

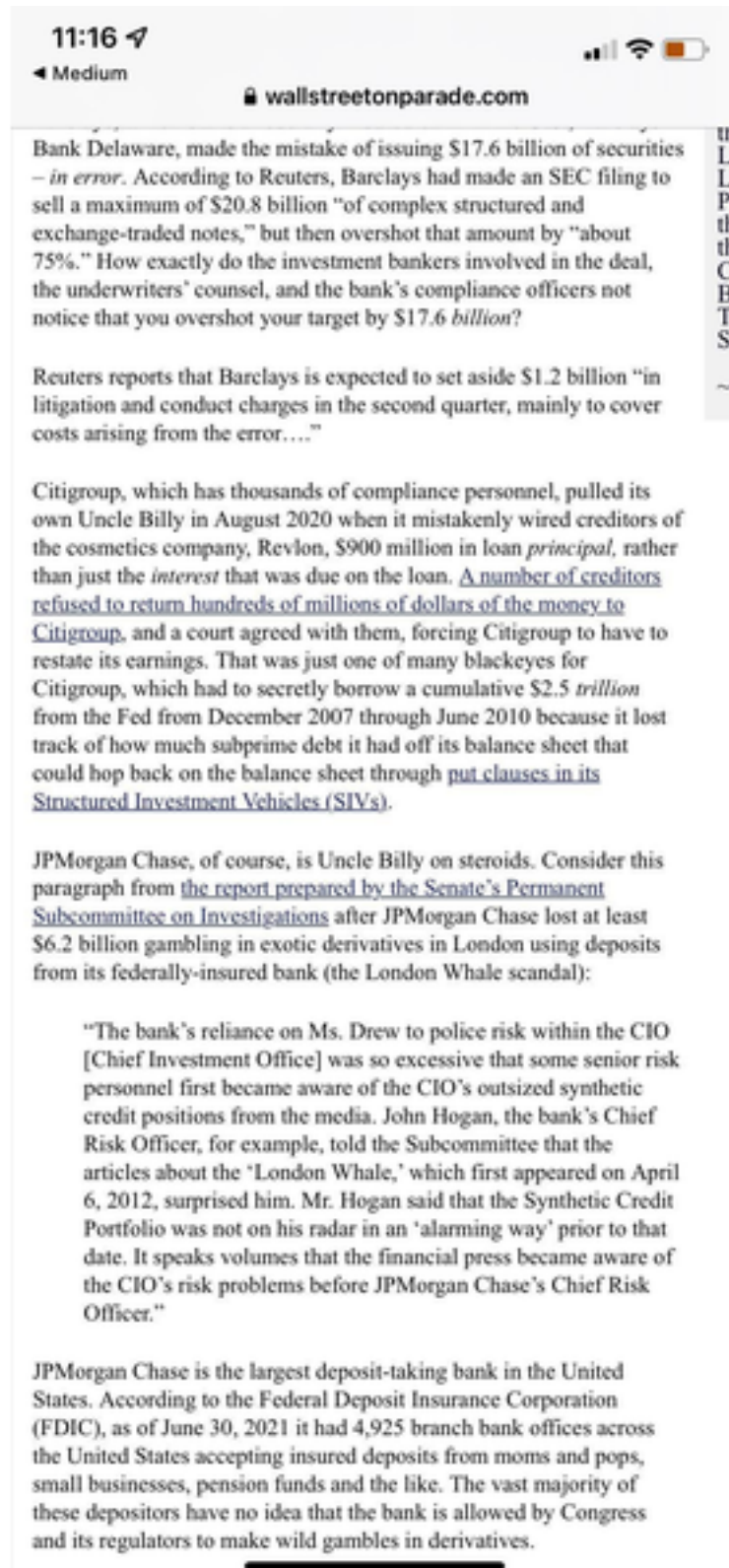
Title: Wall Street Megabanks' Multi-Billion Dollar Blunders Suggest Money Controls as Good as George Bailey's Uncle Billy

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\$16 billion in other bets on higher-rated portions of the subprime market, according to Lewis. When those bets failed, Morgan Stanley lost at least \$9 billion.

According to a government audit of the Fed's secret loans to the trading houses on Wall Street during and after the 2008 Wall Street implosion, Morgan Stanley was the second largest recipient (after Citigroup) of the Fed's secret loans, receiving a total of \$2.04 *trillion* in cumulative loans from the Fed.

This is the stuff of banana republics – not a financial system befitting a superpower.



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The "Ms. Drew" referenced in the above paragraph was supposed to be policing trading risk for the bank by supervising the derivative traders in London. But Ms. Drew didn't even possess a trading license herself. That's illegal at trading houses known as broker-dealers on Wall Street. At broker-dealers, a supervisor must have the proper licenses to oversee traders.

The Senate's Permanent Subcommittee on Investigations held hearings on the matter. Ina Drew testified and told the Subcommittee that the investment securities portfolio at the federally-insured bank exceeded \$500 billion during 2008 and 2009 and as of the first quarter of 2012 was \$350 billion. But *Wall Street On Parade* learned from the industry's self-regulator, FINRA, that during the 13 years that Drew supervised these stunning amounts of securities trading, she had neither a securities license nor a principal's license to supervise other traders.

At the time, we asked numerous Wall Street regulators to explain how Drew could have been overseeing traders without the proper trading licenses. One regulator who spoke on background told us that Drew could not hold a securities license because she worked for the federally-insured commercial bank, not its broker-dealer. Only employees of broker-dealers are allowed to hold securities licenses. But apparently, not having a securities license does not stop one from supervising a \$500 billion portfolio of securities at a federally-insured bank.

Morgan Stanley is another cautionary tale on Wall Street. It also owns federally-insured banks, although their size pales in comparison to the \$2 trillion in deposits held by JPMorgan Chase's domestic branches.

Morgan Stanley was one of the megabanks that acknowledged almost \$1 billion in losses when the family office hedge fund, Archegos Capital Management, blew up in March of 2021. Wall Street megabanks had ginned up derivatives that allowed Archegos to obtain 85 percent margin loans on insanely concentrated stock positions. But Morgan Stanley has had far larger losses from trading blowups in the past. During the 2007-2008 subprime mortgage crisis, one of Morgan Stanley's traders, Howie Hubler, lost \$9 billion of the firm's capital betting on subprime debt. Hubler didn't get a character to play his role in "The Big Short" movie but Michael Lewis, who wrote the book on which the movie is based, shared insights with his readers about Hubler.

Lewis describes Hubler as a star bond trader at Morgan Stanley, making \$25 million in one year prior to the collapse of the subprime mortgage market. Hubler was one of those who made early bets that the lower-rated subprime bonds would fail. He used credit default swaps (derivatives) to make his bets. But because Hubler had to pay out premiums on these bets until the price collapse came, he placed \$16 billion in other bets on higher-rated portions of the subprime

Wall Street Megabanks' Multi-Billion Dollar Blunders Suggest Money Controls as Good as George Bailey's Uncle Billy



By [Pam Martens and Russ Martens](#): July 29, 2022 ~

What do you get when you mix federally-insured banks with Wall Street trading casinos? You get the potential for catastrophic risks for the U.S. taxpayer and astronomical riches for the CEOs of the banks and the hedge fund titans they serve. Why is this Faustian bargain tolerated by Washington lawmakers – especially after the greatest financial collapse since the Great Depression in 2008? Because the Wall Street fat cats throw a lot of money into the political campaigns of members of Congress, ensuring that no matter how many times these Frankenbanks make outrageous blunders involving billions of dollars, Congress will conduct a superficial investigation and move on.

Below we examine outrageous money blunders by Barclays, Citigroup, JPMorgan Chase and Morgan Stanley – all of which have the earmarks of the brand of money incompetence as George Bailey's Uncle Billy in Frank Capra's *It's a Wonderful Life*. Absent-minded Uncle Billy is sent to make a large bank deposit for Bailey's bank and mistakenly hands the deposit over in a newspaper to the villainous Mr. Potter, bringing the bank to the edge of collapse.

Against that backdrop, consider [the news from Reuters on Monday](#). Barclays, which owns a federally-insured bank in the U.S., Barclays Bank Delaware, made the mistake of issuing \$17.6 billion of securities

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