Title: Negative Cost to Borrow: Just like Sears & Krispy Kreme, u/ Tartooth's find hasn't been just for GME
Author: throwawaylurker012
Created 2022-02-06 17:44:59 UTC
Permalink: /r/DDintoGME/comments/sm2mm9/negative_cost_to_borrow_just_like_sears_krispy/
Url: https://www.reddit.com/r/DDintoGME/comments/sm2mm9/negative_cost_to_borrow_just_like_sears_krispy/

TL;DR: Alongside GME, you've had stocks like Sears or even Krispy Kreme Donuts have negative cost to borrow in the past. So it shouldn't happen...but it does. Because crime.

Edit 7: full disclosure this post was on rush mode, so def missed some info on this post that u/ chai_latte69 clarified below. If anything else is wrong lmk! Don't want a post pushing up the sub if some misinfo, but I believe this is regarding the quote about Krispy's negative rebate rate (Sears example was a negative cost to borrow rate):

>The dialogue on negative rebate rates is spiraling into tinfoil hat territory and not in the good way. The problem is that the borrow rate is being conflated with the rebate rate and also the directionality of the loan. To borrow a stock (also known as a short), the borrower must upfront some amount of money (also known as collateral). Much like your money in a savings account, the collateral earns interest (usually the Federal Funds rate which is considered the risk-free rate of return). **The negative rebate is broker lender telling the SHF borrower that we are not only going to keep the interest on your collateral, but you (SHF) also has to pay us more money.** An analogy would be the bank charging you money to have your money in an account (this is a hard concept to grasp in modern banking).

Hey y'all, it's your friendly neighborhood throwawaylurker012, and I use porcupines for suppositories

u/ tartooth's had a wtf-worthy post circulating today about GME's cost to borrow (CTB) going fucking NEGATIVE, implying brokers might be **paying to have others short GME!**

https://preview.redd.it/6iyamqa329g81.png?width=901&format;=png&auto;=webp&s;=38739c91ffec0cf308b038a3fa9f58a17a8225e0

And credit to u/ rondanator for the original find on their post, outlining that wtf-issue:

https://preview.redd.it/23y9kiu329g81.png?width=839&format;=png&auto;=webp&s;=fd1074923d04a2fe8db01b94e15f454530a83792

So there definitely was a lot of question marks thrown up in the comment sections on these posts wondering whether it was a glitch, if Ortex fat fingered it, if they were too busy checking to see if the shelves in their office are tall enough to knock over the sprinkler system, you know the usual.

But as you now know dear apes, NOTHING IS A GLITCH.

I have been doing research on other shit (could be something, could be nothing, but it probably ends up being different animals to use as suppositories) and found a few exhibits bathed in our favorite condiment:

https://preview.redd.it/d5jltzj429g81.png?width=1335&format;=png&auto;=webp&s;=e52d717c25697fd411837a68a1cb929c8255eb88

Now I could speed run and talk about less than confirmed cases like this discussion about Sears encountering a potential mini-sneeze in early 2017, with comments like this that are more akin to our regular views on GME's tick up from 0.01% to 1% or 5% on QuestTrade:

https://preview.redd.it/617jbdg529g81.png?width=981&format;=png&auto;=webp&s;=4b1f434f9460dfdbd3583007164b18f6c4e6cd94

https://preview.redd.it/lrh8xh0629g81.png?width=1004&format;=png&auto;=webp&s;=b175577a6b97f4717bd7aeac949027833588159e

Or this paper by Baker Street Capital on Sears stock being shorted more than its total float (Hmmm where have I heard of that before? Maybe in an idiosyncratic stock?):

https://preview.redd.it/rwlanpv629g81.png?width=1159&format;=png&auto;=webp&s;=b28834eed2a6536b7a60ee90d19ccd0e202966f0

So this is all vanilla wtf-fuckery and still not as verifiable.

Fair. So chew on this instead then! How's an SEC OIP Court decision back in 2013, against optionsXpress!:

>**The OIP alleges that from at least October 2008 to March 18, 2010 (relevant period): (1) optionsXpress, Inc. (optionsXpress), willfully violated Rules 204 and 204T of Regulation SHO** – Regulation of Short Sales (Reg. SHO); (2) Jonathan I. Feldman (Feldman) willfully violated Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act, and Exchange Act Rules 10b-5 and 10b-21; (3) Stern caused and willfully aided and abetted optionsXpress's and Feldman's violations; and (4) optionsXpress caused and willfully aided and abetted Feldman's violations. OIP at 2, 24-25

[Sears at the bottom list, alongside Citi, AIG and FAS](https://preview.redd.it/dy2mquy729g81.png?width=671&format;=png&auto;=webp&s;=f3f8659021fdf04a8288d134f59b009b4c01747b)

Long story short, you had a then-small broker dealer (eventually bought out by Charles Schwab) that had some of its workers dipping their hands in mayo-filled crime as they did crime by writing synthetic longs meaning:

* Buy a call at a strike price on a given expiration date (-100 shares if assigned)
* Sell a put at same strike price at same expiration date (+100 shares if assigned)

So +100 -100 = 0 shares actually delivered, or crime. (Thank you u/ Lunar_Stonkosis for the correction here!)

It was hedged by both selling ITM calls but also shorting the stock (Kenneth Cordelle Griffin's financial terrorist favorite!) **And they did this in hard to borrow securities, like AIG, FAS, and yes, Sears.**

https://preview.redd.it/8554akl929g81.png?width=1194&format;=png&auto;=webp&s;=de8c1f1587390fa89c90fe095c2b8fd76aacd5cd

Here's proof of the fact that negative cost to borrows can exist and aren't crime unicorns according to Brendan Sheehy, an expert witness called in the case:

>**Sheehy's experience has been that most people who borrow hard-to-borrow stocks pay a negative or extremely expensive rate to do so**. Sheehy believed that Feldman's buy-write strategy allowed him to profit because he was able to maintain a short position without having to pay for borrowing hard-to-borrow shares .
>
>It considered the borrowing expense a cost of doing business; however, as a matter of policy, it would not borrow shares where the borrowing cost was above the threshold of a negative one percent. **The cost of borrowing "hard-to borrow shares" was typically very high, much higher than negative one percent**

Here's e-mail proof of them discussing it with regards to Sears:

>On October 27, 2008, at 8:36 a.m., Tortorella sent Payne and Snyder an e-mail with "Today's CNS buy-ins." Payne responded to Tortorella's e-mail with copies to Molnar and Snyder, "Is there a timeline you want these closed out by since the markets already open? I have been letting them close out by the end of the day.
>
>At 8:42 a.m., Molnar e-mailed Strine: **Kevin, Can you give some clarification when we need to cover our CNS fails. Is it by the opening, or anytime today as long as the position is covered? These are fails that were not covered on Friday, and now we have a T+4 CNS fail.**
>
>**On November 5, 2008, Bottini e-mailed Molnar asking whether Sears was really hard to borrow.** Bottini also asked, "If the firm account gets assigned on short calls will that trigger an immediate buy/in?"
>
>Molnar responded:
>
>**" Yes, SHLD is very hard to borrow. It is at a negative rate.** I'm getting what the rate is currently. Since we have an open CNS fail and as soon as we buy to cover, the customer shorts a call which gets assigned immediately, we are in a vicious cycle. Prior to the new short call rule, we had a window with Reg SHO. If we were able to get the CNS fail to zero for one day, the Reg SHO clock would get reset to a new 10 days. Unfortunately now we have to cover any CNS fail immediately. I think we should comment to the SEC regarding covering shorts from the result of an option assignment (not put exercise because the customer is controlling). The assignment has no impact on the market because the short is based entirely on the strike price. The CNS fail created by the customer short is protected on our side by Reg T requirements, and the customer would still be subject to CNS buyin rules.
>
>**This just in, SHLD is at a neg rate of the high 50's .**

The footnote makes damn sure you well know they're not lying:

https://preview.redd.it/e5a4eona29g81.png?width=741&format;=png&auto;=webp&s;=f195205f68757d918c7a7bcdaf5115094a438935

So bam, proof it exists and Ortex can't weasel out of it saying it doesn't.

I'll do you one more.

https://preview.redd.it/e8rldigb29g81.png?width=2760&format;=png&auto;=webp&s;=2c867cc9e4457fdc8

967c85fccc53d4ca560a3ac

Back before Krispy Kreme Donut traded under DNUT, it traded under KKD and it had INSANE borrowing costs. Just like how GME and Sears had high borrowing costs. Literally, even fucking Wikipedia says this for it's "short (finance)" page:

https://preview.redd.it/xx2lbcjc29g81.png?width=1601&format;=png&auto;=webp&s;=e63c3371fdff82f16b6298de55ece556b60d5cb0

I mean it was fucking bad, look at it standing alongside some RegSHO greats (like Overstock!) on this SEC docu discussing stocks that have been on the Threshold List a long ass fucking time:

https://preview.redd.it/sfsvyf4d29g81.png?width=911&format;=png&auto;=webp&s;=f01bde6eef4e3e3d0d611eaf4ff76b0019e60c85

Yet, Wikipedia isn't good enough so here's a 2001/2002 paper from the Journal of Financial Economics and was referenced by Nera here (https://www.nera.com/content/dam/nera/publications/archive2/PUB_Short_Sale_Constraints_0413.pdf):

Note this is where I imagine chai is clarifying that negative rebate rate =/= negative cost to borrow:

>**Fewer than 1% of stocks (roughly seven per month) on loan become extremely**
>
>**special, demanding negative rebate rates (i.e., loan fees in excess of the risk-free**
>
>**rate).** Krispy Kreme Doughnuts and Palm Inc. are examples of such stocks,
>
>exhibiting loan fees as high as 50% and 35%, respectively.

https://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.409.150&rep;=rep1&type;=pdf

So yeah, shit can happen. Cause the secret ingredient.

TL;DR: Alongside GME, you've had stocks like Sears or even Krispy Kreme Donuts have negative cost to borrow in the past. So it shouldn't happen...but it does. Because crime.

EDIT: Just pulled up KKD's old ticker and historical FTDs and WTFFFFF you LITERALLY cannot even see the price back when it first started trading:

https://preview.redd.it/flxsgh2e29g81.png?width=1351&format;=png&auto;=webp&s;=7578e0213d27246d2d014a05ad5b275e5252732b

EDIT 2: If you're interested, NYU had a lecture on hard to borrow securities that heavily featured Krispy Kreme Donuts. Here's the link, from a 2009 class. I woulda posted it earlier but freaking wth reddit: [https://www.math.nyu.edu/\~avellane/Lecture13Quant.pdf](https://www.math.nyu.edu/~avellane/Lecture13Quant.pdf)

Some great slides like:

https://preview.redd.it/bwa4z8te29g81.png?width=1001&format;=png&auto;=webp&s;=b93f94196e6ffbccb7ab86ddee00ccbdc2ce72da

https://preview.redd.it/otsn9uhf29g81.png?width=1000&format;=png&auto;=webp&s;=7f91a944eca67574f26d06751c53d66abd072b19

It fucking squeezed or some shit from being so hard to borrow and even reached a high of $200!

Also this chart is alllll the fucking proof you need that negative cost to borrow rates exist. Don't let Ortex gaslight us:

https://preview.redd.it/4pru5mkg29g81.png?width=1099&format;=png&auto;=webp&s;=e4dc83a3a0c6a24eb81e38ddfca89dcd22cb3386

EDIT 3: words, pictures, bolding