

The \$7 trillion secret loan program: The government and big banks should be punished for deceiving the public about their hush-hush bailout scheme.

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The government and the big banks deceived the public about their \$7 trillion secret loan program. They should be punished.

Imagine you walked into a bank, applied for a personal line of credit, and filled out all the paperwork claiming to have no debts and an income of \$200,000 per year. The bank, based on these representations, extended you the line of credit. Then, three years later, after fighting disclosure all the way, you were forced by a court to tell the truth: At the time you made the statements to the bank, you actually were unemployed, you had a \$1 million mortgage on your house on which you had failed to make payments for six months, and you hadn't paid even the minimum on your credit-card bills for three months. Do you think the bank would just say: Never mind, don't worry about it? Of course not. Whether or not you had paid back the personal line of credit, three FBI agents would be at your door within hours.

Yet this is exactly what the major American banks have done to the public. During the deepest, darkest period of the financial cataclysm, the CEOs of major banks maintained in statements to the public, to the market at large, and to their own shareholders that the banks were in good financial shape, didn't want to take TARP funds, and that the regulatory framework governing our banking system should not be altered. Trust us, they said. Yet, unknown to the public and the Congress, these same banks had been borrowing massive amounts from the government to remain afloat. The total numbers are staggering: \$7.7 trillion of credit—one-half of the GDP of the entire nation. \$460 billion was lent to J.P. Morgan, Bank of America, Citibank, Wells Fargo, Goldman Sachs, and Morgan Stanley alone—without anybody other than a few select officials at the Fed and the Treasury knowing. This was perhaps the single most massive allocation of capital from public to private hands in our history, and nobody was told. This was not TARP: This was secret Fed lending. And although it has since been repaid, it is clear why the banks didn't want us to know about it: They didn't want to admit the magnitude of their financial distress.

The banks' claims of financial stability and solvency appear at a minimum to have been misleading—and may have been worse. Misleading statements and deception of this sort would ordinarily put a small-market player or borrower on the wrong end of a criminal investigation.

So where are the inquiries into the false statements made by the bank CEOs? And where are the inquiries about the Fed and Treasury officials who stood by silently as bank representatives made claims that were false, misleading, or worse?

Only now, because of superb analysis done by Bloomberg reporters—who litigated against the Fed and the banks for years to get the information—are we getting a full picture of the Fed and Treasury lending. The reporters also calculated that recipient banks and other borrowers benefited by approximately \$13 billion simply by taking advantage of the "spread" between their cost of capital in these almost interest-free loans and their ability to lend the capital.

In addition to the secrecy, what is appalling is that these loans were made with no strings attached, no conditions, and no negotiation to achieve any broader public purpose. Even if one accepts the notion that the stability of the financial system could not be sacrificed, those who dispensed trillions of dollars to private parties made no apparent effort to impose even minimal obligations to condition the loans on the structural reforms needed to prevent another crisis, made no effort to require that those responsible for creating the

crisis be relieved of their jobs, took zero steps towards the genuine mortgage-reform that is so necessary to begin a process of economic renewal. The dollars lent were simply a free bridge loan so the banks could push onto others the responsibility for the banks' own risk-taking.

If ever there was an event to justify the darkest, most conspiratorial view held by many that the alliance of big money on Wall Street and big government produces nothing but secret deals that profit insiders—this is it.

So what to do? The revelations of the secret loan program may provide the opportunity for Occupy Wall Street to suggest a few concrete steps that would be difficult to oppose.

First: Demand a hearing where the bank executives have to answer questions—under oath—about the actual negotiations, or lack thereof, that led to these loans; about the actual condition of each of the borrowing banks and whether that condition differed from the public statements made by the banks at the time.

Second: Require the recipient banks to use this previously undisclosed gift—the profit they made by investing this almost interest-free money—to write down the value of mortgages of those who are underwater. The loans to the banks were meant to solve a short-term liquidity problem, not be a source of profits to fund bonuses. Take back the profits and put them to a public use.

Third: Require the government officials responsible for authorizing these loans to explain why there was no effort made to condition these loans on changes in policy that would protect the public going forward.

Fourth: Ask congress to examine every filing and statement made to Congress by the banks about their financial condition and their indebtedness to see if any misrepresentations were made in an effort to hide these trillions of dollars of loans. Misleading Congress can be a felony, and willful deception of the Congress to hide the magnitude of the public bailouts should not go unprosecuted.

Finally: Demand that politicians return all contributions made by the institutions that got hidden loans. Pressure the politicians who continue to feed from the trough of Wall Street, even as they know all too well how the banks and others have gamed the system and the public.