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INSIGHT

The Size of Federal Reserve COVID-19 Programs

February 9, 2021

In response to the financial and economic disruption caused by the Coronavirus Disease 2019 (COVID-19) pandemic, the Federal Reserve (Fed) acted as lender of last resort to broad swaths of the financial system. This Insight presents data on the size of the Fed's response, which peaked at $793 billion in April 2020. CRS Report R46411, *The Federal Reserve's Response to COVID-19: Policy Issues*, provides a full description of the facilities and actions covered below.

Section 13(3) Facilities

The Fed created a series of temporary programs in response to the pandemic using its emergency authority from Section 13(3) of the Federal Reserve Act. This was the third time the Fed used these powers extensively following the Great Depression and the 2007-2009 financial crisis.

The first wave of programs attempted to stabilize overall financial market conditions, which experienced illiquidity at the onset of the pandemic. The Commercial Paper Funding Facility (CPFF), Primary Dealer Credit Facility (PDCF), and Money Market Mutual Fund Liquidity Facility (MMLF) became operational between March 20 and April 14. These facilities supported shorter-term credit markets.

Later programs focused on longer-term credit markets, targeting groups that were harmed by the pandemic. These programs—the Paycheck Protection Program Liquidity Facility (PPPLF), Secondary Market Corporate Credit Facility (SMCCF), Term Asset-Backed Securities Loan Facility (TALF), Municipal Liquidity Facility (MLF), and Main Street Lending Program (MSLP)—became operational between April 16 and September 4. Of the second-wave programs, all but the PPPLF were backed by CARES Act (P.L. 116-136) funding and permanently closed by P.L. 116-260. The first wave programs and the PPPLF are scheduled to expire March 31, 2021, but could be extended again.

Assistance outstanding under 13(3) programs peaked at about $197 billion on April 15, 2020 (see **Figure 1**). Only the three first-wave programs were operational at that point and accounted for the entire amount outstanding. Within one week, outstanding assistance under those facilities had more than halved, as financial conditions improved rapidly. Outstanding assistance under all of the facilities hovered around $100 billion for the rest of 2020 as use of those three facilities fell while the use of the other facilities rose. In the second half of 2020, the largest program was the PPPLF.

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Figure 1. Fed Assistance Outstanding in 13(3) Facilities

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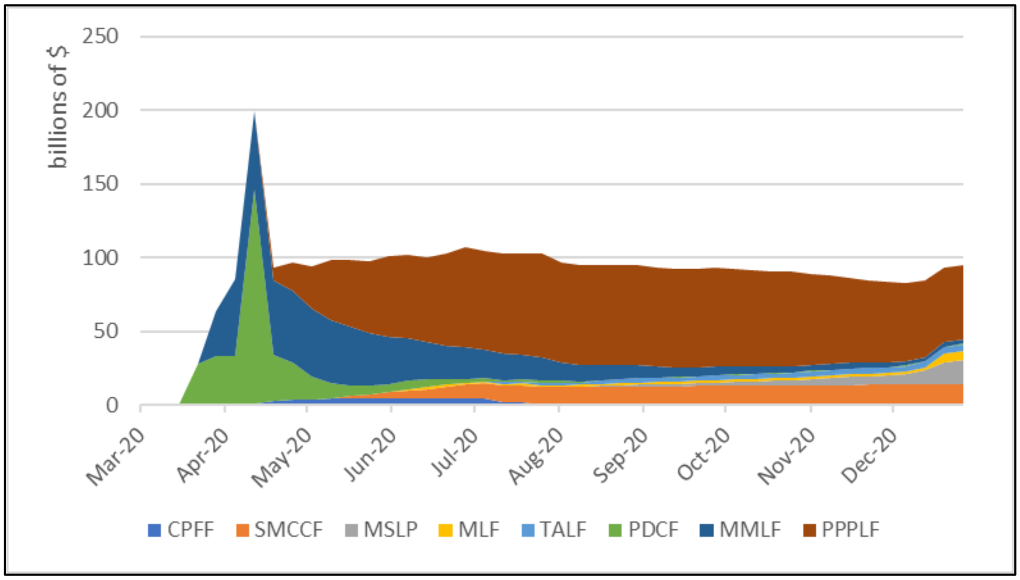

Source: CRS calculations based on Federal Reserve data.

Notes: Treasury investments in facilities are netted out. See CRS Report R46411, *The Federal Reserve's Response to COVID-19: Policy Issues*, for details.

Other Actions to Boost Liquidity

The Fed also has other tools to increase overall liquidity in financial markets. In addition to using emergency facilities, the Fed's actions to boost market liquidity in the pandemic included the discount window (DW), central bank swaps (CB swaps), and repurchase agreements (known as repos) (see **Figure 2**.)

Figure 2. Fed Assistance During the Pandemic Excluding 13(3) Facilities

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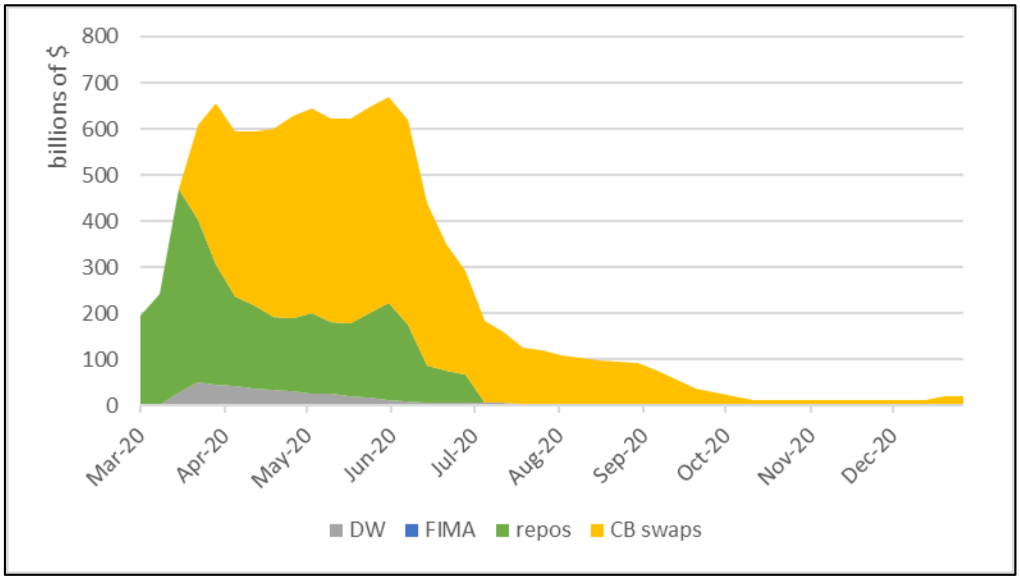

Source: CRS calculations based on Federal Reserve data.

Notes: FIMA = Foreign and International Monetary Authorities Repo Facility. See CRS Report R46411, *The Federal Reserve's Response to COVID-19: Policy Issues*, for details.

The Fed made short-term loans to banks through the DW, its traditional lender-of-last-resort tool. Lending peaked at $51 billion on March 25, 2020. It fell sharply throughout the late spring and summer but remained above normal levels throughout 2020.

Because foreign banks are reliant on U.S. dollar funding but cannot borrow from the DW, the Fed has also allowed foreign central banks to swap their currencies for U.S. dollars (CB swaps) so that they can lend those dollars to banks in their jurisdictions. Swaps outstanding peaked at nearly $450 billion in May 2020 but have been below $100 billion since August 2020 and below $10 billion since mid-October 2020. The rapid uptake in swap lines during the pandemic underlines the world financial system's reliance on U.S. dollars as the world's "reserve currency."

The Fed also provided liquidity through repos, which are economically equivalent to short-term collateralized loans. Repos outstanding peaked at $496 billion on March 17 and have been zero since July 8, 2020. (The Fed also created the Foreign and International Monetary Authorities Repo Facility, which saw little use.)

Although these actions received less scrutiny because they were not taken under the Fed's emergency authority and did not receive CARES Act backing, their influence on financial conditions was significant. At their peak, the Fed extended more credit through both its repos and central bank liquidity swaps (individually) than it did through its 13(3) programs collectively. These two tools and the DW are permanently available.

Policy Considerations

Financial Stability

Collectively, these actions and others may have helped stave off a financial crisis that could have caused a deeper recession. Instead, financial markets overall performed well during the pandemic—to the point that some observers are now concerned that there is a financial bubble. This has raised concerns (called *moral hazard*) that if financial market participants come to expect the Fed to set up emergency facilities whenever markets seize up, then they will take on greater risks—increasing the likelihood of future crises.

Usage

For facilities with an announced size limit, usage turned out to be relatively low. There are at least two possible explanations why. First, programs that might have been highly subscribed if financial instability persisted were less needed or desired once financial conditions normalized. Second, the terms and conditions of the Fed's programs were not as attractive as comparable sources of private credit despite repeated modifications by the Fed to make them more attractive. These explanations are not mutually exclusive, because those private sources of credit might not have been available (at least on similar terms) if financial conditions had not normalized.

Risk to Taxpayers

Assistance extended under these programs must be repaid with interest. There is the potential for losses, which would ultimately be borne by taxpayers, but for most programs, that possibility is small because of the programs' many built-in safeguards. Instead, they may make a profit, as was the case for all of the Fed programs created in the 2007-2009 financial crisis (many of which were revived in 2020).

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