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## THE FED

# Fed expands auction, accepts wider collateral

By [Steve Goldstein](#), *MarketWatch*

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**NEW YORK (MarketWatch) -- The Federal Reserve, along with other central banks, said Friday that it was increasing the funding it is providing to banks and announced that, for the first time, it was willing to accept bonds backed by auto loans and credit cards.**

"In view of the persistent liquidity pressures in some term funding markets, the European Central Bank, the Federal Reserve and the Swiss National Bank are announcing an expansion of their liquidity measures," the Fed said in a statement.

The Fed took the move in an attempt to flood the market with supply and lower short-term lending rates, such as the London interbank offered rate, or Libor.

The U.S. central bank announced an increase, to \$75 billion from \$50 billion, in the amounts auctioned to eligible depository institutions under its biweekly Term Auction Facility, beginning with the auction on May 5.

This increase will bring the amounts outstanding under the TAF to \$150 billion.

The move to expand the TAF was widely anticipated because of strong demand for loans through the program. [See full story.](#)

"The program is now reaching a magnitude where it can play a significant role in plugging the gap between the remaining demand for unsecured term funding in the bank market and the latest decline in supply following the run on Bear Stearns," wrote Lou Crandall, chief economist for Wrightson ICAP.

The expansion was "probably marginally disappointing because there was a widespread expectation ... that the Fed would extend the term of at least some TAF auctions to three months," wrote Stephen Stanley, chief economist for RBS Greenwich Capital.

The TAF, announced on Dec. 12, was followed in March by the creation of several other Fed lending programs targeted at different sectors of the credit markets.

All told, the Fed has now offered to lend up to \$462 billion in cash and Treasuries to the markets, in addition to the nearly unlimited funds available through the discount window and the primary credit dealer facility.

The three-month Libor rate -- a benchmark for lending between banks -- was 2.78% on Thursday, well above the 2% federal funds rate. Crandall said extra supply from the Fed in the next three weeks should tighten the spread between the Libor and fed funds rates.

### **Deeper cooperation**

The Federal Open Market Committee also has authorized further increases in its existing temporary currency-swap arrangements with the European Central Bank and the Swiss National Bank.

These arrangements will now provide dollars in amounts of up to \$50 billion and \$12 billion to the European Central Bank and the Swiss National Bank, respectively, representing increases of \$20 billion and \$6 billion.

The FOMC also authorized an expansion of the collateral that can be pledged by bond dealers in the Fed's Schedule 2 Term Securities Lending Facility auctions of Treasuries.

Primary dealers may now pledge AAA/Aaa-rated asset-backed securities, in addition to already eligible residential- and commercial-mortgage-backed securities and agency collateralized mortgage obligations.

Accepting asset-backed paper could help provide money to the student-loan market, Crandall noted. ■

*Steve Goldstein is MarketWatch's London bureau chief.*

*Washington Bureau Chief Rex Nutting contributed to this report.*

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