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Excess Reserves at the Federal Reserve. One of The Biggest Financial Scams In History: A Whopping US$1.794 Trillion

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Banks' excess reserves at FED is one of the biggest scam by the FED and there is a conspiracy of silence as to its actual implications. Economists and financial analysts spewing nonsense to mislead and divert attention to non-issues so that the public is kept in the dark.

The issue of banks' reserves at the FED and other central banks in the world is a complex subject with much technical jargons that confuses a lot of people. Besides, don't be surprised that your bank branch manager on Main Street as well as lecturers in finance and economics are also ignorant on this issue. In the case of the latter, this subject is hardly taught in universities. And this is the reason why the scam has not been exposed till today.

But, for those who have a basic idea of bank reserves and how this huge amount of "excess reserves" have been created by the FED, have you asked yourself, "Why have I not spotted this scam earlier?"

Many have been taken in by the propaganda that "excess reserves" is the means to encourage banks to extend credit (give out loans) to desperate borrowers who needed urgent funds to survive and to jump-start their businesses. This propaganda is grounded on the assumption that there is insufficient liquidity in the market.

This assumption is misleading.

What are Excess Reserves

The latest figures obtained from the H.3 release from the Board of Governors of the Federal Reserve System (the FED) shows excess reserves of about $1.794 trillion (data as of April 17, 2013), This level of excess reserves is unprecedented and is the highest since reserves were legislated as a requirement.

Please read the below paragraph carefully, ponder deeply before proceeding further. Don't rush. It is important that you understand this simple fact as otherwise you would not appreciate the audacity of this financial scam!

Excess reserves are the surplus of reserves against deposits and certain other liabilities that depository institutions (collectively referred to as "banks") hold above the statutory amounts that the FED requires in accordance with the law. The general requirement is that banks maintain reserves at least equal to ten percent of liabilities payable on demand. There is now data to show that as much as 50% of these "excess reserves" are held for

United States banking offices of foreign banks.

Let me elaborate. Banks receives deposits from their customers which are inter-alia placed in current accounts (checking accounts) or time deposits (fixed deposit accounts) and which the customer can at any time withdraw from the bank. But, banking practice shows that at any one time, only a small fraction of customers would withdraw their deposits in full. So, there was no need for banks to keep all the deposits in their vaults to meet such a demand for payment. Laws were enacted to allow banks to keep in reserve a small amount of monies to meet such demands.

That being the case – if only 10% reserves is all that is required according to banking regulations to meet repayment demands, why should there be such a huge amount of reserves, beyond the legal requirement of 10%?

Keep this question at the back of your mind to understand the huge scam by the FED.

A Slight Digression

In a previous article, I had exposed the fact that when a customer deposits monies in a bank, he is in law a "creditor" (he has loaned the monies to the bank) and the bank is a "debtor" (and he can use the money in any way at his absolute discretion, even to speculate).

This is because the ownership of the money has been transferred to the bank. The money is no longer the money of the customer. It now belongs to the bank. And as long as the bank is solvent, and there is a demand for repayment of the deposit, the law of contract stipulates that the bank must repay together with the agreed interest that has accrued.

However, if at the time when demand for repayment is made, the bank is bankrupt (i.e. in a liquidation) then the depositor/customer in law is deemed an "unsecured creditor" and must join the queue of all unsecured creditors to share the proceeds of any remaining assets after all secured creditors have been paid. If there are no remaining assets, the depositors get zilch! Ouch!!!!!!

That is why and as illustrated in the bank confiscation of deposits in Cyprus banks acting in concert with central banks can expropriate all customers' deposits to pay their secured creditors.
I will elaborate on this issue later.

Let's return to the issue of excess reserves.

How Did The Excess Reserves Balloon To A Massive US$1.794 Trillion? A Simple Summary

The Fed's overall balance sheet has expanded from about $909 billion before the crisis (i.e. before 2008) to about $3.3 trillion in 2013. Of the $2.4 trillion increase, approximately $1.8 trillion is excess reserves.

Banks were up to their eyeballs in toxic assets (financial sewage) and they are drowning in this cesspool but for the rescue efforts of the FED and other central banks they would have sunk to the bottom of the cesspool.

First Stage of Excess Reserves Scam

From the diagram below, you will see that the FED created trillions of money out of thin air by a digital entry in its books to purchase the toxic assets (financial sewage) in batches from the banks. The objective of QEs is to save the banks and to save the US Treasury from bankruptcy and not Joe Six-Packs. However, in this article we are focusing on the banks.

So, let's say that the banks HAVE OVER US$10 trillion of financial sewage AND WANT TO DISPOSE THEM WITHOUT AROUSING ANY ALARM.

From the diagram below, you will see the monies flowing from the FED to the banks to purchase the financial sewage. The financial sewage is sucked into the FED's financial vacuum. However the monies are not channeled to the banks' branches in Main Street to be loaned out to Joe Six-Packs. It is re-routed back to the FED as "reserves". When the reserves exceed the minimum 10% requirement, the excess is classified as "excess reserves."

This is merely a book entry! And adding insult and injury to Joe Six-Packs, interest of 0.25% is paid on the reserves (i.e. giving profits to the banks).

The banks are allowed to survive in spite of their massive frauds and other financial hanky-pankies. The banks are allowed to use digital technology (e.g. high-frequency trading) to corner the market and destroy Joe-Six-Packs. But, Joe-Six-Packs have to suffer the indignity of unemployment, foreclosures, reduced unemployment benefits, survive on food-stamps, and other austerity measures. Additionally, and to prevent any opposition to the financial and ruling elites, Joe-Six-Packs are now under intense surveillance by NSA's Prism Program that tracks every move, phone calls, emails, etc.
Can you now see the audacity of this scam?

> *The money flows from the FED to the Too Big To Fail (TBTF) Banksters to Buy Toxic Assets, which is sucked in by the FED's Financial Vacuum, thereby cleansing the TBTF banks' balance sheets. The money is then re-routed back to the FED as "excess reserves".*

The FED create monies out of thin air to bail-out the Too Big To Fail banks (TBTF banks) by purchasing their financial sewage (valued at book value as opposed to mark-to-market i.e. instead of paying only 10 cents on the dollar or less, the FED pays dollar for dollar) thereby removing the financial sewage from the balance sheet of the TBTF banks to reflect a "healthier" balance sheet as there are now less financial sewage in the banking system.

And, because the TBTF banks are suffering losses, the FED pays 0.25% interest on the "excess reserves" created so as to generate easy profits for the TBTF banks for doing nothing at all. They are earning profits merely from a book-entry in the FED's books!

The propaganda which I referred to earlier that such monies were meant to enable the TBTF banks to extend credit is therefore bullshit and a load of financial nonsense. So why are the so-called reputable economists at leading universities such as Harvard, Princeton, Cambridge, Oxford etc. touting this propaganda?

There is so much financial sewage in the banking system, that in law the banks cannot extend further credits to Joe Six-Packs unless and until the balance sheets of the TBTF banks are cleaned up, and the banks properly re-capitalised to continue with their banking business. (See Basel III Accords).

The so-called record profits declared by the TBTF banks and the huge bonuses given out to the bankers and their hire-lings are all window dressing as long as the toxic assets are not marked-to-market and not declared as junk. If such assets are properly declared, the fiat money banking system would be staring at a bottomless black-hole of toxic assets and indebtness!

This is the reason why QE has to continue. The QE programs are to drain the financial sewage from the banking system.

I had earlier stated that banks are required at have at least 10% of the deposits as reserves.

This has compounded the problem. After the Global Financial Tsunami, all the TBTF banks don't have enough reserves to meet the withdrawal of deposits placed by customers before the crash. The TBTF banks don't even have the requisite 10% reserves to meet these demand deposits (Old Deposits). That is why this scam was perpetrated by the FED as illustrated in the above diagram.

However, banks are continuing to receive deposits from customers of which 10% of these deposits must be transferred to the FED as reserves.

Under the fractional reserve banking system, the banks are allowed and can loan out the remaining 90% of the deposits as loan by a multiplier of ten – i.e. if new deposits total US$100 million, US$10 million will be transferred to reserves to meet withdrawals as explained above. By fractional reserve banking principles, the bank can loan out (based on a multiplier of ten) US$90 million x 10 = US$900 million. Data shows that customers' deposits are at an all time high (since 2007), but bank lending is not keeping pace.

Banks are not lending out what they are entitled to do so for two reasons:

1) The banks are using a portion of the "New Deposits" to meet the liability of having to repay the "Old Deposits" in the system. This is because even the excess reserves (created under the QE) are insufficient to meet the demand for repayment of the Old Deposits. So, part of the current New Deposits would be utilised for that purpose. This is the Deposit Ponzi Scheme.

2) Banks are earning no risk profits from interests on "Excess Reserves" at the FED and are only willing to lend to credible borrowers. In the present economic climate, there are just too few credible customers. This is another reason why banks are not lending.

Therefore, and as stated earlier, the problem is not liquidity but rather, it is and always has been the insolvency of the TBTF banks and the financial sewage clogging the entire fiat money banking system.

Food For Thought

> *"Reserves don't even factor into my model, that's not what causes inflation and not how the Fed stimulates the economy. It's a side effect."* – Former Fed Governor Laurence Meyer, co-founder of Macroeconomic Advisers

Second Stage of Excess Reserves Scam

If and when the economy recovers (maybe 2019??), the FED will repackage the toxic assets

into new financial products to be sold to a new generation of stupid investors. Banks are not even required to pay, as the monies are still kept with the FED (book entry). In this final transaction, there will be a reverse-entry in the banks' books.

Laurence Meyer is saying what many has deliberately ignored and or missed out completely. When QE stops, the FED would not be out on a limp because the monies used to purchase the financial sewage from the TBTF banks are still in the FED's books.

The Fed need only to have a reverse entry in it's books after re-packaging the financial sewage INTO SOME NEW FORM OF FINANCIAL PRODUCT OR WHATEVER (which the TBTF banks are adept at doing before the crash and are still continuing to do so) and dumping them back to the banks and another generation of stupid investors at such time when and if the banks have recovered – maybe 2019?

Further, with the bank's unbridled right (sanctioned by law) to confiscate the customers' deposits (now commonly referred as "Bail-In") using the Cyprus template, banks have additional financial resources to continue with the plunder and financial rape of the public. Wake Up, I rest my case.

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