

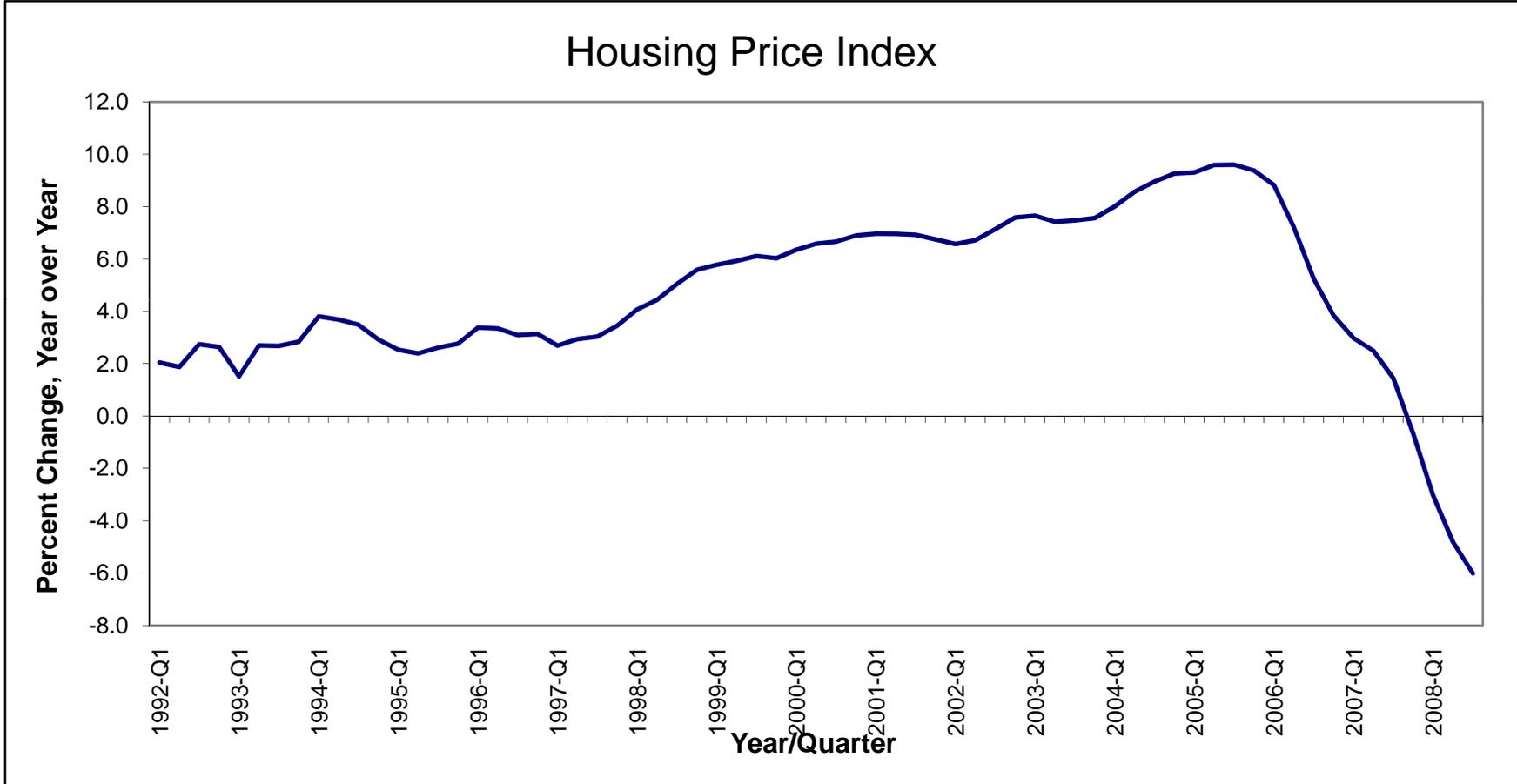
# Day At The Fed

John Walter

April 14, 2009



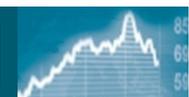
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- Housing market problems shifted to financial markets in Summer 2007 – Losses at financial institutions across major countries
- Unclear which financial institutions held worst loans
  - Mortgages had been sliced and resold
- Uncertainty about how bad problems would become
- Financial institutions and investors became highly conservative

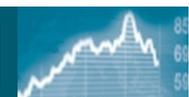




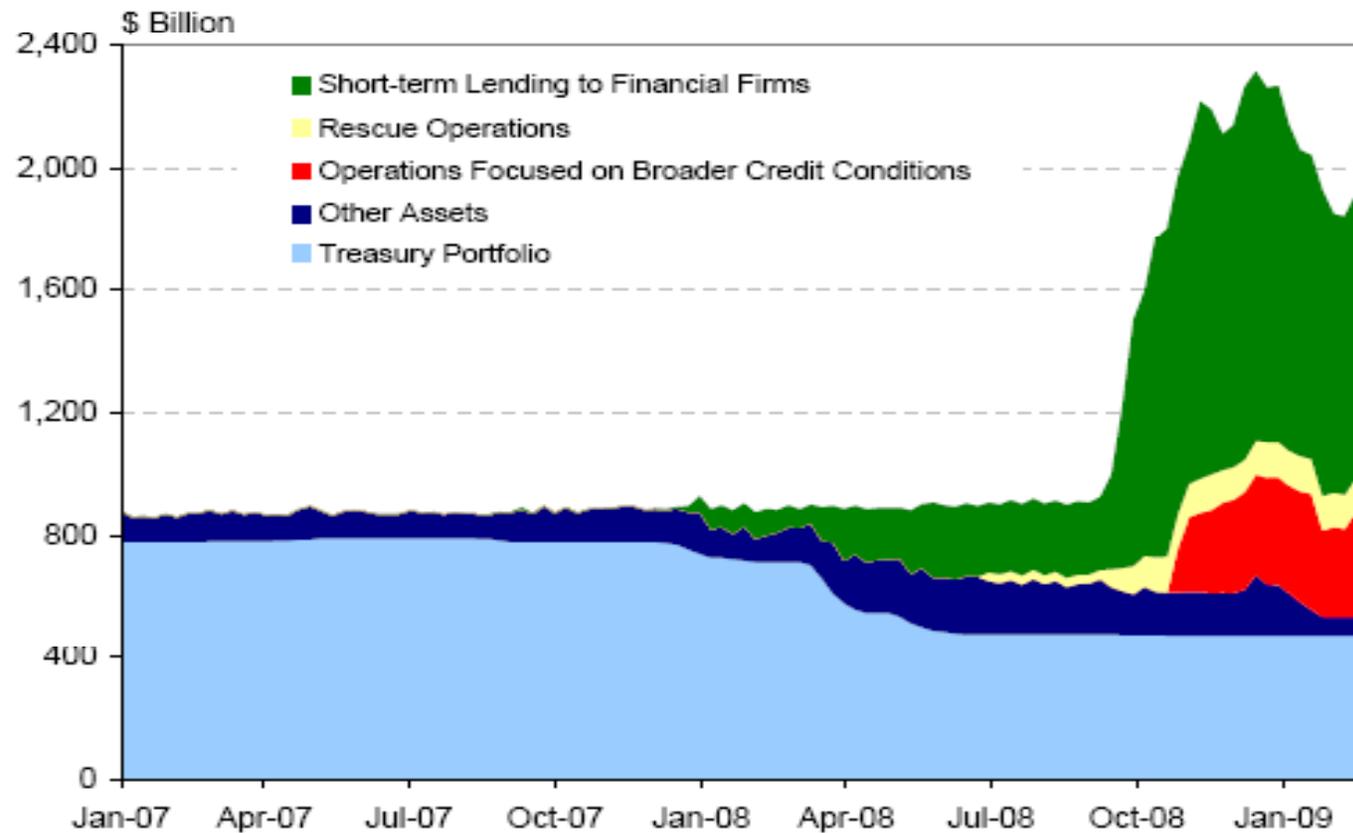


- Relief programs began in fall of 2007
- Goal of programs
  - Provide a tranfusion
  - Provide funding to lenders – so that they would be willing to lend to consumers and businesses
- The Federal Reserve introduced a total of 15 programs
  - FDIC has introduced several of its own as has the Treasury



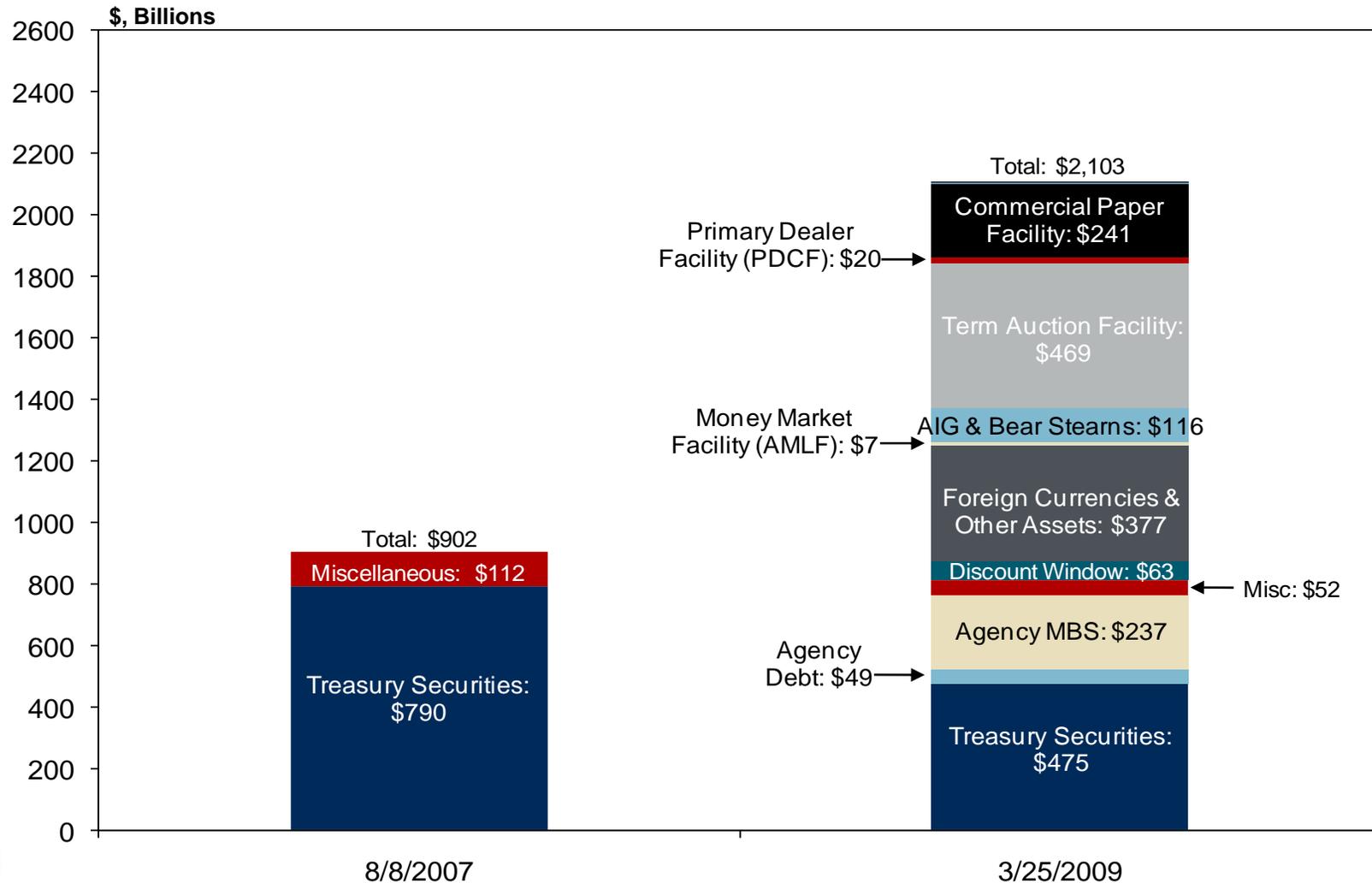


### Federal Reserve Balance Sheet





# Federal Reserve System Assets



Notes: Term ABS Lending Facility (TALF) holdings are less than \$1 billion as of 3/25/09.



Forms of Federal Reserve Lending to Financial Institutions

	Regular OMOs	Single-Tranche OMO Program (announced March 7, 2008)	Discount Window <sup>1</sup>	Term Discount Window Program (announced August 17, 2007)	Term Auction Facility (announced December 12, 2007)	Primary Dealer Credit Facility (announced March 16, 2008) <sup>2</sup>	Transitional Credit Extensions (announced September 21, 2008)	Reciprocal Currency Arrangements (first announced December 12, 2007) <sup>3</sup>	Securities Lending	Term Securities Lending Facility (announced March 11, 2008) <sup>4</sup>	Term Securities Lending Facility Options Program <sup>4</sup> (announced July 30, 2008)	ABCP Money Market Fund Liquidity Facility (announced September 19, 2008) <sup>5</sup>	Commercial Paper Funding Facility (announced October 7, 2008)	Money Market Investing Funding Facility (announced October 21, 2008)	Term Asset-Backed Securities Loan Facility <sup>5</sup> (announced November 25, 2008)
Who can participate?	Primary dealers	Primary dealers	Depository institutions	Primary credit-eligible depository institutions	Primary credit-eligible depository institutions	Primary dealers	U.S. and London broker-dealer subsidiaries of Goldman Sachs, Morgan Stanley, Merrill Lynch	Select central banks to lend on to banks in their jurisdiction <sup>3</sup>	Primary dealers	Primary dealers	Primary dealers	Depository institutions, bank holding companies, U.S. branches and agencies of foreign banks	Eligible CP issuers <sup>6</sup>	Eligible Money Market Mutual Funds <sup>7</sup>	All U.S. persons that own eligible collateral
What are they borrowing?	Funds	Funds	Funds	Funds	Funds	Funds	Funds	U.S. Dollars	U.S. Treasuries	U.S. Treasuries	U.S. Treasuries	Funds	Funds	Funds and subordinated note	Funds
What collateral can be pledged?	U.S. Treasuries, agencies, MBS <sup>8</sup>	U.S. Treasuries, agencies, MBS, agency MBS, but typically agency MBS	Full range of Discount Window collateral	Full range of Discount Window collateral	Full range of Discount Window collateral	Full range of tri-party repo system collateral <sup>9,10</sup>	Full range of Discount Window collateral and tri-party repo system collateral <sup>10</sup>	Central banks pledge foreign currency and lend against eligible collateral in their jurisdiction	U.S. Treasuries	Schedule 1: U.S. Treasuries, agencies, agency MBS Schedule 2: Schedule 1 plus all investment grade debt securities <sup>3</sup>	Schedule 2 TSLF collateral	First-tier ABCP	Newly issued 3-month unsecured and asset-backed CP from eligible U.S. issuers	U.S. dollar-denominated certificates of deposit, bank notes and commercial paper issued by highly rated financial institutions	Recently originated U.S. dollar-denominated AAA ABS <sup>11</sup>
Is there a reserve impact?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No (loans are bond-for-bond)	No (loans are bond-for-bond)	No (loans are bond-for-bond)	Yes	Yes	Yes	Yes
What is the term of loan?	Typically, term is overnight-14 days <sup>12</sup>	28 days <sup>13</sup>	Typically overnight, but up to several weeks <sup>14</sup>	Up to 90 days <sup>15</sup>	28 days or 84 days <sup>15,16</sup>	Overnight	Overnight	Overnight to 3 months	Overnight	28 days <sup>17</sup>	Typically 2 weeks or less <sup>17</sup>	ABCP maturity date (270-day maximum)	3 months	N/A	At least one year
Is prepayment allowed if term is greater than overnight?	No	No	Yes	Yes	No	N/A	N/A	Yes	N/A	No	No	No	N/A	N/A	Yes
Which Reserve Banks conduct operations?	FRBNY	FRBNY	All	All	All	FRBNY	FRBNY	FRBNY	FRBNY	FRBNY	FRBNY	FRB Boston	FRBNY	FRBNY	FRBNY
How frequently is the program accessed?	Typically once or more daily	Typically weekly	As requested (standing facility)	As requested (standing facility)	Every other week, or as necessary <sup>18</sup>	As requested (standing facility)	As requested (standing facility)	Typically on schedule with FRBNY TAF auctions or as requested by central banks	Daily	Schedule 1: Every other week Schedule 2: Weekly	As necessary <sup>19</sup>	As requested (standing facility)	As requested (standing facility)	As requested (standing facility)	Monthly
Where are statistics reported publicly?	Temporary OMO activity <sup>15</sup>	Temporary OMO activity <sup>19</sup>	H.4.1 - Factors Affecting Reserve Balances <sup>20</sup>	H.4.1 - Factors Affecting Reserve Balances <sup>21</sup>	TAF Activity <sup>19</sup>	H.4.1 - Factors Affecting Reserve Balances <sup>22</sup>	H.4.1 - Factors Affecting Reserve Balances <sup>22</sup>	H.4.1 - Factors Affecting Reserve Balances <sup>24</sup>	Securities lending activity	Term securities lending facility activity <sup>15</sup>	Term securities lending facility options program activity <sup>19</sup>	H.4.1 - Factors Affecting Reserve Balances <sup>20</sup>	H.4.1 - Factors Affecting Reserve Balances <sup>20</sup>	H.4.1 - Factors Affecting Reserve Balances <sup>20</sup>	TALF activity <sup>19</sup>





## Loan Facility -- Term Auction Facility

- Begun in December 2007 – currently \$470 billion
- Term loans (up to 84 days) vs. typical Fed lending – overnight
- Avoids stigma associated with typical Fed lending



## Asset Purchases – Commercial Paper

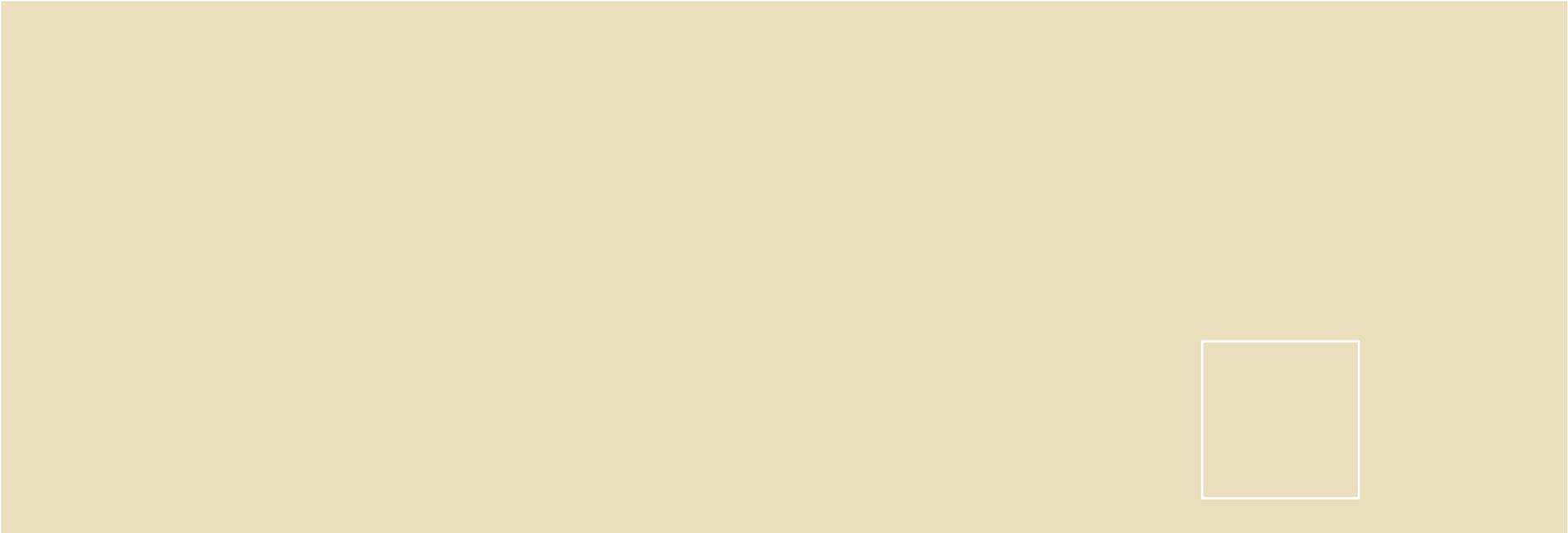
- Commercial Paper Facility – purchases top-quality CP
- Currently holds \$251 billion
- Response to rapid shrinkage in the CP market in September 2008
- Meant that some corporations had trouble funding their activities
- Fed began purchasing to ease conditions for corporate borrowers, lessening the impact of financial turmoil on overall economy



## Conclusions

- Broad declines in home prices led to defaults on loans
- Many financial firms were heavily exposed to home loans so began to suffer financial problems
- Financial markets tightened up significantly
- Fed stepped in with a number of interventions meant to prop up
- Financial markets do seem to be on the mend





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