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$29,000,000,000,000: A Detailed Look at the Fed's Bailout of the Financial System

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There have been a number of estimates of the total amount of funding provided by the Federal Reserve to bail out the financial system, ranging from the Fed's own claim of only $1.2 trillion to Bloomberg's estimate of $7.7 trillion (just for the biggest banks) and the Government Accountability Office's tally of $16 trillion. As part of the Ford Foundation project that I am directing, "A Research and Policy Dialogue Project on Improving Governance of the Government Safety Net in Financial Crisis," Nicola Matthews and James Felkerson have undertaken a detailed examination of the raw data pried from the Fed by lawsuit and congressional order. Felkerson's new working paper, issued by the Levy Institute, is the first in a series that will report their results. The headline summary is that the Fed committed more than $29 trillion in the form of loans and asset purchases to prop up the global financial system. Beneficiaries included member banks, investment banks and the rest of the shadow banking system, industrial firms, foreign banks and central banks, and even individuals such as the "Real Housewives of Wall Street" identified by *Rolling Stone*'s Matt Taibbi.

The analysis by Matthews and Felkerson is, I believe, the most thorough to date. It uses three different methods of totaling the Fed's commitments. First, they look at the peak outstanding commitment at a given point in time. From this angle, they arrive at a number relatively close to the Fed's own estimate, which gives some measure of the maximum risk of loss faced by the Fed. Second, they calculate the total peak flow of commitments (again, loans plus asset purchases) over a relatively short period such as a week or a month, which helps identify periods of maximum financial system distress. And, finally, they calculate the total amount committed over the entire period, from January 2007 to November 2011, which is the best way to assess the unprecedented effort required to "save" the system. It is this final measure that provides the "headline" estimate of $29 trillion.

Matthews and Felkerson begin by identifying the "alphabet soup" of Fed facilities created to deal with various phases of the global financial crisis. The first of these was put in place in 2008, and a few were still operating as of November 2011. They then use the three methods outlined above to calculate peak outstanding commitments, the peak weekly or monthly flow, and the cumulative flow over the life of each facility. They then aggregate across the facilities.

For example, as reported in Felkerson's paper, we can look at all three measures of the Primary Dealer Credit Facility (PDCF) that was created on March 16, 2008, in response to troubles at Bear Stearns. The PDCF was effectively a discount window for primary dealers to ease strains in the repo market by lending reserves on an overnight basis. If we use the cumulative measure, the PDCF issued 1,376 loans totaling $8,950.99 billion. By contrast, the peak weekly amounts outstanding and lent (both occurred on October 1, 2008) were $156.57 billion and $728.64 billion, respectively.

Hence we get three estimates: nearly $150 billion as the peak outstanding number, $700 billion as peak weekly lending, and almost $9 trillion as the cumulative number—for a single facility. Take your pick: the appropriate number chosen depends on the question asked. The smallest number answers the question, What was the Fed's peak exposure to losses (assuming the Fed would let the institutions fail without extending even more credit to them)? The middle number indicates how much it took to meet liquidity demands during the worst week of the crisis, from the point of view of the dealers. And the biggest number tells us how much the Fed had to intervene over the life of the facility in order to settle markets.

Matthews and Felkerson also provide estimates of the borrowing by users of each facility, allowing us to see that the vast majority of the Fed's commitments were made to the biggest banks. For example, most of the $9 trillion cumulative borrowing in the PDCF can be attributed to just five banks (Merrill Lynch, Citigroup, Morgan Stanley, Bear Stearns, and Bank of America). Clearly, these were troubled institutions: two (Merrill and Bear) disappeared as independent banks, Citi came perilously close to the cliff, and Morgan and Bank of America remain in some distress. The cumulative lending by the Fed contributes to our understanding of the depths of their problems. When all individual transactions are summed across all facilities created to deal with the crisis, the Fed's commitment totals $29,616.4 billion.

The extraordinary scope and magnitude of the financial crisis of 2007–09 induced an extraordinary response by the Fed in the fulfillment of its lender-of-last-resort function. The purpose of this research is to provide a descriptive account of that response. Once we know what the Fed did, we can begin to assess its approach to the crisis, as we will do during the second stage of this project. This will help us to formulate policy should we face another crisis—a possibility that seems increasingly likely.

A more detailed discussion of this topic can be found at www.levyinstitute.org/pubs/wp_698.pdf.

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