New Bloomberg Report Estimates that Banks Reaped $13 Billion from Below-Market Rate Loans

Washington, DC (Nov. 28, 2011) – Today, Rep. Elijah E. Cummings, Ranking Member of the House Committee on Oversight and Government Reform, sent a letter to Chairman Darrell Issa requesting that the Committee hold a hearing with Federal Reserve Chairman Ben Bernanke and officials from the nation's largest financial institutions that benefitted from trillions of dollars in previously undisclosed government loans provided at below-market rates.

"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," said Cummings.

Cummings requested the hearing in light of a report in Bloomberg Markets Magazine that revealed that the Federal Reserve secretly committed more than $7 trillion as of March 2009 to rescuing the nation's top financial institutions, and that these banks "reaped an estimated $13 billion of income by taking advantage of the Fed's below-market rates."

According to economists cited in the Bloomberg report, this "secret financing helped America's biggest financial firms get bigger and go on to pay employees as much as they did at the height of the housing bubble." The Bloomberg report disclosed that total assets at the largest six banks increased by 39% and executive compensation increased by 20% over the past five years.

According to the Bloomberg report, information about these secret loans was withheld from Congress as it debated reforms ultimately included in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and banks also failed to disclose this information to their shareholders.

The full letter follows:

November 28, 2011

The Honorable Darrell E. Issa
Chairman
Committee on Oversight and Government Reform
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

I am writing to request that the Committee hold a hearing with Federal Reserve Chairman Ben Bernanke and officials from the nation's largest financial institutions that benefitted from trillions of dollars in previously undisclosed government loans provided at below-market rates.

In the past, the Oversight Committee has played a prominent role in investigating the actions of government entities and private sector corporations that led to the financial collapse. On October 23, 2008, for example, former Federal Reserve Chairman Alan Greenspan testified before our Committee, stating: "I made a mistake in presuming that the self-interest of organizations, specifically banks and others, was such that they were best capable of protecting their own shareholders."

Yet, a report yesterday in Bloomberg Markets Magazine disclosed that the Federal Reserve secretly committed more than $7 trillion as of March 2009 to rescuing the nation's top financial institutions. As a result, the banks that received these loans "reaped an estimated $13 billion of income by taking advantage of the Fed's below-market rates." This report was based on 29,000 pages of Federal Reserve documents obtained under the Freedom of Information Act after a protracted legal dispute.

According to economists cited in the Bloomberg report, the scope of these previously undisclosed loans resulted in a financial windfall for the banks. For example, Dean Baker, co-director of the Center for Economic and Policy Research, stated: “getting loans at below-market rates during a financial crisis—is quite a gift.” Similarly, Viral Acharya, an economics professor at New York University, stated: “Banks don’t give lines of credit to corporations for free. Why should all these government guarantees and liquidity facilities be for free?”

The Bloomberg report disclosed that this “secret financing helped America’s biggest financial firms get bigger and go on to pay employees as much as they did at the height of the housing bubble.” According to Federal Reserve data cited in the report, total assets held by the six largest U.S. banks increased 39% from 2006 to 2011. In addition, based on data from the Bureau of Labor Statistics, employees at these banks received more than $146 billion in compensation in 2010, an increase of nearly 20% from five years earlier. According to Anil Kashyap, a former Federal Reserve economist, “The pay levels came back so fast at some of these firms that it appeared they really wanted to pretend they hadn’t been bailed out.”

The Bloomberg report explained that Congress lacked access to information about the secret Federal Reserve loans while it debated reforms ultimately included in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. For example, former Senator Judd Gregg stated: “We didn’t know the specifics.” Similarly, Senator Richard Shelby stated: “I believe that the Fed should have independence in conducting highly technical monetary policy, but when they are putting taxpayer resources at risk, we need transparency and accountability.” According to Neil Barofsky, the former Special Inspector General for the Troubled Asset Relief Program, “The lack of transparency is not just frustrating; it really blocked accountability.”

When Congress passed the Dodd-Frank Act, it required the Government Accountability Office to “conduct a onetime audit of all loans and other financial assistance” from December 1, 2007, to July 21, 2010. Although GAO issued its report in July, it analyzed assistance—including mortgage-backed securities purchased through open market operations—with peak outstanding balances of only $3.5 trillion. Even with respect to these amounts, GAO concluded:

The context for the Federal Reserve System’s management of risk of losses on its loans differed from that for private sector institutions. In contrast to private banks that seek to maximize profits on their lending activities, the Federal Reserve System stood ready to accept risks that the market participants were not willing to accept to help stabilize markets.

In addition to withholding information about these loans from Congress, banks also apparently failed to disclose this information to their shareholders. For example, Kenneth D. Lewis, the Chief Executive Officer of Bank of America, told shareholders on November 26, 2008, that the company was “one of the strongest and most stable major banks in the world.” According to the Bloomberg report, however, he failed to disclose that “his Charlotte, North Carolina-based firm owed the central bank $86 billion that day.”

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. Unfortunately, officials from many of these financial institutions declined to comment about these loans, including officials from Goldman Sachs, JPMorgan, Bank of America, Citigroup, and Morgan Stanley.

For all of these reasons, I respectfully request that the Committee hold a hearing with the Federal Reserve chairman and officials from each of these financial institutions to examine these issues in greater detail. Thank you for your consideration of this request.

Sincerely,

Elijah E. Cummings
Ranking Member