
December 1, 2010

Fed Documents Breadth of Emergency Measures

By SEWELL CHAN and JO CRAVEN McGINTY

WASHINGTON — As financial markets shuddered and then nearly imploded in 2008, the Federal Reserve opened its vault to the world on a scope much wider and deeper than previously disclosed.

Citigroup, struggling to stay afloat, sought help from the Fed at least 174 times during one remarkable 13-month period. Barclays, the British bank, at one point owed nearly $48 billion to the Fed. Even better-off banks like Goldman Sachs took advantage of Fed loans offered at rock-bottom rates.

The Fed’s efforts to stave off a financial crisis reached far beyond Wall Street, touching manufacturers like General Electric, the Detroit automakers and Harley-Davidson, central banks from Britain to Japan and insurers and pension funds in Sweden and South Korea.

Under orders from Congress, the Fed on Wednesday released details of more than 21,000 transactions under the array of emergency lending programs and other arrangements it conjured up in response to the crisis.

The disclosures, which the Fed had resisted, offer the most detailed portrait of a panicky period in which the Fed lent money to banks, brokers, businesses and investors to keep the financial system functioning.

The documents show that some of the biggest names in American business were either coming to the Fed in need of a bailout, or trying to make money at a time when the Fed was trying to entice investors back into the markets. Among the latter were prominent investors and entrepreneurs like John A. Paulson and Michael S. Dell, and the pension funds of the Philadelphia Teamsters and Omaha’s teachers, who were betting they could profit if the rescue worked.

At its peak at the end of 2008, the Fed had about $1.5 trillion in outstanding credit on its books. The central bank, in essence, pumped liquidity, the lifeblood of credit markets, into the circulatory system of an economy that was experiencing a potentially fatal heart attack.

“I think our actions prevented an even more disastrous outcome,” said Donald L. Kohn, who was the Fed’s vice chairman during the crisis. Without the Fed’s help, he said, “liquidity would have dried up even more than it did, asset prices would have fallen even more than they did, and economic activity and employment would have fallen further and faster then they did.”

But Senator Bernard Sanders, independent of Vermont, who wrote a provision in the law requiring the disclosures by Dec. 1, reached a different conclusion.

“After years of stonewalling by the Fed, the American people are finally learning the incredible and jaw-dropping details of the Fed’s multitrillion-dollar bailout of Wall Street and corporate America,” he said. “Perhaps most surprising is the huge sum that went to bail out foreign private banks and corporations.”

Mr. Sanders said the Fed should have forced banks to restrict executive pay and reduce the financial burdens on mortgage borrowers as a condition of its aid.

The Fed, already reeling from attacks from both the right and the left over its latest effort to spur the economy, a plan to buy $600 billion in Treasury securities, braced itself for another moment in the spotlight.

In a statement accompanying the disclosure, the Fed said it had fully protected taxpayers. “The Federal Reserve followed sound risk-management practices in administering all of these programs, incurred no credit losses on programs that have been wound down, and expects to incur no credit losses on the few remaining programs,” it said.

The 21,000 transactions span the period from December 2007 to last July.

Even as investors began poring over the disclosures, details emerged from the trove of new data.

From December 2007 to October 2008, the Fed opened swap lines with foreign central banks, allowing them to temporarily trade their currencies for dollars to relieve pressures in their financial markets.

The European Central Bank drew the most heavily on these currency arrangements, the records show, but nine other central banks also made use of them: Australia, Denmark, England, Japan, Mexico, Norway, South Korea, Sweden and Switzerland.

At home, from March 2008 to May 2009, the Fed extended a cumulative total of nearly $9 trillion in short-term loans to 18 financial institutions under a credit program.

Previously, the Fed had only revealed that four financial firms had tapped the special lending program, and did not reveal their identities or the loan amounts.

The data appeared to confirm that Citigroup, Merrill Lynch and Morgan Stanley were under severe strain after the collapse of Lehman Brothers in September 2008. All three tapped the program on more than 100 occasions.

The American subsidiaries of several foreign banks also benefited substantially from the program. Those institutions included UBS of Switzerland; Mizuho Securities of Japan; and BNP Paribas of France. The impaired credit markets quickly stretched well beyond Wall Street, engulfing money-market mutual funds and commercial paper — short-term borrowings that companies rely on for day-to-day operations like meeting payroll and paying vendors.

In short order, the Fed set up programs to prop up both markets and get credit flowing again. The new data shows that some of the biggest names in the mutual fund industry sold assets to Fed-financed buyers during the credit crisis, including funds sponsored by Fidelity, BlackRock, Merrill, T. Rowe Price and Oppenheimer.

In the first week of the Commercial Paper Funding Facility, the Fed bought more than $225 billion in debt. Companies ranging from Ohio's Fifth Third Bank to the best-known bank franchises of Europe and Asia, like Royal Bank of Scotland and Sumitomo, were the primary occupants of the new lifeboat, along with the finance arms of the nation's hard-pressed automakers.

But joining them were issuers of commercial paper with ties to Caterpillar, McDonald's and Verizon.

The data also show that the commercial paper market was impaired well into the latter half of 2009.

Another Fed program, the Term Asset-Backed Securities Loan Facility, brought the Fed into the unprecedented position of supporting small business, auto, student, and credit card loans. Plentiful helpings of low-cost debt encouraged institutions to ramp up lending and lured back private investors.

Among prominent investors in that program were the businessmen H. Wayne Huizenga and Julian Robertson; Kendrick R. Wilson III, a former Goldman executive who had been a top aide to Henry M. Paulson Jr., the Treasury secretary during the crisis; and Christy K. Mack, the wife of John J. Mack, the former chief executive of Morgan Stanley.

Other surprises emerged from the data. Both the American International Group, the insurer bailed out by the government, and Lehman owned big stakes in funds that bought TALF securities. So did Jonathan S. Sobel, who ran the mortgage department at Goldman Sachs.

Big institutional investors, like Pimco, T. Rowe Price and BlackRock, borrowed from the TALF program. So did the California Public Employees Retirement System, the nation's largest public pension fund, and several insurers and university endowments.

Sewell Chan reported from Washington, and Jo Craven McGinty from New York. Reporting was contributed by Eric Dash, Diana B. Henriques, Griff Palmer, Ben Protess and Tom Torok in New York.

This article has been revised to reflect the following correction:

Correction: December 1, 2010

An earlier version of this article misstated the size of the Fed's current asset-buying program. It is $600 billion, not $600 trillion.