Rescued by Vultures: Central Banks Are Bailing Out the Big Banks, Just Like in 2008

By Nomi Prins - Editor, *Inside Wall Street with Nomi Prins*

In 2008, I was living in New York, just 20 blocks away from Bear Stearns.

I had left Bear to join Goldman Sachs in 2000, but I still had many contacts from those days. When Bear went under in March 2008, the conversations with old colleagues were intense.

What happened? Who knew? And how could a few bad positions take down a company that had connected us together?

At the crux of Bear's demise was a book of overleveraged subprime assets.

That means Bear had borrowed way too much money to buy what turned out to be toxic assets. As Margot Robbie's character put it in the movie *The Big Short*, "Whenever you hear the word subprime, think s**t."

The managers and traders of those assets were holding on to hope. They hoped that the price would recover fast enough, so they could sell them. They knew they might have to sell them at a loss. But they never imagined they'd take the whole firm down in the process.

Ironically, one of the managers at the center of that debacle gave me a book when I first joined Bear in 1993.

The book's title is *Innumeracy*. And it's based on the premise that, when people *hope for* an outcome, they underestimate risk more than when they *fear* an outcome.

For Bear, the clock ran out on hope in March 2008… Just like it has with other banks today.

As I learned working on Wall Street, banks know when other banks are hurting. They know when they are wounded, too. The weaker ones hope they'll survive. The stronger ones wait and watch for an opportunity to swoop in.

When I worked at Bear, and later at Lehman Brothers, no one there thought those banks wouldn't survive a crisis. We thought ourselves way too smart to go under. And yet, in 2008, they didn't survive.

Right before Bear went under, word got out around the financial community that it was up to its neck in assets it couldn't afford. And so rival hedge funds and banks began shorting – or betting against – those assets.

Bear had taken out loans, largely from JPMorgan Chase, to buy those assets. As things unravelled, Bear couldn't come up with the money fast enough to pay those loans back.

So JPMorgan stepped in.

At the request of the government and the Federal Reserve, they agreed to buy Bear for $2 a share. The press called it a "rescue," as if JPMorgan were heroes, not vultures.

Eventually, JPMorgan raised its buy price to $10. Still, it was a fire sale price.

To put it in perspective, on March 14, 2008, Bear's stock closed at $30 a share. **At its peak it had traded over five times that.**

But JPMorgan didn't want to take too big a risk with Bear. It feared its assets would fall more in value. So, it got what it wanted. The Fed kicked in $30 billion to get the deal done. In other words, the Fed took the risk – with taxpayers' money.

Six months later, Lehman also went belly-up, after selling some of its U.K. assets to Barclay's.

Today, we're seeing the same playbook in Europe.

On March 19, UBS agreed to buy Credit Suisse – Switzerland's second-largest bank – for $3.2 billion.

The way UBS took over Credit Suisse is just like March 2008.

The Swiss National Bank is bankrolling the risk UBS doesn't want to take on. And it's framing that $108 billion of money printing as UBS' "rescue" of Credit Suisse.

But it's not just a Swiss problem. I say that because, after UBS announced its deal, the Federal Reserve followed. The Fed came out with something called a "joint liquidity operation."

That means the Fed directed a group of central banks – including the Bank of Canada, Bank of England, Bank of Japan, European Central Bank, and Swiss National Bank…And together, they agreed to increase the frequency of their U.S. dollar swap line arrangements with the Fed.

They bumped them up from weekly to daily. That means they can borrow dollars from the Fed more quickly.

This is a very bad sign for the private banking system.

See, private banks use central banks as "lenders of last resort."

That means, if they have internal problems and can't get money from other private banks, they can get money from central banks.

That's exactly what happened in the fall of 2008, when Lehman collapsed.

The Fed doubled its foreign exchange swap lines with various central banks. In doing so, U.S. dollar liquidity went from $290 billion to $620 billion.

I wrote about this in my 2018 book, *Collusion*. Here's how I put it:

This was the central bank equivalent of "the House" providing extra money to the gamblers at nearly no cost, so they could keep placing wagers until their spate of bad luck dissipated.

And as regular readers know, that's exactly the root of The Great Distortion we're facing today.

Thanks to the Fed and other big central banks, the markets are completely disconnected from the real economy.

It started in 2008, when central banks cut rates to zero, printed trillion of dollars, and increased swap lines amongst themselves. But after the 2020 pandemic, all of these "emergency" measures became permanent fixtures of monetary policy.

When central banks tried to tighten policy and raise rates to fight inflation last year, they caused a liquidity crisis.

That means that banks don't have enough money to lend out. Or they want to keep what they have in case they need to protect themselves.

It also caused a confidence crisis – which is why people rushed to get their money out of banks like Silicon Valley.

We are in the midst of it now. So what's next?

For one, I wouldn't be surprised if more big banks fail and get taken over by lurking competitors.

We saw this move in the fall of 2008. JPMorgan took over Bear. Bank of America took over Merrill Lynch. Wells Fargo took over Washington Mutual… All with the Fed's help.

So look out for more fallout and acquisitions.

Deutsche Bank is a big domino in the process of collapsing. Like Credit Suisse, it has shown weakness for months. French banks, like Society Generale and BNP Paribas, are also in trouble.

For now, I would avoid investing in banks in general until this dust settles.