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Yale Program on Financial Stability

Lessons Learned

Deborah Perelmuter

By Mercedes Cardona

Deborah Perelmuter has spent more than three decades with the Federal Reserve System. In 2008, as senior vice president at the Federal Reserve Bank of New York (FRBNY) and co-head of Capital Markets Analysis and Trading (CMAT) within the Markets Group, she was tasked with setting up the operational details of the Term Securities Lending Facility (TSLF). The TSLF auctioned Treasury securities to primary dealers in exchange for less liquid collateral to provide liquidity to those firms during the Global Financial Crisis of 2007–2009. Perelmuter became senior financial stability adviser within the office of the director in the FRBNY's Research and Statistics Group. In January 2010, she was appointed to a new position in the FRBNY Communications Group, charged with improving the bank's overall communications and transparency. This Lesson Learned is based on an interview with Perelmuter that occurred on March 24, 2021; [the full transcript may be accessed here](#).

The appearance of distress can hurt institutions, even as they are trying to right the ship. Regulators need to offer assistance in a way that avoids stigma.

The Federal Reserve had set up facilities to manage liquidity and stabilize financial markets in anticipation of Y2K disruptions after calendars switched to the new millennium on January 1, 2000. Although they were not used, some of those facilities were activated later, when the markets were roiled by the terrorist attacks of September 11, 2001. However, many institutions were reluctant to tap the Fed's discount window when the housing downturn began to affect them, fearing they'd damage their ability to go to the market for funding.

When banks go to the Fed's discount window, it can create the impression that they are not a good credit risk. Perelmuter observes,

What we were trying to do at the Fed was encourage banks to borrow, saying: "It's here, come and borrow." Instead, they were willing to pay rates much higher than the market rate, say 10%, 12%, and more in the market, because they didn't want to come to the Fed to borrow. We did not announce the names of banks who borrowed, but the numbers would show if anyone did. There would be a blip up from zero borrowing to maybe \$20 million in borrowing to \$300 million in borrowings. Everybody would try to fish around and figure out who that was. It wasn't a good feeling for anybody.

The Fed needed to send money out into the banking system to maintain liquidity without adding to reserves and causing other problems in the financial system. The Term Auction Facility (TAF) was meant to encourage banks to borrow by structuring the program as an auction for what were essentially discount window loans. It was an exercise in managing stigma and risk perception, Perelmuter explains.

It was really an interesting psychological, sociological experiment, because we were lending the same—collateralized funding to banks, albeit for term versus overnight. These were the same loans, but we were putting it out in an auction-style format, saying: “Hey, everybody come.” So, a lot of banks would come and borrow from that, but it was seen more as: “This is another way to get funds.” We were able to turn the discount window into something that was positive rather than negative.

It can take a while for new ideas to be understood. Keep pushing and explaining your ideas as long as it takes.

Perelmuter started talking up the idea of the Term Securities Lending Facility (TSLF) in early 2008, even before Bear Stearns reached critical stage. But the idea failed to get traction at several meetings, until she reached out to the vice chairman of the Board of Governors.

I tried to push it, but it kept getting put lower on the priority scale given everything else going on. We were all in this small group that met with [then-president of the FRBNY Tim] Geithner every morning, and maybe it was complicated and didn’t solve immediate problems.

I was down at the Board of Governors in Washington for another meeting, and I knew the vice chairman at that time. I knew him back when he was head of Monetary Affairs. We had a good relationship, so I just asked if I could go to see him. I went, and I told him about this TSLF idea, and he said that he now understood it better. He then would talk to other people on the committee and talk to Tim Geithner. I brought it up again, and they said: “Now put together some term sheets. Put together how you think it would work, and we’ll present it to the FOMC [Federal Open Market Committee].”

Continue the task of communicating and promoting transparency around your actions, even if there is no crisis in sight.

At the height of the crisis, there was no time to spend on communicating, other than around the many facilities that were being launched and issues directly related to saving the financial system. That may have contributed to the impression that the regulators were focused only on helping the financial system at the expense of the public.

I would hear in my own house—“Hey, Fed, you’re saving Wall Street, but you’re not saving Main Street.” I thought it was really lost that the Fed generally does its business through Wall Street banks, and Wall Street banks then make things available to Main Street.

Those attitudes also ignored that commercial paper helps Main Street business operate and pay their workers, which keeps the economy going. But that message was not getting through. Perelmuter said:

I thought it was important, once all this died down, to explain this to anybody who would listen. Believe me, I talked to everybody about how Wall Street then could translate to Main Street and that these were actually set up to make sure that Main

Street could then be able to do what they needed to do to stay in business. Because Main Street can't exist without banks, and the banks can't exist without liquidity.

After the crisis was quelled, Perelmuter took on a communications role at the FRBNY and worked to explain the Wall Street–Main Street nexus and the Fed's personalities and tools to a wide range of parties. "I would explain to professors. I'd explain to students. I'd explain to businesspeople. To a lot of naysayers." She was instrumental in the FRBNY evolving its communications tactics to invite the press in more often and to have more briefings. .

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