

Federal Reserve announces steps to enhance the effectiveness of its existing liquidity facilities

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The Federal Reserve today announced several steps to enhance the effectiveness of its existing liquidity facilities, including the introduction of longer terms to maturity in its Term Auction Facility. In association with this change, the European Central Bank and the Swiss National Bank are adapting the maturity of their operations.

Federal Reserve Actions

Actions taken by the Federal Reserve include:

- Extension of the Primary Dealer Credit Facility (PDCF) and the Term Securities Lending Facility (TSLF) through January 30, 2009.
- The introduction of auctions of options on \$50 billion of draws on the TSLF.
- The introduction of 84-day Term Auction Facility (TAF) loans as a complement to 28-day TAF loans.
- An increase in the Federal Reserve's swap line with the European Central Bank to \$55 billion from \$50 billion.

These actions are described in detail below.

Extension of the PDCF and TSLF

In light of continued fragile circumstances in financial markets, the Board has extended the PDCF through January 30, 2009, and the Board and the Federal Open Market Committee (FOMC) have extended the TSLF through that same date. These facilities would be withdrawn should the Board determine that conditions in financial markets are no longer unusual and exigent.

The PDCF provides discount window loans to primary dealers, collateralized by investment-grade securities. The interest rate charged is the primary credit rate (discount rate) of the Federal Reserve Bank of New York. Under the TSLF, the Federal Reserve Bank of New York conducts weekly auctions of 28-day loans of Treasury

securities to primary dealers. Loans under the TSLF are collateralized by a range of government and private securities.

Auctions of TSLF Options

The FOMC has authorized the Federal Reserve Bank of New York to auction options for primary dealers to borrow Treasury securities from the TSLF. The Federal Reserve intends to offer such options for exercise in advance of periods that are typically characterized by elevated stress in financial markets, such as quarter ends. Under the options program, up to \$50 billion of draws on the TSLF using options may be outstanding at any time. This amount is in addition to the \$200 billion of Treasury securities that may be offered through the regular TSLF auctions. Draws on the TSLF through exercise of these options may be collateralized by the full range of TSLF Schedule 2 collateral. (Schedule 2 collateral includes Treasury securities, federal agency debt securities, mortgage-backed securities issued or guaranteed by federal agencies, and AAA/Aaa-rated private-label residential mortgage-backed, commercial mortgage-backed, and asset-backed securities.) Additional details of this program will be announced once consultations with the primary dealer community have been completed.

Eighty-four-day Term Auction Facility Loans

Beginning on August 11, the Federal Reserve will auction 84-day TAF loans while continuing to auction 28-day TAF funds. Specifically, the Federal Reserve will conduct biweekly TAF auctions, alternating between auctions of \$75 billion of 28-day credit and auctions of \$25 billion of 84-day credit. Currently, the Federal Reserve auctions \$75 billion of 28-day funds every two weeks. During a transition period, the amount of 28-day credit being auctioned will be reduced to keep the amount of TAF credit outstanding at \$150 billion. A schedule of TAF auctions and applicable terms and conditions can be found at <http://www.federalreserve.gov/monetarypolicy/taf.htm>.

Under the TAF, the Federal Reserve auctions term funds to depository institutions, secured by a wide variety of collateral. All depository institutions that are judged to be in generally sound financial condition by their local Reserve Bank are eligible to participate in TAF auctions.

Increase in Swap Line with European Central Bank

The European Central Bank (ECB) and the Swiss National Bank (SNB) have informed the Federal Reserve that, in association with the lengthening of the maturity of the Federal Reserve's TAF loans, these central banks will also make 84-day funds, as well as 28-day funds, available at their dollar auctions. The FOMC has authorized an increase

in its dollar swap line with the ECB to \$55 billion from \$50 billion in order to accommodate a temporary increase in the ECB's dollar auctions as the ECB shifts some of its auctions to 84-day terms. The size of the SNB's swap line remains at \$12 billion. These swap lines are authorized through January 30, 2009.

Information on Related Actions Being Taken by Other Central Banks

Information on the actions that will be taken by other central banks is available at the following websites:

European Central Bank

Swiss National Bank (56 KB PDF)

<https://www.federalreserve.gov/newsevents/pressreleases/monetary20080730a.htm>