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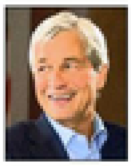
By Pancaking Term Loans, JPMorgan Had $30 Billion Outstanding from the Fed's Emergency Repo Loans in the Last Quarter of 2019

By Pam Martens and Russ Martens: December 31, 2021 ~


Jamie Dimon, Chairman and CEO, JPMorgan Chase

Jamie Dimon, Chairman and CEO of JPMorgan Chase, likes to perpetually brag about his bank's "fortress balance sheet." But in the fall of 2019, that fortress needed to borrow huge sums of money from the Federal Reserve – for still unexplained reasons. The trading units of other Wall Street banks also borrowed large sums from the Fed but they haven't branded themselves as the "fortress balance sheet."

Yesterday, the Federal Reserve Bank of New York released the names of the banks and the dollar amounts that were borrowed under its emergency repo loan operations for the last quarter of 2019. It had previously released the data for the period of September 17, 2019 through September 30, 2019. The Fed has yet to release the data for the emergency repo loan operations in 2020.

Repo loans, short for repurchase agreements, are supposed to be overnight loans. Corporations, banks, securities firms and money market mutual funds typically secure these loans from each other by providing safe forms of collateral such as Treasury securities. The repo loan market is supposed to function without the assistance of the Federal Reserve. The Fed's emergency repo loans that began on September 17, 2019 (months before there was a COVID-19 case reported anywhere in the world) was the first such repo intervention by the Fed since the financial crisis of 2008. The Fed has yet to provide a credible explanation for why its emergency operations were needed.

The Fed's emergency repo operations began as overnight loans. But then the Fed began regularly offering 14-day term loans *in addition* to the overnight loans. Then it began to add even longer term loans.

Just 24 trading houses on Wall Street (what the Fed calls its "primary dealers") were eligible for these loans. A handful of firms took the lion's share. Until now, neither the public nor the participating banks knew who was under the most severe funding stresses that they had to borrow from the Fed for months on end.

This is an example of how the trading unit of JPMorgan Chase, J.P. Morgan Securities, pancaked these term loans from the Fed to amass a $30 billion outstanding loan from the Fed:

> On November 12, the Fed offered a 14-day term loan that would expire on November 26. J.P. Morgan Securities took three separate lots totaling $7 billion.

> On November 14, the Fed offered a 13-day term loan that would expire on November 27. J.P. Morgan Securities took $5 billion of that.
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> On November 19, the Fed offered a 14-day term loan expiring on December 3. J.P. Morgan Securities took $4 billion of that.
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> On November 21, the Fed offered another 14-day term loan expiring on December 5. J.P. Morgan Securities took two lots totaling $5 billion.
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> On November 25, the Fed offered its first 42-day term loan expiring on January 6. The loan settled on same-day terms. J.P. Morgan Securities took two lots totaling $4 billion.

At this point in time, the November 12 loan, set to expire on November 26, had not come due so J.P. Morgan Securities had $25 billion in term loans with the Fed and also had $5 billion in overnight loans maturing the next day for a total of $30 billion outstanding.

And on and on it went.

Other banks that were taking large amounts of term loans and pancaking them on top of each other include Goldman Sachs, Nomura Securities International, Citigroup Global Markets, Deutsche Bank, Bank of America Securities, Cantor Fitzgerald, as well as others.

There are a few key takeaways from the newly released data. The first takeaway is that the Fed was not created to bail out the trading firms on Wall Street. Its mandate throughout its 108-year history is to be a Lender-of-Last-Resort to commercial banks so that its power to electronically create money out of thin air is used to benefit the productive portions of the economy, not speculators on Wall Street.

This is now the second time since 2008 that the Fed has jumped in with both feet to bail out trading houses. This time around, the public and Congress have been denied an explanation as to what caused this financial crisis in the fall of 2019.

The second takeaway is that by releasing this data in quarterly chunks, the Fed is making it impossible to see the big picture. Did JPMorgan's term loans grow to $50 billion by the next quarter? There's no way to know at this point because that data has not been released.

The third takeaway is that units of JPMorgan Chase were also eligible to borrow, beginning in March 2020, under other emergency loan facilities set up by the Fed, such as the Primary Dealer Credit Facility. How much did it owe to the Fed under all of these various programs? That data has also not been released.

The Fed stonewalled the media in court for more than two years after the 2008 financial crisis, refusing to release its emergency loan data. It's starting to seem like this is a feature, not a bug, at the Fed. The

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The Fed stonewalled the media in court for more than two years after the 2008 financial crisis, refusing to release its emergency loan data. It's starting to seem like this is a feature, not a bug, at the Fed. The Fed lost at a Federal District Court and a Federal Appellate Court and the U.S. Supreme Court refused to hear the case. When the Levy Economics Institute tallied up all of the emergency programs, the cumulative tally came to a $29 trillion bailout.

You can download the repo loan data from the New York Fed at this link.

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