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Banks trim use of emergency Fed programs

US banks reduce borrowing from Federal Reserve's emergency lending programs

By Christopher S. Rugaber, AP Economics Writer
On Thursday October 1, 2009, 5:05 pm EDT

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Companies: Fannie Mae | Freddie Mac

WASHINGTON (AP) -- Banks reduced their borrowing from the Federal Reserve's emergency lending facility over the past week, and cut back on their use of other programs designed to ease the financial crisis.

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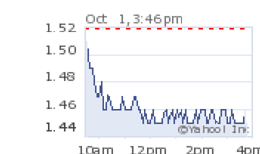

The reductions indicate that banks are having an easier time borrowing in private markets for short-term loans.

Banks averaged $28 billion in daily borrowing over the week ended Wednesday, down from $28.2 billion in the week ended Sept. 23, the Fed said Thursday. That's also down from about $44 billion a year ago.

The identities of the financial institutions that receive emergency loans are not released. They pay just 0.50 percent in interest for the loans.

The Fed began pumping trillions of dollars into the financial system last year through an array of short-term lending programs. The central bank intensified its efforts after the crisis worsened with the fall of Lehman Brothers in September 2008.

Banks also made less use of another program aimed at increasing the availability of short-term financing crucial for paying salaries and supplies. The Fed's net holding of "commercial" paper averaged about $42 billion, a drop of $900 million from the previous week.

Commercial paper is the crucial short-term debt that companies use to pay everyday expenses, which the Fed began buying under the first-of-its-kind program on Oct. 27, as the financial crisis intensified. At its peak in late January, the Fed held almost $350 billion of commercial paper.

Banks also reduced their borrowing under a program known as the Term Auction Facility, or TAF, which offers 28- and 84-day loans. The average amount of TAF loans outstanding fell by $17.6 billion to $178.4 billion.

The Fed last week said it would scale back the amount of lending available under the TAF, but may make a scaled-down version of the program permanent.

Many lawmakers and nonprofit groups have criticized the Fed for not identifying the banks that benefit from its cheap loans. But Fed Chairman Ben Bernanke has argued that doing so could cause a run on the institutions and would undermine the purpose of the programs, which is to bolster financial stability.

The central bank did ramp up its activity in other areas. It increased its holdings of mortgage-backed securities guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae to about $692 billion, an increase of $2.9 billion from the previous week. The goal of the purchases, which began Jan. 5, is to drive down mortgage rates.

Mortgage rates dropped below 5 percent this week for the first time in four months, mortgage company Freddie Mac said Thursday. The average rate on a 30-year fixed mortgage was 4.94 percent, down from 5.04 percent last week.

The Fed has pledged to purchase up to $1.25 trillion of the securities, along with $200 billion of debt issued by Fannie and Freddie.

Bernanke and his Fed colleagues said last week that they will slow their purchases of mortgage-related

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debt and extend the program through the first three months of 2010. In August, the Fed signaled that it would wind down a $300 billion government debt-buying program aimed at lowering rates on all kinds of consumer debt.

Those moves reflect the huge challenge facing Fed policymakers: with the economy is showing signs of life, they must decide how and when to withdraw the huge amount of money they've pumped into the economy. Some analysts think it could take four or five years for the Fed to pull back entirely and shrink a balance sheet that is now about $2.1 trillion, more than double what it was when the financial crisis struck.

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