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$2 Trillion False Flag At US Treasury

The Fed's Furtive Filching

By Barry_M_Ferguson
10-14-10

$2,000,000,000,000.00 dollars has been stolen from the US Treasury!! What happened? Who did it? Did they get away with it?

The answers: A 'false flag' event, the Federal Reserve, and yes.

The theft was planned. It started with a 'false flag' event in 2008. Much like the 'false flag' event of 2001 in which two planes somehow imploded three buildings, the false flag event of 2008 was a game changer. As you remember, the big banks had bankrupted themselves with derivative driven debt issuance that could not be repaid. The financial system was in peril. Or, so we were led to believe. We were told by the Treasury Secretary at the time that 'toxic illiquid assets were clogging up the system' and preventing the lending process from working. They needed immediate assistance and that assistance could only come from the Federal Reserve. All we had to do was to surrender the Treasury. Our Congress complied and the false flag ruse had worked again. The theft could proceed.

The Fed then proceeded to buy the 'toxic illiquid assets' from the big banks. In all, it was about $1,250,000,000,000.00 in MBS (Mortgage Backed Securities) paper - give or take a few hundred billion. Where did they get the money? The Treasury printed it by increasing the debt by virtue of Treasury note issuance. Bear in mind that the Federal Reserve is a for-profit privately owned bank. Now they own a lot of bad paper. How did they complete the theft?

At this time, let me bring in Mr. Brian Sack to the story. Mr. Sack is the executive vice-president of the markets group at the Federal Reserve Bank of New York. He is the manager of the System Open Market Account (SOMA) for the FOMC. Basically, he manages the trading for the Fed. Mr. Sack has a doctorate in economics from MIT. A word of foreshadow and caution. As I have written in the past, it seems that everyone that has served to screw up the economy has been spawned by MIT, Harvard, or U. Cal. Berkeley. I'm not hatin' I'm just sayin'! Anyway, Mr. Sack just gave a presentation to the CFA Institute on October 4, 2010. Here is the link if you want the whole speech: http://www.ny.frb.org/newsevents/speeches/2010/sac101004.html.

Mr. Sack explains the theft better than me.

'The initial decisions by the FOMC to expand the Federal Reserve's holdings of securities came at the height of the financial crisis. Before that time, the Federal Reserve maintained a relatively simple portfolio of between $700 billion and $800 billion of Treasury securities-an amount largely determined by the volume of dollar currency that was in circulation. In late November 2008, in the face of tightening financial conditions and a deep downturn in economic activity, the Federal Reserve announced that it would purchase up to $600 billion of agency debt and agency mortgage-backed securities (MBS). In March 2009, it expanded the program to include cumulative purchases of up to $1.75 trillion of agency debt, agency MBS, and longer-term Treasury securities. The use of the balance sheet in this manner was spurred in part by the inability to ease further using the traditional policy instrument, as the federal funds rate effectively reached the zero lower bound in late 2008.'

What Mr. Sack is telling us is the economy had deteriorated further and zero percent interest rates weren't helping. They saw a chance to help themselves to a heap of money. Uh, I mean they offered to help us dopes out of our mortgage debt nightmare. But then the Fed found itself with a lot of garbage paper. It had no intention of taking a loss. Continuing:

'Against that backdrop, an important policy decision regarding the Federal Reserve's portfolio was made at the August FOMC meeting, when the

Committee decided to halt this run-off and instead hold the size of the SOMA portfolio steady. To achieve this, the FOMC directed the Desk to purchase longer-term Treasury securities as needed to offset any principal payments realized on our holdings of agency debt and agency MBS.'

The 'illiquid toxic assets' were rotting on the Fed's balance sheet and they weren't about to take the losses. Mr. Sack offers that the Fed acknowledges that by buying Treasuries, that action serves to keep interest lower than they would be normally. Duh? I told you he had a doctorate from MIT! He goes on to make this point that the Fed wants to goose the stock market:

That effect should in turn boost other asset prices, as those investors displaced by the Fed's purchases would likely seek to hold alternative types of securities.'

The Fed buys Treasuries from the big banks. The big banks buy up stocks. Were you wondering why the market rallied in September? Here is where we get a tip that the garbage paper the Fed is holding is not 'maturing' through repayment but rather it is maturing through default. In other words, a $100 million dollar traunch of MBS paper that experiences a loan repayment would still leave the Fed with $100 million on the balance sheet. A decline would imply default. Let's listen:

'The decline in the size of the Federal Reserve's portfolio that would have occurred in the absence of the reinvestment program would have amounted to a passive tightening in the stance of monetary policy, as the portfolio balance effect would have gradually reversed.'

Okay, now the Fed has $2,000,000,000,000.00 in bad paper. How do they 'exchange' the bad MBS paper for Treasuries? They certainly can't sell the paper and if the paper matured with payment, there would be no need for further indebtedness. However, there is another alternative. They create the electronic money, and buy Treasuries from the shill banks who sold the Fed the garbage MBS paper. They can't just plop down $2t so they have to do a little at a time. Listen:

'To implement this directive, the Desk has been purchasing Treasury securities on a monthly schedule. In particular, we announce a plan around the middle of each month for the purchase operations to take place through the middle of the following month, once we know the principal repayments that will be received over that period. We are running at a pace of $27 billion in purchases this month, and we expect that pace to bump up to around $30 billion for the next several months. Looking further ahead, we currently project that the cumulative amount of principal payments on agency debt and agency MBS through 2011 will be somewhat higher than the estimates provided at the August FOMC meeting.'

Mr. Sacks just explained the Fed's POMO (Permanent Open Market Operations). They are only buying shorter term maturity Treasuries.

'The reinvestment strategy, of course, also involves a reallocation of our portfolio from agency debt and MBS into Treasury securities.'

I suppose one man's 'reallocation' is another man's theft. Maybe we should change the term 'bank robber' to 'monetary reallocater'!

Now Mr. Sack intimates that we are being scammed. Listen:

'Nevertheless, balance sheet policy can still lower longer-term borrowing costs for many households and businesses, and it adds to household wealth by keeping asset prices higher than they otherwise would be.'

In other words, our wealth is an illusion perpetrated by the Fed. It is, inflated. But didn't Bernanke say he was worried about 'deflation''? Oh, the mendacity! Thank you, Mr. Sack.

Maybe I've got this all wrong but here is the way it seems to me. Going into 2009, the Fed had $700 billion to $800 billion on their balance sheet. The holdings were mostly Treasuries. Through the early months of 2009, they bought $1.75 trillion dollars of 'toxic illiquid asset' debt from America's biggest banks. Where did the Fed get the money for the purchases? The conjured it from our Treasury, of course. So now the 'toxic illiquid assets' are 'maturing' or defaulting. If the garbage is maturing, the original notes are getting paid and the Fed is accumulating cash in place of the notes. If the garbage is defaulting, the Fed is losing money. If the Fed is getting repaid on the garbage, and they got the original money from the Treasury in the first place, shouldn't they then return the money to the Treasury so the US government can pay down debt? If the Fed is losing money, isn't that the chance they took? I guess that's not the way a 'stick up' works!

What have we learned, kids? Well, the Fed has perpetrated this heist and they are going to get away with it. They are now engaged in QE2 that appears to be an exercise in laundering the garbage for Treasuries. Instead of returning any money back to the Treasury, they are exchanging the garbage for Treasuries. Thus, the Fed's balance sheet will remain in the $2,000,000,000,000.00 range and they have effectively pulled off the most successful heist in history. And to make it worse, we are going to have to pay them interest on the looted Treasuries! Seems Nancy Pelosi and her crew are about as competent as Asa the old bank guard on the Andy Griffith show. History should always be recorded properly.

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