Extent of federal bailout of banks more extensive than first reported

By Bob Ivry, Bradley Keoun and Phil Kuntz, Bloomberg News

The Federal Reserve and the big banks fought for more than two years to keep details of the largest bailout in U.S. history a secret. Now, the rest of the world can see what it was missing.

The Fed didn't tell anyone which banks were in trouble so deep they required emergency loans of a combined $1.2 trillion on Dec. 5, 2008, their single neediest day.

Bankers didn't mention that they took tens of billions of dollars at the same time they were assuring investors their firms were healthy. And no one calculated until now that banks reaped an estimated $13 billion of income by taking advantage of the Fed's below-market interest rates, Bloomberg Markets magazine reports in its January issue.

Saved by the 2007-2010 bailout, bankers lobbied against government regulations, a job made easier by the Fed, which never disclosed the details of the rescue to lawmakers even as Congress doled out more money and debated new rules aimed at preventing the next collapse.

While Fed officials say that almost all the loans were repaid without losses, details that emerge from 29,000 pages of Fed documents obtained under the Freedom of Information Act and central bank records of more than 21,000 transactions suggest taxpayers paid a price beyond dollars as the secret funding helped preserve a broken status quo and enabled the biggest banks to grow even bigger.

The size of the bailout came to light after Bloomberg LP, the parent of Bloomberg News, won a court battle against the Fed and a group of the biggest banks called Clearing House Association LLC. The amount of money the central bank parceled out dwarfed the Treasury Department's better-known $700 billion Troubled Asset Relief Program, or TARP.

Few people were aware of this, partly because bankers didn't disclose the extent of their borrowing.

JPMorgan Chase & Co. Chief Executive Officer Jamie Dimon told shareholders in March 2010 that his bank used the Fed's Term Auction Facility "at the request of the Federal Reserve to help motivate others to use the system."

He didn't say that the bank's total TAF borrowings were almost twice its cash holdings or that its peak borrowing of $48 billion came more than a year after the program's creation.

On Nov. 26, 2008, Bank of America's then-CEO Kenneth Lewis wrote to shareholders that he headed "one of the strongest and most stable major banks in the world." He didn't say that Bank of America owed the Fed $86 billion that day. Bank of America's borrowing peaked at $91.4 billion in February 2009.

Spokesmen for JPMorgan and Bank of America declined to comment.

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