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Federal Reserve Bank Email from William Dudley re TSLF

William Dudley

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From: [William Dudley](#)
To: Chairman's
Cc: [Brian F. Madigan](#); [Donald L. Kohn](#); Chairman's ; [Timothy Geithner](#)
Subject: Re: TSLF
Date: 06/17/2008 08:20 AM

My two cents after consulting with Brian:

I agree with Tim that we should extend both through yearend--probably to January 31 or so. Sooner is better to provide clarity on this issue.

TSLF is a bit different than PDCF in that it is an auction, less of a backstop, available only for AAA-rated collateral and has been mostly undersubscribed. It seems to me that this argues for beginning to phase it out by cutting down the sizes of the auctions, and I might make this part of the overall announcement--extending it but starting to cut back the amount. This will underscore to people that these programs are not permanent and may help to mollify some of the critics a bit. I would not make a distinction here betw Schedule 1 and 2 (even though there is a difference) just to keep the message simple--both have been undersubscribed so we are going to begin to phase them out.

PDCF remains critical to the stability of some of the IBs. Amounts don't matter here, it is the fact that the PDCF underpins the triparty repo system. I think without the PDCF, Lehman might have experienced a full blown liquidity crisis. So this has to be kept as is until 1) the IBs are in better shape in terms of funding/leverage and 2) triparty is strengthened--both are in process.

So I (and I think Brian is on board with this) might propose a memo to the FOMC that extends both programs but also announces the phasing down of TSLF auction sizes beginning in July or August (depends on how much warning we want to give).

Best,
Bill



Chairman's Email

Chairman's
Email

06/16/2008 06:31 PM

To: Donald L Kohn/BOARD/FRS@BOARD, Timothy Geithner/NY/FRS@FRS, William Dudley/NY/FRS@FRS, Brian F Madigan/BOARD/FRS@BOARD

cc

Chairman's Email

Subject: Re: TSLF 

Ok. Then we need to outline a short memo to the fomc from brian. I have no time till tomw afternoon but can take a stab at it then.

Sent from my BlackBerry Wireless Handheld

▼ Donald L Kohn

----- Original Message -----

From: Donald L Kohn
Sent: 6:25 PM EDT
To: Chairman's Email Timothy Geithner; William Dudley; Brian Madigan
Subject: Re: TSLF

Both the tslf and the pdcf depended on 13-3, though the latter gets all the attention. If we don't extend tslf does that raise questions about the need for the pdcf. Besides I like the idea of keeping the auction facilities alive, at least in some form. Getting the fomc to sign onto an extension could be tough and will require, as you note, some consideration of the broader picture for after September. But I think the discussion, like cod liver oil, will be good for us. If we can't convince most of our colleagues we will have problems with the public.

Sent from my BlackBerry Wireless Handheld

▼ Chairman's Email

----- Original Message -----

From: Chairman's Email
Sent: :12 PM EDT
To: Timothy Geithner; William Dudley; Brian Madigan; Donald Kohn
Subject: TSLF

If we are going to announce an extension of the TSLF in July, we probably should get the authority from the FOMC to do so. If we want to do that, then we need a short memo in advance of the meeting. At the meeting I could explain the reason for the request in more detail in the context of our discussion of plans for investment bank supervision.

Before thinking through what the memo would say, let me ask the following: Given that the TSLF has been undersubscribed, do we want to announce its extension? We could for example extend the PDCF in July (by Board decision) but say that we are reserving judgment on the TSLF. We could then revisit the TSLF at the August meeting. Thoughts?