

Monetary Policy: A New Tool(s)



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**The views expressed are those of the speaker and should not necessarily be attributed to the Federal Reserve Bank of Dallas or the Federal Reserve System.*

Liquidity Problems: The Fed's Response

- Lowered the federal funds rate and discount rate
 - Narrowed spread
 - Term lending from discount window
- Enhanced Lending to Financial Institutions
 - Term Auction Facility
 - Term Securities Lending Facility
 - Primary Dealer Credit facility
- Coordinated actions with other central banks
 - Swap lines with ECB and Switzerland
 - Additional term lending by England and Canada

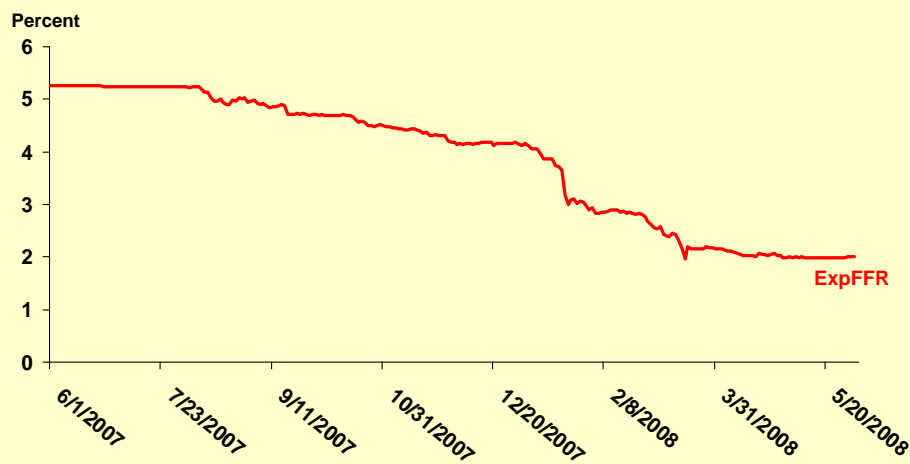


How TAF Works

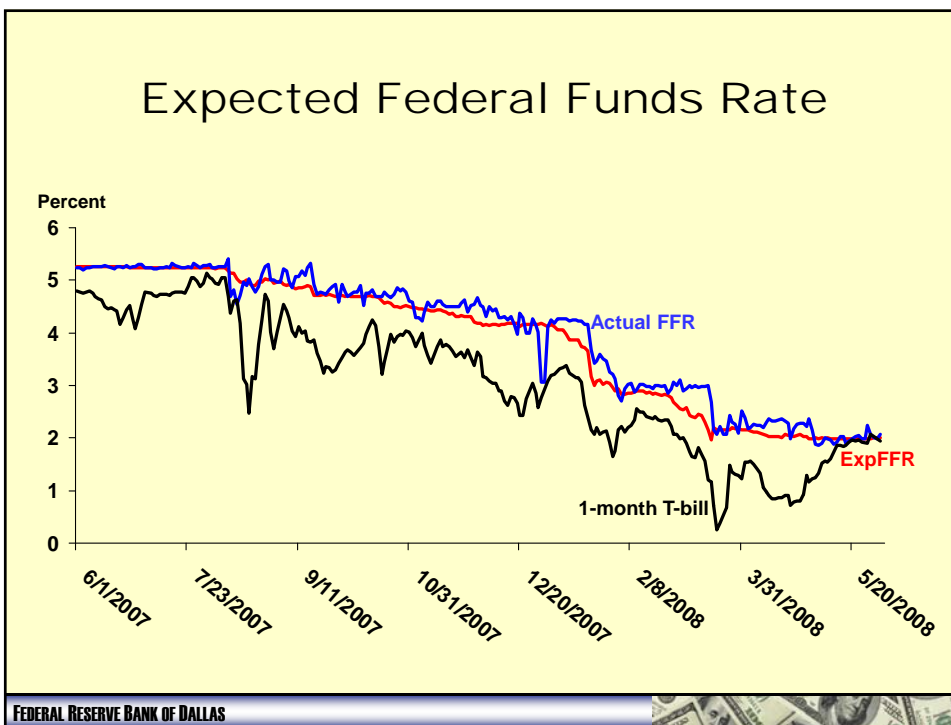
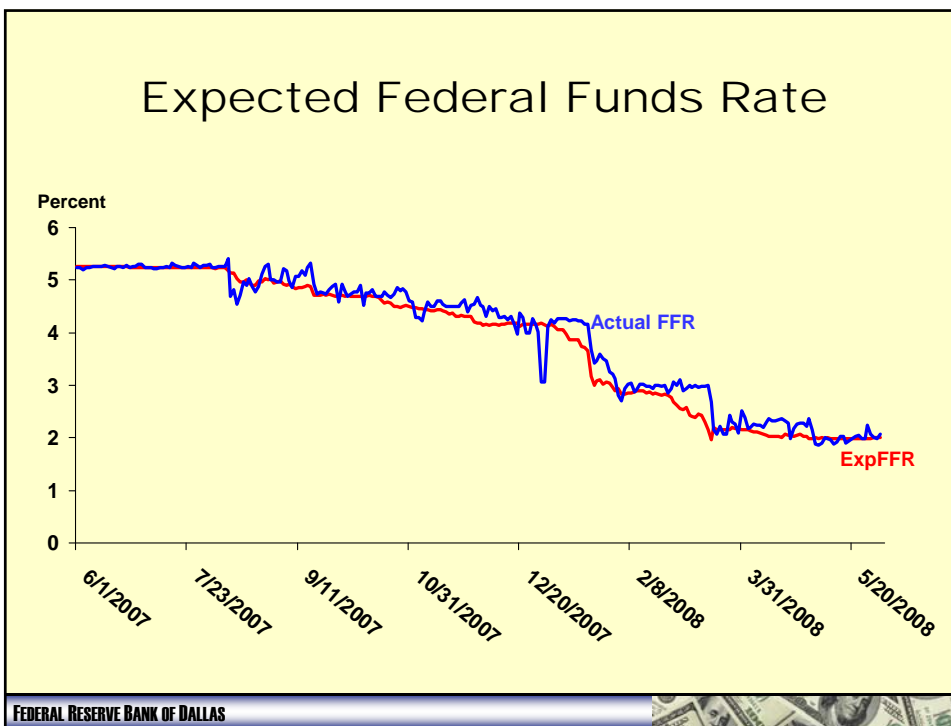
- Term funds of one month maturity
- Sound financial condition and eligible to borrow at the discount window
- Fully collateralized
- Offering amount determined by Chairman
- Minimum bid of \$5 million, maximum bid 10% of offering amount
- Advances cannot exceed 50% of available collateral
- Minimum bid rate based on expected federal funds rate
- “Stop-out rate” determined by auction process

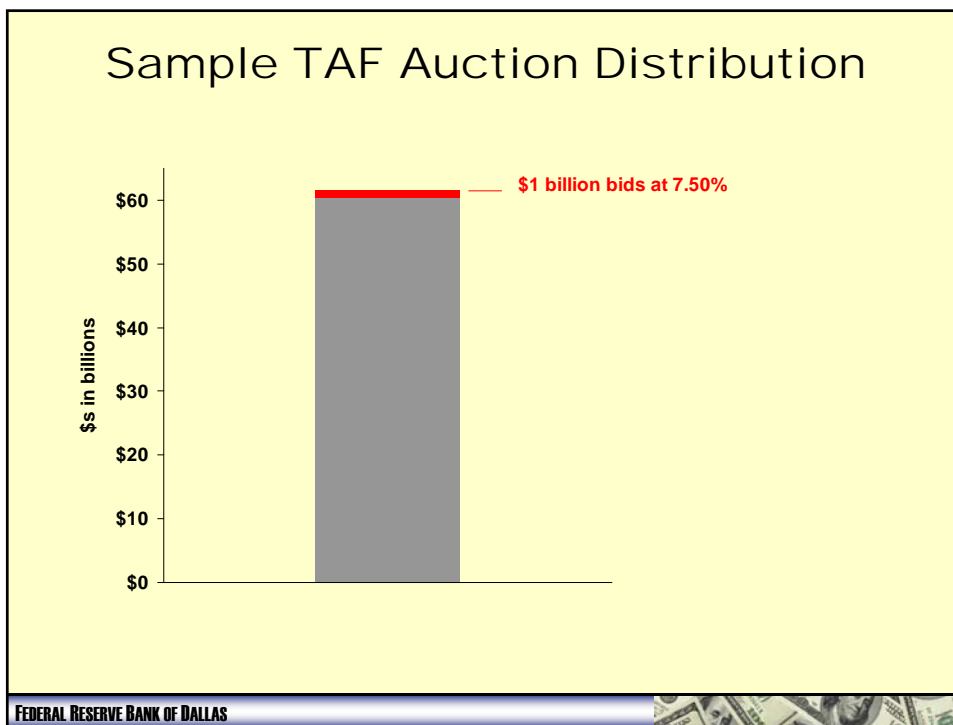
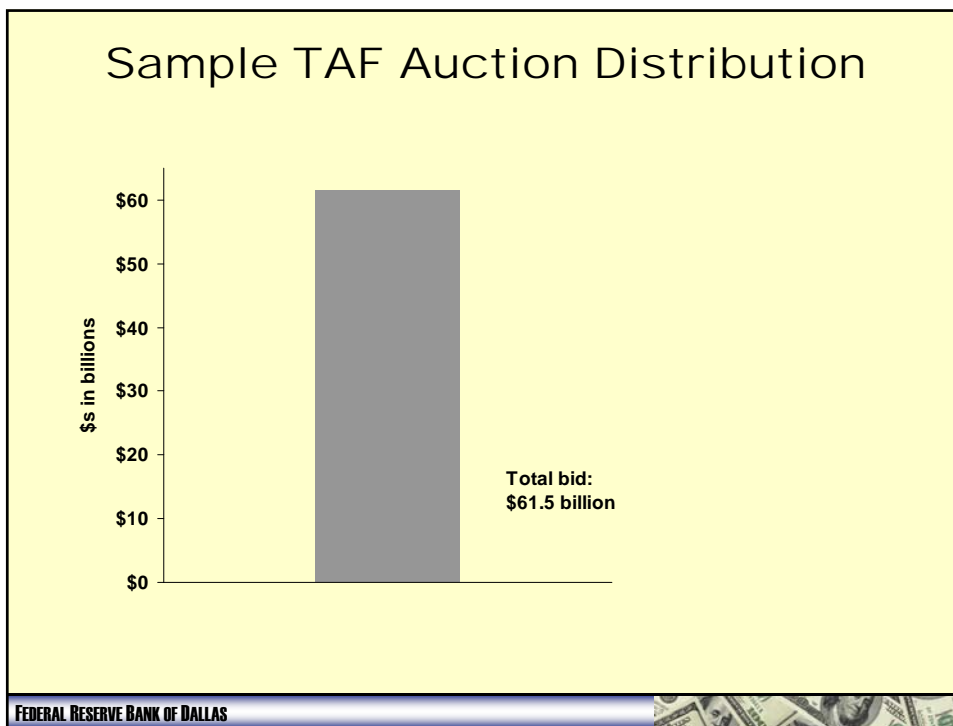
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Expected Federal Funds Rate

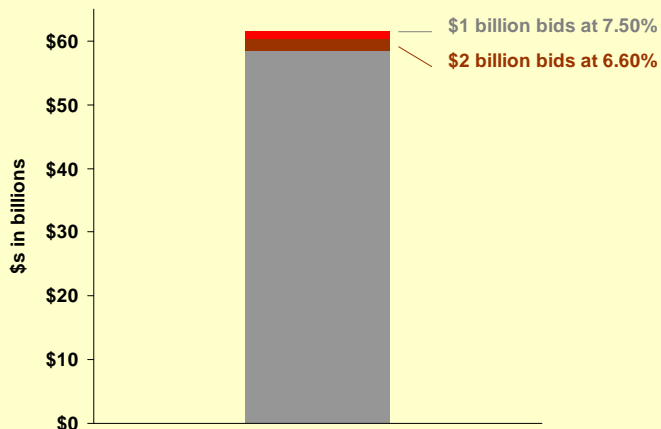


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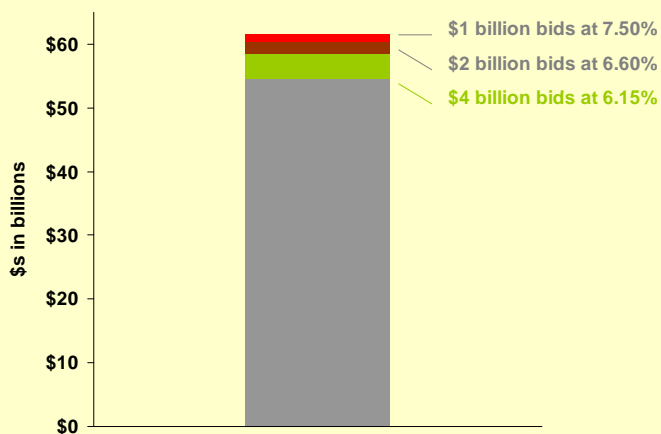


Sample TAF Auction Distribution



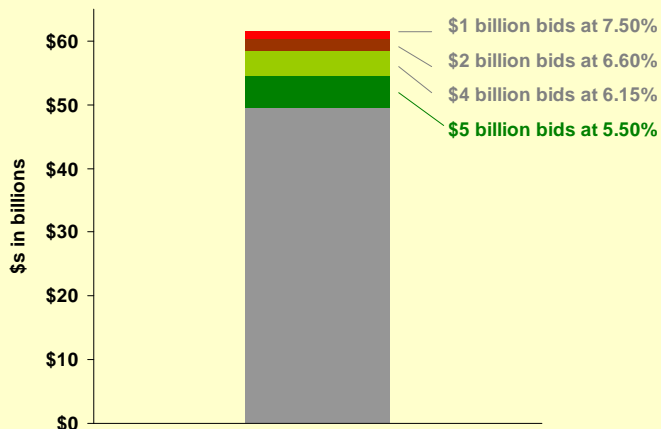
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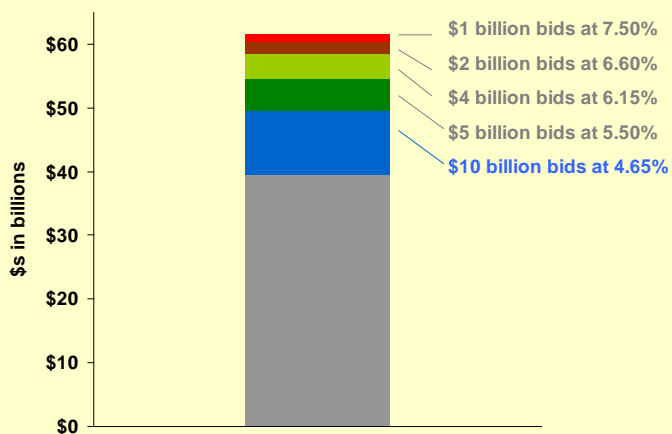
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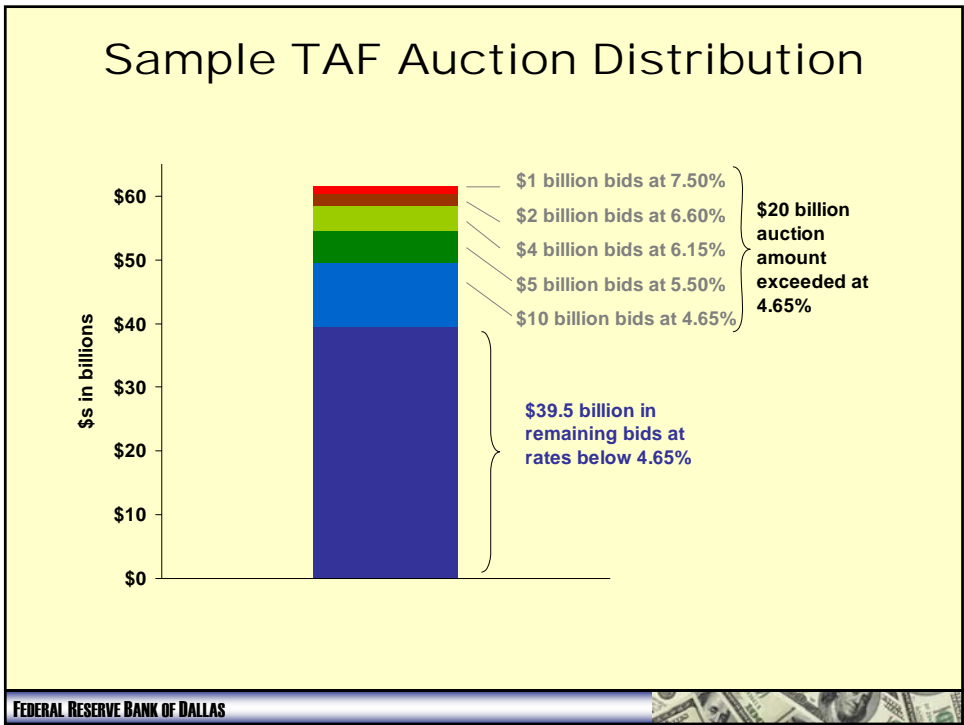
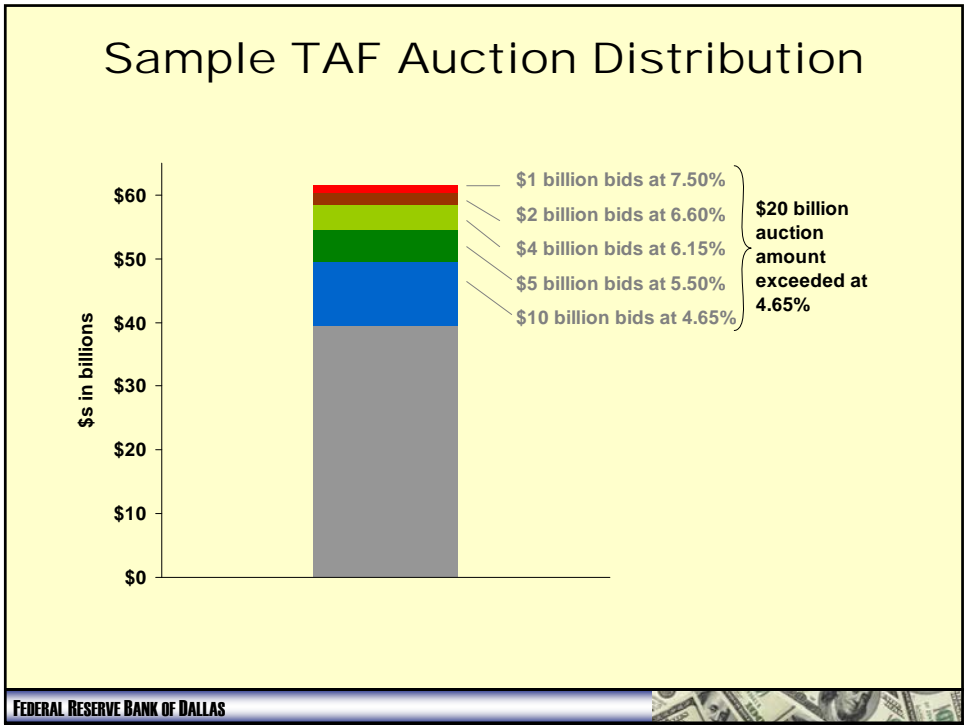


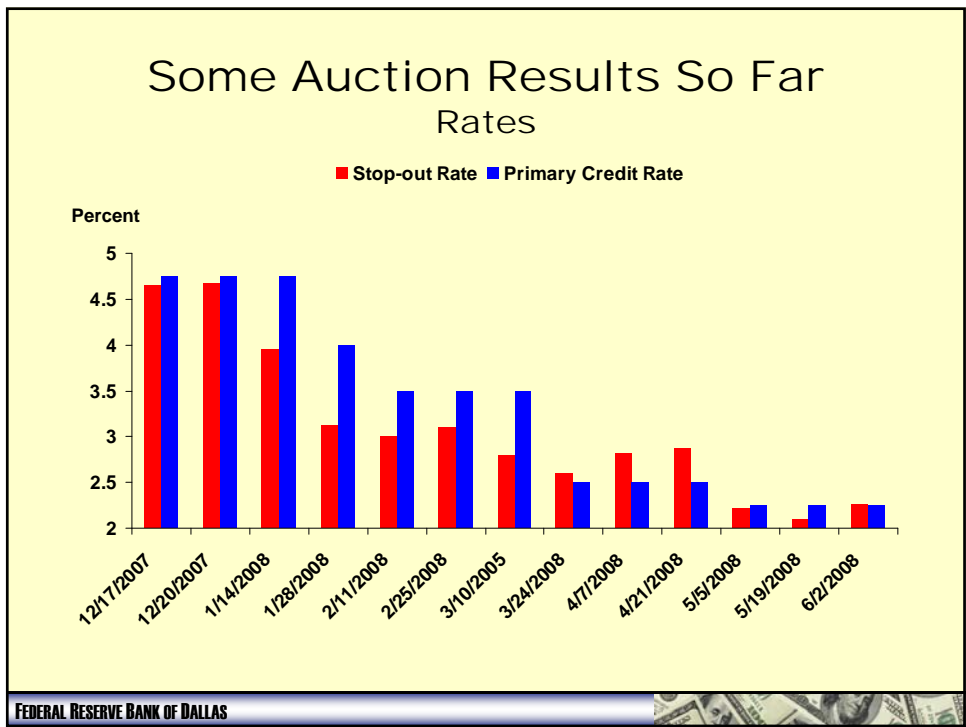
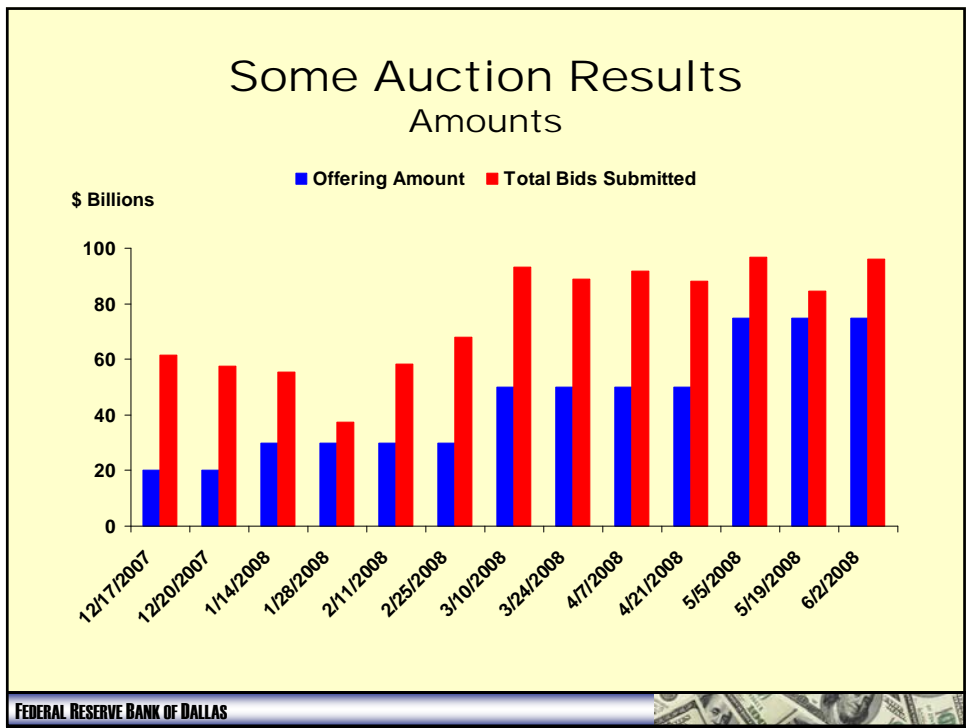
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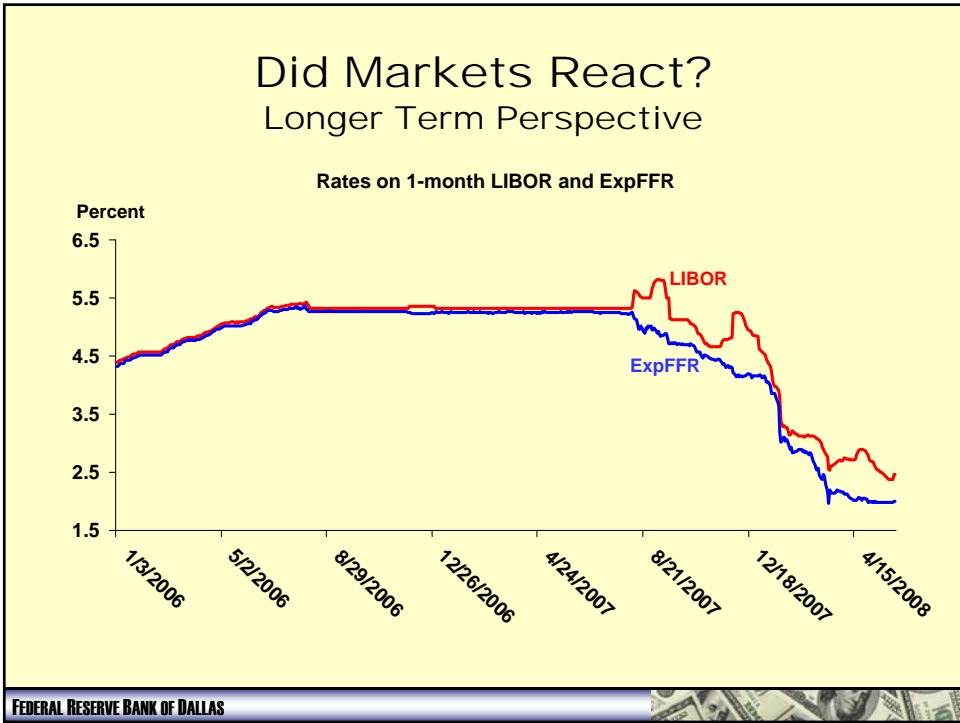
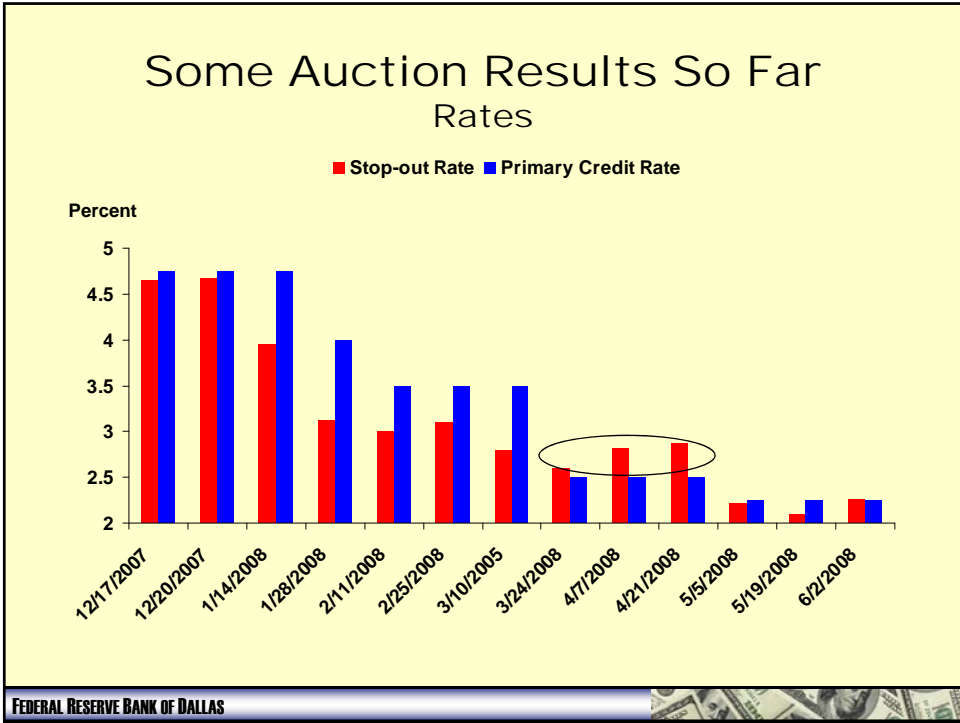
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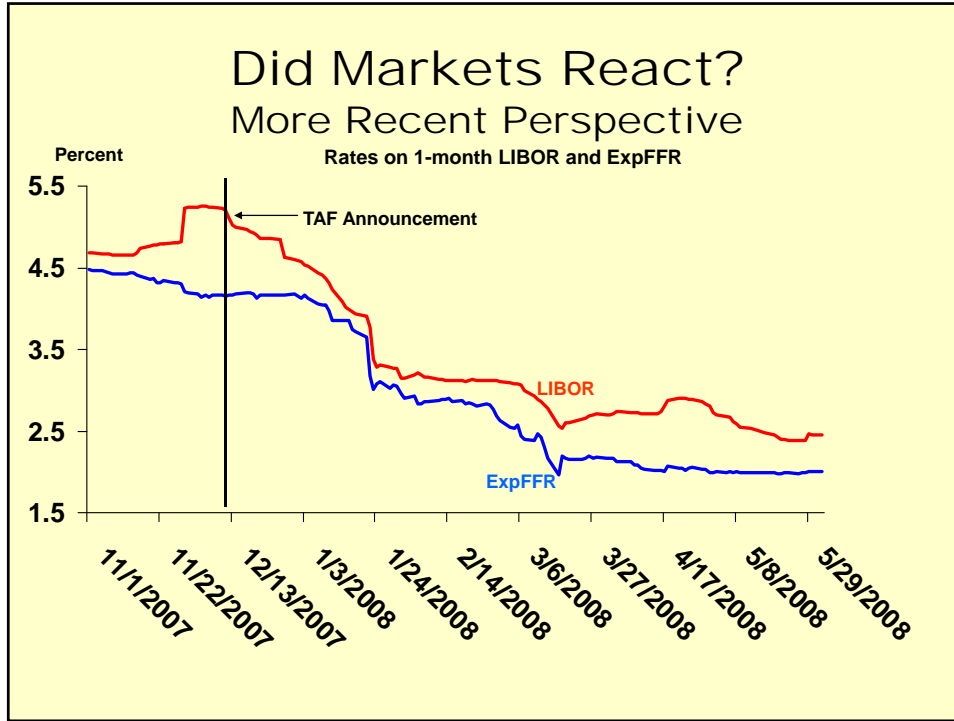


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FEDERAL RESERVE statistical release

H.4.1
Factors Affecting Reserve Balances of Depository Institutions and
Condition Statement of Federal Reserve Banks

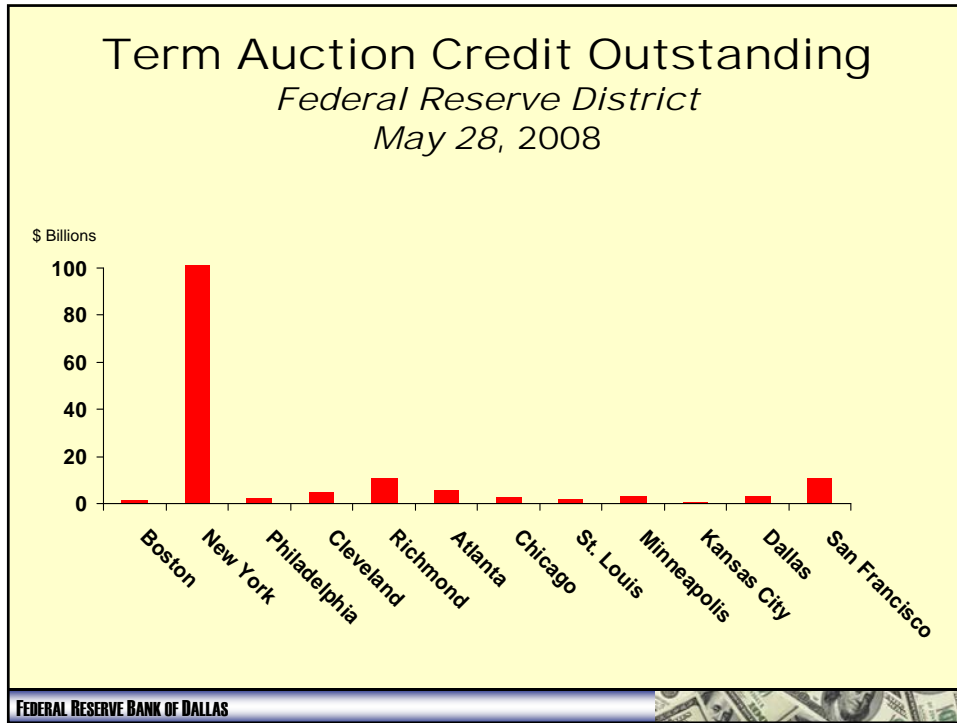
May 29, 2008

1. Factors Affecting Reserve Balances of Depository Institutions

Millions of dollars

| Reserve Bank credit, related items, and reserve balances of depository institutions at Federal Reserve Banks | Week ended May 28, 2008 | Averages of daily figures | | Wednesday May 28, 2008 |
|--|----------------------------|---------------------------|------------------|---------------------------|
| | | Change from week ended | | |
| | | May 21, 2008 | May 30, 2007 | |
| Reserve Bank credit | 878,001 | + 6,796 | + 24,419 | 887,657 |
| Securities held outright | 491,064 | - 11,767 | - 299,172 | 491,091 |
| U.S. Treasury ¹ | 491,064 | - 11,767 | - 299,172 | 491,091 |
| Bills ² | 34,296 | - 6,859 | - 242,723 | 34,296 |
| Notes and bonds, nominal ³ | 412,392 | - 4,999 | - 62,280 | 412,392 |
| Notes and bonds, inflation-indexed ⁴ | 39,171 | 0 | + 4,712 | 39,171 |
| Inflation compensation ⁵ | 5,206 | + 92 | + 1,119 | 5,232 |
| Federal agency ⁶ | 0 | 0 | 0 | 0 |
| Repurchase agreements ⁴ | 105,036 | - 18,321 | + 79,179 | 115,000 |
| Term auction credit | 150,000 | + 25,000 | + 150,000 | 150,000 |
| Other loans | 28,335 | + 544 | + 28,207 | 29,222 |
| Primary credit | 15,950 | + 2,414 | + 15,944 | 19,041 |
| Secondary credit | 1 | + 1 | + 1 | 0 |
| Seasonal credit | 54 | + 8 | - 68 | 56 |
| Primary dealer credit facility | 12,329 | - 1,880 | + 12,329 | 10,125 |
| Other credit extensions | 0 | 0 | 0 | 0 |
| Float | -1,117 | - 202 | + 298 | -1,785 |
| Other Federal Reserve assets | 104,684 | + 11,544 | + 65,909 | 104,130 |
| Gold stock | 11,041 | 0 | 0 | 11,041 |
| Special drawing rights certificate account | 0 | 0 | 0 | 0 |

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Term Securities Lending Facility

- Fed to lend up to \$200 billion of Treasury securities to primary dealers
- Term lending of 28 days
- Lending secured by agency and non-agency mortgage-backed securities
- To promote liquidity in Treasury market

Primary Dealer Credit Facility

- Credit extended by Fed to primary dealers
- Overnight loans
- Collateralized by a broad range of investment-grade debt securities
- Loans made at primary credit rate
- To improve the ability of primary dealers to provide financing to their customers

Federal Reserve Lending (Other Than OMO Repos)

| | | Depository Institutions | Primary Dealers |
|---------------------|-------------|------------------------------------|----------------------------------|
| Reserves | Daily | Primary Credit Secondary Credit | |
| | Longer Term | Seasonal Credit | |
| Treasury Securities | Daily | | Daily Securities Lending Program |
| | Longer Term | | |



Federal Reserve Lending (Other Than OMO Repos)

| | | Depository Institutions | Primary Dealers |
|----------------------------|-------------|---|----------------------------------|
| Reserves | Daily | Primary Credit Secondary Credit | |
| | Longer Term | Seasonal Credit Term Primary Credit Term Auction Facility | |
| Treasury Securities | Daily | | Daily Securities Lending Program |
| | Longer Term | | |

New programs in **red**.

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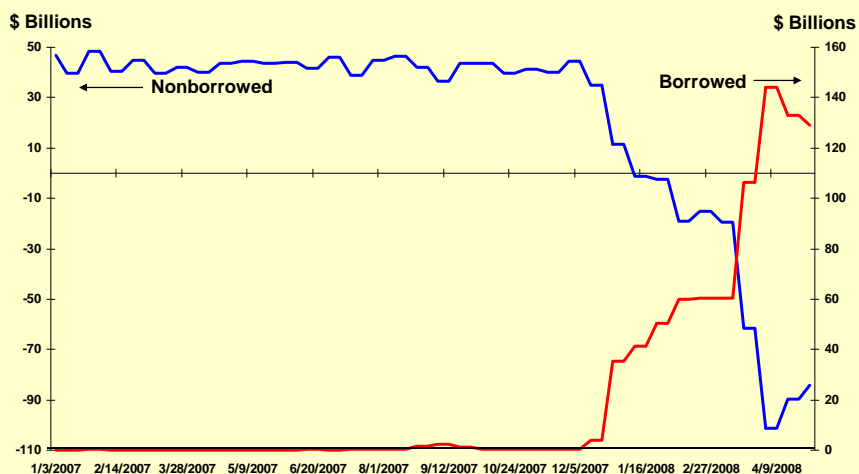
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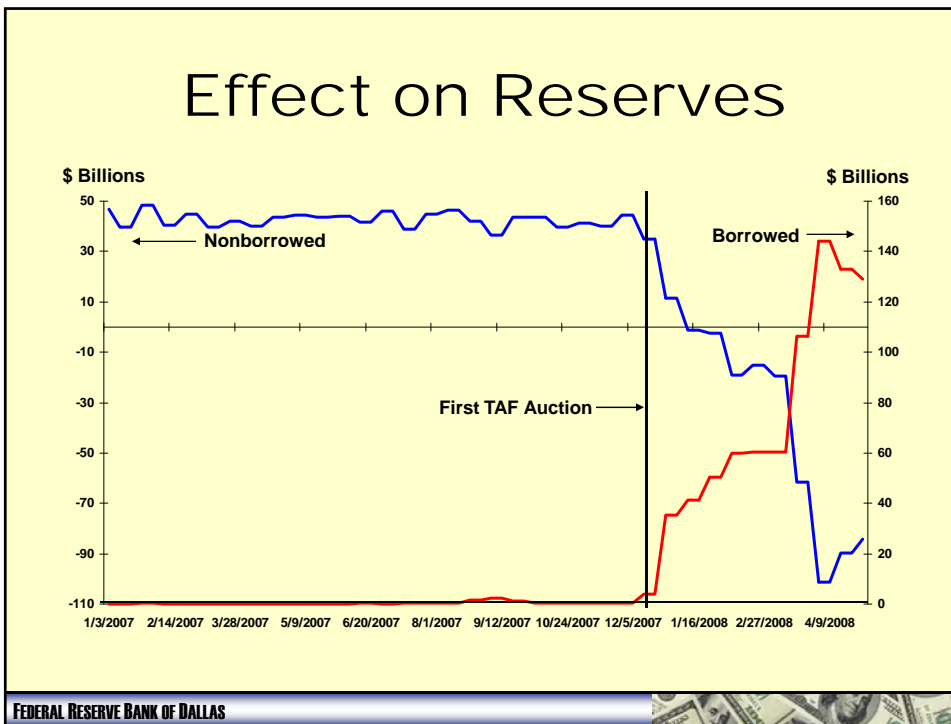
New programs in red.

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Effect on Reserves



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Federal Reserve Bank of New York
May 2008

Forms of Federal Reserve Lending to Financial Institutions

| | Regular OMOs | Single-Tranche OMO Program (announced March 7, 2008) | Discount Window ¹ | Term Discount Window Program (announced August 17, 2007) | Term Auction Facility (announced December 12, 2007) | Primary Dealer Credit Facility (announced March 16, 2008) ² | Securities Lending | Term Securities Lending Facility (announced March 11, 2008) |
|--|---|--|---|--|---|--|------------------------------|---|
| Who can borrow? | Primary dealers | Primary dealers | Depository institutions | Primary credit-eligible depository institutions | Primary credit-eligible depository institutions | Primary dealers | Primary dealers | Primary dealers |
| What are they borrowing? | Funds | Funds | Funds | Funds | Funds | Funds | U.S. Treasuries | U.S. Treasuries |
| What collateral can be pledged? | U.S. Treasuries, agencies, agency MBS | U.S. Treasuries, agencies, agency MBS | Full range of Discount Window collateral | Full range of Discount Window collateral | Full range of Discount Window collateral | U.S. Treasuries, agencies, agency MBS, investment grade debt securities ³ | U.S. Treasuries | U.S. Treasuries, agency MBS, AAA/AA+ rated private-label MBS, CMBS, agency CDO, and other ABS |
| Is there a reserves impact? | Yes | Yes | Yes | Yes | Yes | Yes | No (loans are base-for-base) | No (loans are base-for-base) |
| What is the term of loan? | Typically, term is overnight-14 days ⁴ | 28 days ⁴ | Typically overnight, but up to several weeks ⁴ | Up to 90 days ⁴ | 28 days ⁴ | Overnight | Overnight | 28 days ⁴ |
| Is prepayment allowed if term is greater than overnight? | No | No | Yes | Yes | No | N/A | N/A | No |
| Which Reserve Bank's conduit operations? | FRRNY | FRRNY | All | All | All | FRRNY | FRRNY | FRRNY |
| How frequently are operations conducted? | Typically once or more daily | Typically weekly | As requested | As requested | Every other week | As requested | Daily | Weekly |
| Where are statistics reported publicly? | Temporary OMO activity | Temporary OMO activity ⁴ | H.A.1 - Factors Affecting Reserve Balances | H.A.1 - Factors Affecting Reserve Balances | H.A.1 - Factors Affecting Reserve Balances | H.A.1 - Factors Affecting Reserve Balances | Securities lending activity | Term securities lending facility activity |

¹ Discount Window includes primary, secondary and seasonal credit programs.
² The PDCF will remain in operation for a minimum period of six months and may be extended as conditions warrant.
³ Investment grade debt securities include corporate securities, municipal securities, mortgage-backed securities, and asset-backed securities.
⁴ Open market operations are authorized for terms of up to 93 business days.

⁴ 28-day term may vary slightly to account for maturity dates that fall on bank holidays.
⁴ Primary credit loans are generally overnight. Loans may be granted for term beyond a few weeks to 28 of banks, subject to additional administration.
⁴ Maximum maturity of term increased from 30 to 90 days on March 16, 2008.
⁴ Data only available on days when 28-day term RP operations are conducted.

http://www.newyorkfed.org/markets/Forms_of_Fed_Lending.pdf

Summarizing

- Federal Reserve innovations
- Responding to liquidity pressures
- Coordinated policy actions
- Will continue as long as necessary

