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Fed aid in financial crisis went beyond U.S. banks to industry, foreign firms

By Jia Lynn Yang, Neil Irwin and David S. Hilzenrath
Washington Post Staff Writers
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The financial crisis stretched even farther across the economy than many had realized, as new disclosures show the Federal Reserve rushed trillions of dollars in emergency aid not just to Wall Street but also to motorcycle makers, telecom firms and foreign-owned banks in 2008 and 2009.

The Fed's efforts to prop up the financial sector reached across a broad spectrum of the economy, benefiting stalwarts of American industry including General Electric and Caterpillar and household-name companies such as Verizon, Harley-Davidson and Toyota. The central bank's aid programs also supported U.S. subsidiaries of banks based in East Asia, Europe and Canada while rescuing money-market mutual funds held by millions of Americans.

The biggest users of the Fed lending programs were some of the world's largest banks, including Citigroup, Bank of America, Goldman Sachs, Swiss-based UBS and Britain's Barclays, according to more than 21,000 loan records released Wednesday under new financial regulatory legislation.

The data reveal banks turning to the Fed for help almost daily in the fall of 2008 as the central bank lowered lending standards and extended relief to all kinds of institutions it had never assisted before.

Fed officials emphasize that their actions were meant to stabilize a financial system that was on the verge of collapse in late 2008. They note that the actions worked to prevent a complete financial meltdown and that none of the special lending programs has lost money. (Some have recorded healthy profits for taxpayers.)

But the extent of the lending to major banks - and the generous terms of some of those deals - heighten the political peril for a central bank that is already under the gun for a wide range of actions, including a recent decision to try to stimulate the economy by buying $600 billion in U.S. bonds.

"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," said Sen. Bernard Sanders (I-Vt.), a longtime Fed critic whose provision in the Wall Street regulatory overhaul required the new disclosures. "Perhaps most surprising is the huge sum that went to bail out foreign private banks and corporations. As a result of this disclosure, other members of Congress and I will be taking a very extensive look at all aspects of how the Federal Reserve functions."

The Fed launched emergency programs totaling $3.3 trillion in aid, a figure reached by adding up the peak amount of lending in each program.

Companies that few people would associate with Wall Street benefited through the Fed's program to ease the market for commercial paper, a form of short-term debt used by major corporations to fund their daily activities.

By the fall of 2008, credit had frozen across the financial system, including the commercial paper market. The Fed then purchased commercial paper issued by GE 12 times for a total of $16 billion. It bought paper from Harley-Davidson 33 times, for a total of $2.3 billion. It picked up debt issued by Verizon twice, totaling $1.5 billion.

"It is hard to say what would have happened without the facility, and how its absence might have affected GE, but overall the program was extremely effective in helping stabilize the market," GE spokesman Russell Wilkerson said by e-mail.

Verizon spokesman Robert A. Varettoni said that it was "an extraordinary time," adding that there was no credit available otherwise at the time.

The data revealed that the Fed continued making purchases into the summer of 2009 - after the official end of the recession - showing that it was still concerned about a fundamental part of the financial system even as economic growth was returning.

The disclosure shows "how really profound the financial crisis was in the fall of 2008 and the firepower the Fed mustered in response," said analyst Karen Shaw Petrou of Federal Financial Analytics.

Foreign-owned banks also benefited from the Fed's commercial-paper facility. The Korean Development Bank, owned by the South Korean government, used the program to the tune of billions of dollars, including a $407 million short-term loan on a single day. Many foreign banks, including the French BNP Paribas, the Swiss UBS and the German Deutsche Bank, took extensive advantage of various programs. Even a major bank in Bavaria benefited, as well as another one headquartered in Bahrain, a tiny island country in the Middle East.

Another Fed program allowed investment banks for the first time to borrow directly from the Fed as officials sought to stem the panic that had taken down Wall Street titan Bear Stearns. The central bank assisted 18 companies through this program. Among the biggest beneficiaries was Citigroup, which in a single day in November 2008 borrowed $18.6 billion from the Fed.

The data also demonstrate how the Fed, in its scramble to keep the financial system afloat, eventually lowered its standards for the kind of collateral it allowed participating banks to post. From Citigroup, for instance, it accepted $156 million in triple-C collateral or lower - grades that indicate that the assets carried the greatest risk of default.

Dallas Federal Reserve President Richard Fisher defended the Fed's actions during the financial crisis, saying the central bank "stepped into the breach" in its role as a lender of last resort.

"That's what we are paid to do," he said. "We took an enormous amount of risk with the people's money," he acknowledged. But the crisis lending programs are now all closed, he said, "and we didn't lose a dime, and in fact we made money on every one of them."

The banks universally hailed the Fed on Wednesday.

"In late 2008, many of the US funding markets were clearly broken," Goldman Sachs said in a statement, echoing similar comments made by Bank of America and Citigroup. "The Federal Reserve took essential steps to fix these markets and its actions were very successful."

By 2009, Goldman and other Wall Street firms were reporting their best profits ever. That allowed these banks to pay out huge salaries again, but it also drew the ire of lawmakers and ordinary Americans.

Sanders, for one, said these banks got off easy while receiving extraordinary aid. In rescuing these firms, the Fed never required them to lend to small businesses, modify the mortgages of homeowners or invest in a way that would create jobs.

"We bailed these guys out, but the requirements placed upon them had very little positive impact on the needs of ordinary Americans," Sanders said.

yangjl@washpost.com irwinn@washpost.com hilzenrath@washpost.com