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U.S. ECONOMY

Fed Unveils Major Expansion of Market Intervention

Central bank will begin lending operations to unclog corporate and municipal-debt markets

The seal of the Board of Governors of the U.S, Federal Reserve System lies embedded in the floor at the Federal Reserve Board Building in Washington.

PHOTO: ANDREW HARNIK/ASSOCIATED PRESS

By Nick Timiraos

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The Federal Reserve unveiled a major expansion of lending programs Monday that are designed to keep credit markets functioning after they seized up last week, expanding its facilities to include certain types of corporate and municipal debt.

The Fed said the purchases of Treasury and mortgage securities that it approved one week ago are essentially unlimited, and it said it would buy $375 billion in Treasury securities and $250 billion in mortgage securities this week.

The central bank also said it would begin purchasing commercial mortgage-backed securities issued by government-supported entities, which primarily consist of debt on apartment buildings.

“While great uncertainty remains, it has become clear that our economy will face severe disruptions,” the central bank said Monday morning. “Aggressive efforts must be taken across the public and private sectors to limit the losses to jobs and incomes and to promote a swift recovery once the disruptions abate."

Federal Reserve Chairman Jerome Powell has moved quickly to throw at last week's market carnage a series of tools the central bank developed during the 2008 crisis.

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The Fed also said it would launch three new lending facilities, including the crisis-era Term Asset-Backed Securities Lending Facility, or TALF, which the central bank in 2008 used to support consumer and business credit markets. The Fed will lend money to investors to buy securities backed by credit-card loans and other consumer debt.

The central bank announced plans for two lending facilities to support corporate credit markets. One will lend to investment-grade companies and provide bridge financing of four years, while a second will buy corporate bonds issued by highly rated companies and U.S.-listed exchange-traded funds in the investment-grated corporate-bond market.

Those three facilities are designed to support $300 billion in new financing, and the Treasury Department will cover $30 billion in losses.

The Fed expanded two others it unveiled last week to include additional classes of municipal debt and said it would lower the pricing on one of those, the Commercial Paper Funding Facility.

The Fed also said it would soon roll out a Main Street Business Lending Program that will support lending to eligible small and midsize businesses.

Such a program is likely to depend on additional money from the Treasury Department, and the Fed didn't provide details about it on Monday.

The Trump administration and Senate Republicans proposed on Sunday providing $425 billion to the U.S. Treasury that could be used to capitalize new or existing lending programs run by the central bank, though the bill hit a procedural roadblock after Democrats said it needed to more to aid individuals facing unemployment or lack of income.

Fed Chairman Jerome Powell moved quickly to throw at last week's market carnage a series of tools the central bank developed during the 2008 crisis. "The Fed has done almost everything in its power. They are rolling this stuff out as fast as they can," said Scott Minerd, chief investment officer at money manager Guggenheim Partners LLC.

The Fed cut its benchmark rate to near zero and said it would purchase at least $700 billion in Treasury and mortgage securities. It quickly bought hundreds of billions of securities, prompting Monday's announcement to clarify that there were no caps on potential purchases.

The Fed also launched a series of lending facilities last week. One aims to unclog dysfunctional markets for short-term corporate IOUs called commercial paper. The central bank said that Commercial Paper Funding Facility would now be open to include high-quality debt issued by municipalities.

A second program launched last week allows approved dealers of U.S. government debt to borrow against some stocks, municipal debt and highly-rated corporate bonds.

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And a third seeks to prevent runs on money-market funds, which investors generally treat as safe as cash. The Fed expanded this program to include certain municipal money-market funds on Friday, and on Monday it said it would include a wider range of securities, including municipal variable-rate demand notes and bank certificates of deposit.

While the Fed is barred from buying private-sector assets or longer-dated municipal debt, it can invoke "unusual and exigent" circumstances to lend against these assets in so-called 13(3) facilities, so named for the section of its charter that grants these authorities. These programs require the approval of the Treasury secretary, and the Treasury kicked in $10 billion each in two of them to cover credit losses.

This is where the proposal from Congress to provide $425 billion to the Treasury could play a big role because it would allow the Fed to support riskier types of financing, for example in corporate, small-business and municipal funding markets, without having to be as concerned with bearing credit losses.

Funding from Congress would also provide a clear signal of the political system's eagerness for the Fed to step up its action. This political cover is important because after the Fed used its 13(3) powers in 2008 to enable unpopular bailouts, Congress placed restrictions on how the Fed could use those powers.

"If it comes to fruition, this would be very powerful because $425 billion in loss protection is enormous," said Roberto Perli, a former Fed economist who is now an analyst at research firm Cornerstone Macro.

Treasury Secretary Steven Mnuchin said Sunday the Fed could leverage the money into $4 trillion of new loans, but analysts said that would only be true if the loans were of the highest quality.

Officials involved in the 2008 crisis response have been discussing ways to design a Fed facility in which participant banks would make unsecured loans to midsize corporate and small-business customers at a low upfront rate that could be sold to the facility.

"I wouldn't rule out anything at this point," said Philadelphia Fed President Patrick Harker in an interview last week. "We need to be creative and collaborative with our colleagues in the administration, and Congress to come up with solutions."

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