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Bernanke: Fed May Extend Wall Street Lending

Ben S. Bernanke

ECONOMY

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Federal Reserve Chairman Ben Bernanke said Tuesday the U.S. central bank may keep an emergency lending facility for big Wall Street firms open past year-end while it seeks to restore financial market stability.

bernanke_new_1.jpg

AP

In remarks to a mortgage lending forum sponsored by the Federal Deposit Insurance Corp., Bernanke said credit costs have been driven higher and the pace of U.S. economic growth also has been hurt by market turmoil.

"We are currently monitoring developments in financial markets closely and considering several options, including extending the duration of our facilities for primary dealers beyond year-end, should the current unusual and exigent circumstances continue to prevail in dealer funding markets," Bernanke said.

…almed financial markets that had been rattled on …ility that government-sponsored mortgage …nie Mae and **Freddie**Mac would have to raise …l. Stocks rose, U.S. Treasury securities eased and …s.

…its to do is walk away and see a dealer collapse," …rtfolio manager at Mendon Capital Advisors in

Bernanke on Banks

Tuesday, 8 Jul 2008 | 9:03 AM ET

The Fed set up the so-called Primary Dealer Credit Facility, or PDCF, in March as part of its actions in facilitating the purchase of ailing investment bank Bear Stearns by JPMorgan Chase . It said at the time the PDCF would continue for at least six months.

The lending program allows primary dealers -- the biggest firms that deal directly with the Fed -- to borrow directly from the Fed at the discount rate, currently 2.25 percent.

The Fed acted after weeks of turbulence in financial markets had raised fears a credit crisis stemming from rising mortgage defaults was spiraling out of control.

Borrowing at the the primary dealer facility averaged $1.7 billion a day in the week ended July 2, the Fed said last week.

Bernanke said on Tuesday that markets "have improved somewhat since March" but were still under strain.

He said the Fed, working with other regulators at home and abroad, "has redoubled its efforts to strengthen the capital positions, liquidity reserves, and risk-management practices" of financial institutions it supervises.

On Monday, the Fed and the Securities and Exchange Commission reached an agreement on sharing information about banks but Bernanke noted that was to deal with immediate conditions.

"In the longer term, legislation may be needed to provide a more robust framework for the prudential supervision of investment banks and other large securities dealers," he said.

He said that, whereas the SEC now handles oversight of big investment banks under a voluntary agreement with them, in future it should be made clear that a regulator has power to set standards for capital, liquidity holdings and risk management practices of investment banks.

Bernanke said the U.S. central bank and other regulators were
n how derivatives are processed and were
po markets where primary dealers and banks can
from risk-averse investors.

n in making sweeping changes. "Given the critical
:s play in our financial system, we need to proceed
ı making changes, especially as long as the
‹ets are experiencing stress," Bernanke said.

"Given how important robust payment and settlement systems are to financial stability, a strong case can be made for granting the Federal Reserve explicit oversight authority for systemically important payment and settlement systems," Bernanke said.

He also suggested that Congress consider whether "new tools" were needed to allow for the liquidation of big securities firms that were near bankruptcy. That would help to counter a market perception that some firms are seen as "too big to fail" by the government so that they will always be bailed out.

"Despite the complexities of designing a resolution regime for securities firms, I believe it is worth the effort," Bernanke said, adding that "a high bar" for such action should be set so that it would not be chosen lightly.

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FMCC	2.23 ▼	-0.03	-1.33%
FNMA	2.33 ▼	-0.02	-0.85%