks are owned by their member banks. They are private institutions.

According to the December 31, 2018 financial statement for the New York Fed, the banks in its region owned 205,202,792 shares of stock in the New York Fed, which represented $10.26 billion of paid-in capital. This is how the New York Fed explains who its largest shareholders are:

"The Federal Reserve Act requires that each member bank subscribe to the capital stock of the Reserve Bank in an amount equal to 6 per cent of the capital and surplus of the member bank. These shares are nonvoting, with a par value of $100, and may not be transferred or hypothecated. As a member bank's capital and surplus changes, its holdings of Reserve Bank stock must be adjusted. Currently, only one-half of the subscription is paid in, and the remainder is subject to call. A member bank is liable for Reserve Bank liabilities up to twice the par value of stock subscribed by it."

While the shares are non-voting in terms of quantity of shares held, the banks do get a vote in electing the Board of Directors of their regional Fed bank. Each regional Fed board has nine members. Six of the directors are elected by member banks. Three of the directors are appointed by the Federal Reserve Board of Governors in Washington, D.C.. From among these three, the Board of Governors selects a chairman and a deputy chairman of the given Bank's board.

That might help to explain why Tim Geithner, when he was President of the New York Fed, was wining and dining Sandy Weill, the Chairman and CEO of Citigroup, who had sat on his Board, instead of reining in Citigroup's wild gambles before it blew itself up. (Geithner failed up to become U.S. Treasury Secretary, where he continued to coddle the Wall Street banks.) Or it might help to explain why Jamie Dimon, the Chairman and CEO of JPMorgan Chase, hasn't been booted out of the bank despite presiding over three criminal felony charges, to which the bank pleaded guilty, and the current, ongoing prosecutions of its traders for turning the JPMorgan Chase precious metals trading desk into a racketeering enterprise according to the U.S. Department of Justice. (While Dimon was defending his bank against losing $6.2 billion of its depositors' money in derivative gambles in London in 2012, he was actually sitting as a member of the Board of Directors at the New York Fed, his regulator.)

It's long past the time to remove the money button from the New York Fed along with its Wall Street cop badge. As it is currently structured, it's more dangerous than the banks in its district.

Other articles you MUST read:

New York Fed's Repo Loans Are Foaming the Hedge Fund Runways

New York Fed Considering Becoming Sugar Daddy to Hedge Funds as their Distress Grows

The New York Fed Is Exercising Powers Never Bestowed on It by any Law

Instead of Draining the Swamp, the Swamp Is Draining the U.S. Treasury via the New York Fed

New York Fed Has Allowed Dangerous Wall Street Banks to Have Lower Loan Loss Reserves than at time of 2008 Crash

The Man Who Advises the New York Fed Says It and Other Central Banks Are "Fueling a Ponzi Market"

Here's Why the New York Fed Doesn't Want You to See a Photo of Its Wall Street-Esque Trading Floor

Forex Guilty Pleas and the New York Fed's Blinders

As Citigroup Spun Toward Insolvency in '07- '08, Its Regulator Was Dining and Schmoozing With Citi Execs

New Documents Show How Power Moved to Wall Street, Via the New York Fed