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Statement of the Shadow Financial Regulatory Committee

Federal Reserve Lending Programs

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The Federal Reserve recently released detailed data on its financial rescue activities as required under the new Dodd-Frank Act. The information covers nine special lending and related facilities and the programs related to the acquisition of Bear Stearns and assistance given to AIG during the financial crisis. The data covers more than 21 thousand transactions and trillions in loans and assets purchases. However, comparable information was not provided on its discount window lending.

The Dodd-Frank Act emphasized transparency, and only after its enactment did the Federal Reserve released information on its rescue programs. The data suggest that the Fed’s activities were more far reaching than many had thought. The Fed channeled funds not only to US banks but also to government entities, foreign subsidiaries of foreign banks, and other entities. The Fed provided substantial loans to both foreign and domestic affiliated primary dealers, some of whom subsequently failed, were rescued by their foreign governments or were merged with their government’s support. The Fed also purchased asset-backed and regular commercial paper issued by financial institutions and non-financial institutions.

While the Shadow Financial Regulatory Committee applauds the release of the data, it believes that the present disclosures are not sufficient to permit an objective assessment or audit of the efficacy of these programs, nor are they sufficient to identify and measure the subsidies embedded in those programs. Far from assuaging concerns, the releases raise many more questions than they answer. For example, what were the true costs of the programs, and how and to whom were the subsidies distributed? What was the market quality of the collateral pledged by counterparties, what risks were taken, were any borrowers economically insolvent, and were risks appropriately priced and monitored? Finally, should the programs have been structured to provide either the Fed or the taxpayers a participation in the upside gains that resulted?

To address these issues objectively the Shadow Financial Regulatory Committee urges that a non-political, independent group of financial experts be organized to perform a forensic assessment of these programs, together with the Fed's discount window lending, similar to the kind of analysis performed by the Examiner in Bankruptcy in the Lehman Brothers bankruptcy. The objective of such a study would be to assess the programs, their impacts on markets and, most importantly, to quantify the subsidies inherent in these programs and to identify the recipients and the distribution of those subsidies to various domestic and foreign borrowers.

Presently, policy makers have asserted that the loan programs have not resulted in losses to taxpayers and that they helped to stabilize financial markets. The data, however, suggest that two of the programs, Primary Dealer Credit Facility and Term Securities Lending Facility were primarily used to support a handful of institutions at interest rates that were unusually low and entitled substantial subsidies. The subsidy issue extends to other programs, as well, including the below market credit supplied through other programs including the Commercial Paper Funding Facility, the Term Auction Facility, the Term Asset Loan Facility, and the foreign central bank swap program.

To uncover the true costs of Fed assistance, it is necessary to evaluate all these programs in depth. Are there lessons to be learned and what might or might not have been done better or in different amounts? The Fed's and society's interests would be best served by an objective assessment of the lessons learned to aide future decision-making in the event another financial crisis occurs. The Committee also believes that the Fed's independence in the conduct of monetary policy would be better served by the Fed supporting an aggressive and transparent approach to the assessment of the programs it has put into place.