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Federal Reserve announces two initiatives designed to bolster market liquidity and promote orderly market functioning

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Press Release

March 16, 2008

Federal Reserve announces two initiatives designed to bolster market liquidity and promote orderly market functioning

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The Federal Reserve on Sunday announced two initiatives designed to bolster market liquidity and promote orderly market functioning. Liquid, well-functioning markets are essential for the promotion of economic growth.

First, the Federal Reserve Board voted unanimously to authorize the Federal Reserve Bank of New York to create a lending facility to improve the ability of primary dealers to provide financing to participants in securitization markets. This facility will be available for business on Monday, March 17. It will be in place for at least six months and may be extended as conditions warrant. Credit extended to primary dealers under this facility may be collateralized by a broad range of investment-grade debt securities. The interest rate charged on such credit will be the same as the primary credit rate, or discount rate, at the Federal Reserve Bank of New York.

Second, the Federal Reserve Board unanimously approved a request by the Federal Reserve Bank of New York to decrease the primary credit rate from 3-1/2 percent to 3-1/4 percent, effective immediately. This step lowers the spread of the primary credit rate over the Federal Open Market Committee's target federal funds rate to 1/4 percentage point. The Board also approved an increase in the maximum maturity of primary credit loans to 90 days from 30 days.

The Board also approved the financing arrangement announced by JPMorgan Chase & Co. and The Bear Stearns Companies Inc.

Primary Dealer Credit Facility

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