U.S. Fed revives commercial paper facility to boost lending

By Matt Scuffham, Pete Schroeder

NEW YORK/WASHINGTON (Reuters) - The U.S. Federal Reserve said on Tuesday it would reinstate a funding facility used during the 2008 financial crisis to get credit directly to businesses and households as fears over a liquidity crunch due to the coronavirus have grown in recent days.

FILE PHOTO: Federal Reserve Board building on Constitution Avenue is pictured in Washington, U.S., March 19, 2019. REUTERS/Leah Millis/File Photo
The reintroduction of the so-called Commercial Paper Funding Facility (CPFF) is one of a number of moves by the central bank in recent days to try to counter the adverse economic impact of the coronavirus outbreak, and the resulting turmoil in global markets, by pumping money into the real economy.

The commercial paper market is an important unsecured, short-term funding market, where companies typically pledge future accounts payables or inventories for cash, which they repay in less than a year. That market has been under strain in recent days amid growing fears that companies suffering business disruptions due to the virus may not be able to pay back the cash.

Confirming a Reuters report earlier in the day, the Fed on Tuesday said it would invoke its emergency powers to prop up that market by buying commercial paper directly from banks and large corporations and dish out short-term cash in return. The CPFF is seen by investors and policymakers as a critical tool by which the Fed can get money directly into the hands of small businesses, which employ around half of the U.S. workforce.

While the Fed has already taken several measures in recent days to get liquidity to banks, there are worries banks will be reluctant to pass that cash onto real economy businesses.

“By ensuring the smooth functioning of this market, particularly in times of strain, the Federal Reserve is providing credit that will support families, businesses, and jobs across the economy,” the Fed said in a statement.

The Fed said the Treasury will provide $10 billion of credit protection to the central bank’s commercial paper operation.

The Fed’s commercial paper program was first established in the fall of 2008 at the height of the financial crisis, and was closed in 2010. The Federal Reserve Bank of New York provided funds to a special-purpose vehicle created by the Fed, which in turn bought commercial paper directly from issuers in exchange for a small fee.

All told, the vehicle purchased $738 billion in commercial paper during that time.
However, in phone calls over the past week some members of the Treasury Borrowing Advisory Committee, which advises the U.S. government on the strength of the economy, pushed Fed governors for more targeted measures to support smaller firms, including reviving the CPFF, sources familiar with those discussions said.

Editing by Michelle Price, Chizu Nomiyama, Bernadette Baum and Dan Grebler

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