

Monetary Policy: Perspectives, Retro and Pro

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The views expressed are mine, and not necessarily those of the Atlanta Fed or the Federal Reserve System.



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TOOLS OF FED POLICY

Forms of Federal Reserve Lending to Financial Institutions

	Reverse Repurchase Agreements	Standing Reverse Repo Facility	Discount Window	Term Discount Window Program	Term Auction Facility	Primary Dealer Credit Facility	Terminal Credit Extensions	Biweekly Commercial Credit	Securities Lending	Term Securities Lending Facility	Term Securities Lending Facility	Term Securities Lending Facility	ABCP Money Market Liquidity Facility	Commercial Paper Funding Facility	Money Market Liquidity Facility	Term Asset Backed Securities Loan Facility	
Who can participate?	Primary dealers	Primary dealers	Depository institutions	Primary credit eligible depository institutions	Primary credit eligible depository institutions	Primary dealers	U.S. and foreign banks	U.S. and foreign banks	Primary dealers	Primary dealers	Primary dealers	Primary dealers	Primary dealers, non-bank entities, and banks or agents of foreign banks	Eligible CP issuers ¹	Eligible Money Market Mutual Funds ²	All U.S. issuers that own eligible residential mortgage-backed securities	
What are they borrowing?	Funds	Funds	Funds	Funds	Funds	Funds	Funds	Funds	U.S. Dollars	U.S. Dollars	U.S. Dollars	U.S. Dollars	Funds	Funds	Funds and securities	Assets	
Are there collateral requirements?	U.S. Treasury securities, agency MBS, and high quality corporate bonds	U.S. Treasury securities, agency MBS, and high quality corporate bonds	Full range of Discount Window collateral	Full range of Discount Window collateral	Full range of Discount Window collateral	Full range of Discount Window collateral	Full range of Discount Window collateral and to party repurchase agreements ³	Full range of Discount Window collateral	Collateral based on eligible loans and not subject to haircuts	U.S. Treasury	U.S. Treasury	U.S. Treasury	U.S. Treasury	None	None	None	None
Is there a cap on the amount of loans?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No (loans are based on need)	No (loans are based on need)	No (loans are based on need)	No (loans are based on need)	Yes	Yes	Yes	Yes	
What is the term of the loan?	Typically, term is overnight to 14 days ⁴	28 days ⁵	Up to 90 days ⁶	Up to 90 days ⁶	28 days or 90 days ⁶	Overnight	Overnight	Overnight to 3 months	Overnight	28 days ⁷	Overnight	28 days ⁷	ABCP maturity date (270-day maximum)	3 months	N/A	N/A	At least one year
Is an assessment of collateral required?	No	No	Yes	Yes	No	N/A	N/A	Yes	N/A	No	No	No	Yes	N/A	N/A	N/A	Yes
Which Reserve account operations?	REPO	REPO	DR	DR	DR	REPO	REPO	REPO	REPO	REPO	REPO	REPO	CP	REPO	REPO	REPO	REPO
How frequently is the program used?	Typically, once or more daily	Typically, weekly	As required (standing facility)	As required (standing facility)	Every other week, or as necessary ⁸	As required (standing facility)	As required (standing facility)	As required (standing facility)	As required (standing facility)	As required (standing facility)	As required (standing facility)	As required (standing facility)	As required (standing facility)	As required (standing facility)	As required (standing facility)	As required (standing facility)	As required (standing facility)
Where are the loans made available?	Temporary repurchase agreements	Temporary repurchase agreements	H.A.1 - Factors affecting Reserve Balances ⁹	H.A.1 - Factors affecting Reserve Balances ⁹	H.A.1 - Factors affecting Reserve Balances ⁹	H.A.1 - Factors affecting Reserve Balances ⁹	H.A.1 - Factors affecting Reserve Balances ⁹	H.A.1 - Factors affecting Reserve Balances ⁹	H.A.1 - Factors affecting Reserve Balances ⁹	H.A.1 - Factors affecting Reserve Balances ⁹	H.A.1 - Factors affecting Reserve Balances ⁹	H.A.1 - Factors affecting Reserve Balances ⁹	H.A.1 - Factors affecting Reserve Balances ⁹	H.A.1 - Factors affecting Reserve Balances ⁹	H.A.1 - Factors affecting Reserve Balances ⁹	H.A.1 - Factors affecting Reserve Balances ⁹	H.A.1 - Factors affecting Reserve Balances ⁹

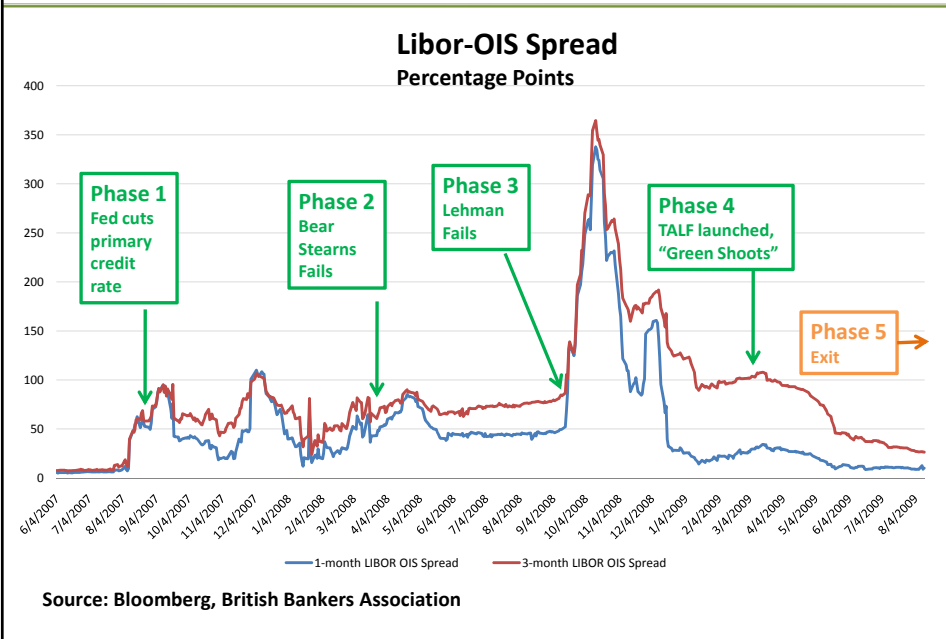
These are in your old economics textbook

These things aren't

The Fed Policy Response: Whack a Mole?



The Crisis In a Simple Picture



A brief review of the Federal Reserve response to the crisis

Phase 1: A few variations on traditional policy

Phase 2: Bear Stearns changes everything

Phase 3: Managing Meltdown

Phase 4: Monetary policy at the zero bound

Phase 5: A return to normalcy

A brief review of the Federal Reserve response to the crisis

Phase 1: August 2007 to March 2008

- **Expansion of more-or-less traditional policies**
- **Key policy moves were related to the TAF, designed to address issues in term interbank lending market**

Lesson: Lender of last resort for a day may not be enough.

A brief review of the Federal Reserve response to the crisis

Phase 2: March 2008 to August 2008

- Federal Reserve enters realm of fiscal policy for real (let's forget that one)
- PDCF and TSLF expands counterparties eligible for lending

Lesson: Shadow banks *are* banks.

A brief review of the Federal Reserve response to the crisis

Phase 3: September 2008 to February 2009

- Funds rate driven to effective lower bound
- Credit policy reigns supreme (AMLF, CPFF, MMIFF, TALF)

Lesson: Sometimes, you have to jump the bricks.

A brief review of the Federal Reserve response to the crisis

Phase 4: March 2009 to present

- **Large-scale Asset Purchase (LSAP) program replaces the funds rate as a the operational policy tool**

Lesson: The “zero-bound” problem was no problem at all.

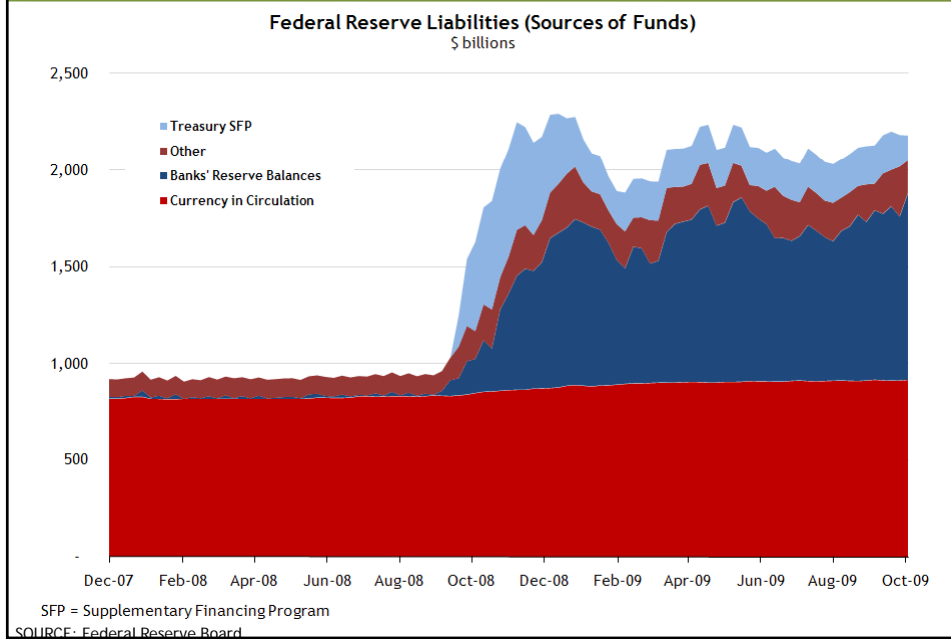
Possible explanations

- **Fiscal stimulus was really powerful**
- **Fed credibility (to avoid deflation) saved the day**
- **Quantitative easing really works**
- **It's credit policy, dummy**

And Next: Phase 5



The Fed's (really big) balance sheet




How Exit Strategies Work




Exit tools

- We can just sell the assets we own (i.e. Treasury securities or mortgage-backed securities)
- We can rent out the assets we own (reverse repos)
- We can change the interest we pay on reserves (so banks would rather just sit on them)



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