

The Federal Reserve as *Global* Lender of Last Resort, 2007-2010

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Fed Disclosures

- Passage of Dodd-Frank, in conjunction with a Supreme Court ruling, required the Fed to disclose bank-specific information on its crisis lending
- The 2011 disclosures revealed the extent to which the Fed served as a *global* LLR during the crisis, providing dollar liquidity to foreign banks

Fed's Foreign Lending, 2007-2009

- Foreign banks accounted for over 70% of the Fed's discount window lending
- Foreign banks accounted for about 65% of the loans from the TAF and CPFF
- Dollar swap lines with 14 foreign central banks—the Fed's largest program—accounted for over 25% of the Fed's total assets

Disclosures were Exogenous

- Disclosures ended 75 years of Fed confidentiality
- The Fed (and the banks that borrowed from it) could not have foreseen the court rulings and Dodd-Frank disclosure provisions at the time it was making its foreign lending decisions

Research Questions

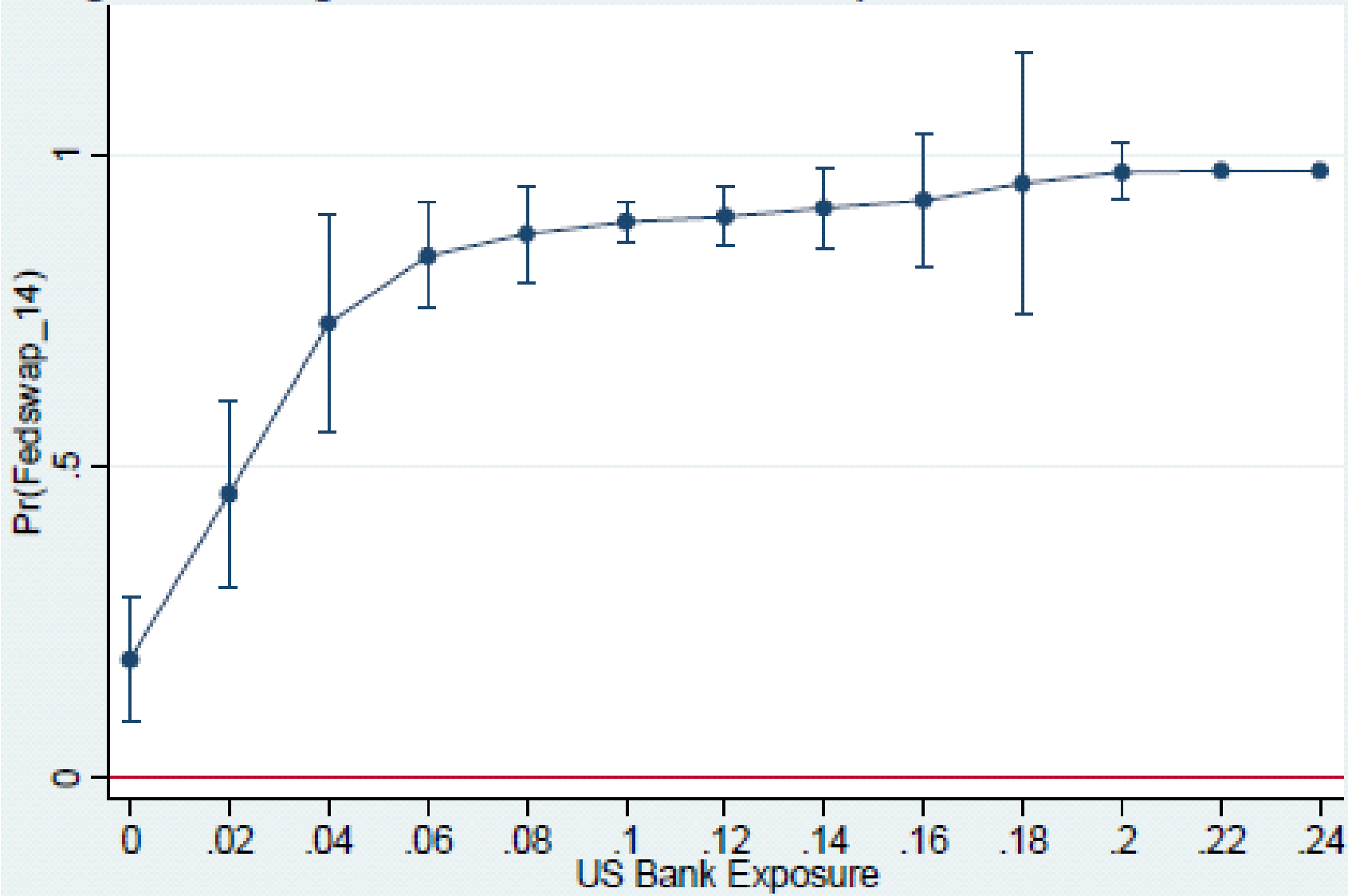
1. Why did the Fed support banks from certain countries more than others?
 - I assess the economic and political factors that correlate with the Fed's choice of foreign banks/countries to support
2. What impact did the disclosures have on the politics of the Fed within the U.S?
 - I analyze the House vote Ron Paul's "Audit the Fed" bill that would end the Fed's confidentiality about the banks and countries it supports

Covariates of Getting a Swap Line

	(1) Swap Line	(2) Swap Line	(3) Swap Line	(4) Swap Line	(5) Swap Line
US Bank Exposure	118.967*** (33.817)	137.029*** (46.285)	154.809*** (37.379)	148.454*** (46.113)	76.115*** (22.841)
Share World GDP		-20.032 (37.783)	70.759 (54.883)	40.099 (64.406)	
Share World Liquid Liabilities		-12.812 (15.668)	-50.736** (20.037)	-46.584** (23.189)	
US Trade Share			-14.603 (14.273)	-8.436 (16.411)	
Inflation			-0.609*** (0.182)	-0.800*** (0.277)	-0.351** (0.139)
Dollar Shortage				-0.004 (0.005)	-0.031*** (0.012)
Global Financial Center					4.552** (2.178)
Constant	-2.202*** (0.231)	-2.129*** (0.245)	-0.592 (0.444)	0.866 (0.824)	-0.310 (0.586)
Observations	149	122	117	32	38
Model	probit	probit	probit	probit	probit
Pseudo R-Squared	0.594	0.622	0.728	0.679	0.600



Figure 2: Marginal Effects of US Bank Exposure on SWAP LINE



Congressional Response

- After the court-ordered disclosure of the names and nationalities of the banks, Ron Paul (R-TX14) took congressional action
- Culminated in *The Federal Reserve Transparency Act* (aka “Audit the Fed”) which passed the House by a vote of 327-98 on July 25, 2012
- All but one Republican voted for it, but Democrats were split 89-97

“Audit the Fed” Voting by Dems

- I analyze Democrats’ vote choice on this bill to gauge the influence of:
 - Money-center banks (PAC contributions)
 - Representatives’ characteristics (ideology, seniority, committee assignments)
 - Constituency factors (district foreclosure rate, social security recipients, bank HQ)

First Diff in Dems' Voting to Audit Fed

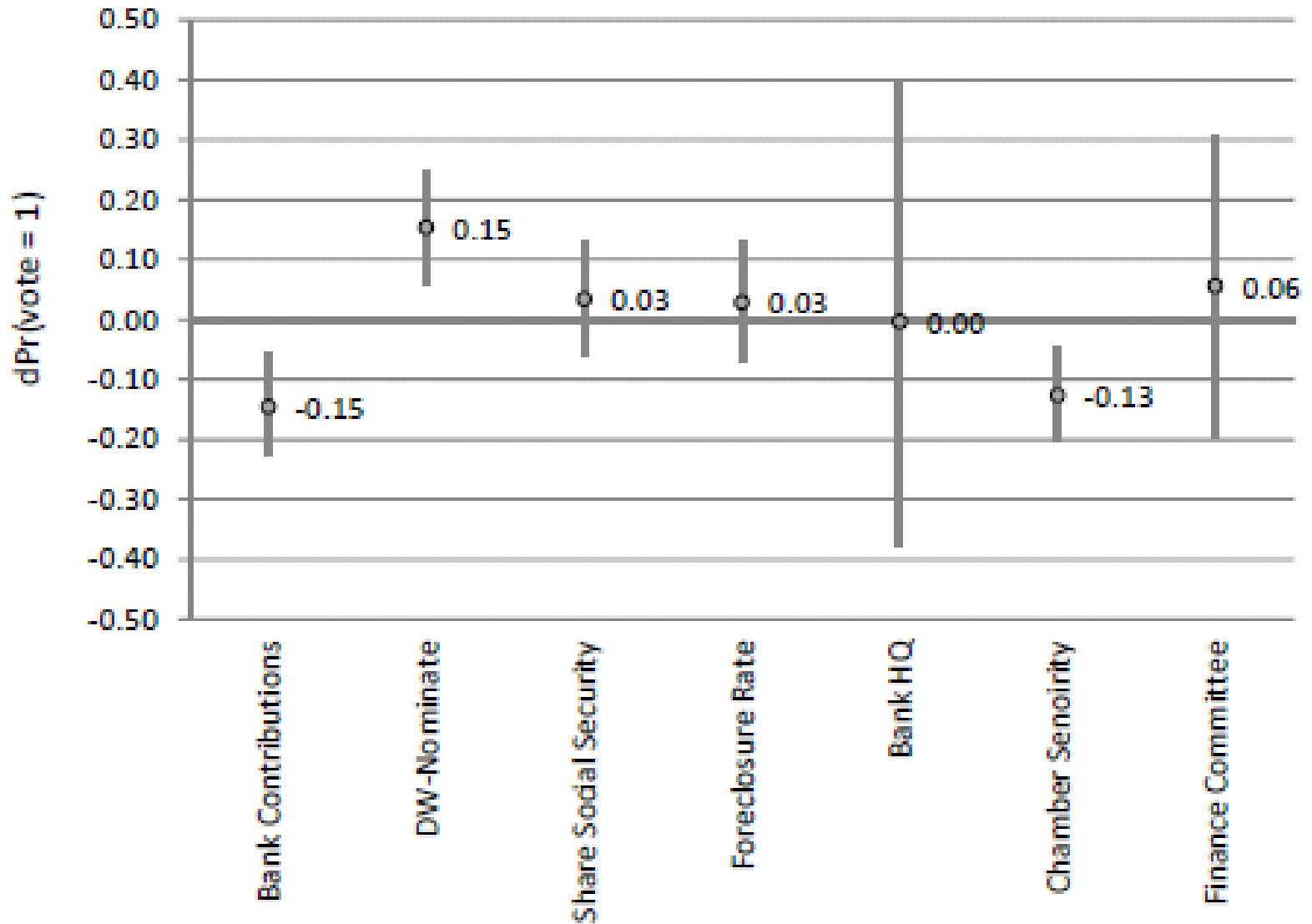


Figure 4: Marginal Effects of Bank Contributions on Voting to Audit the Fed

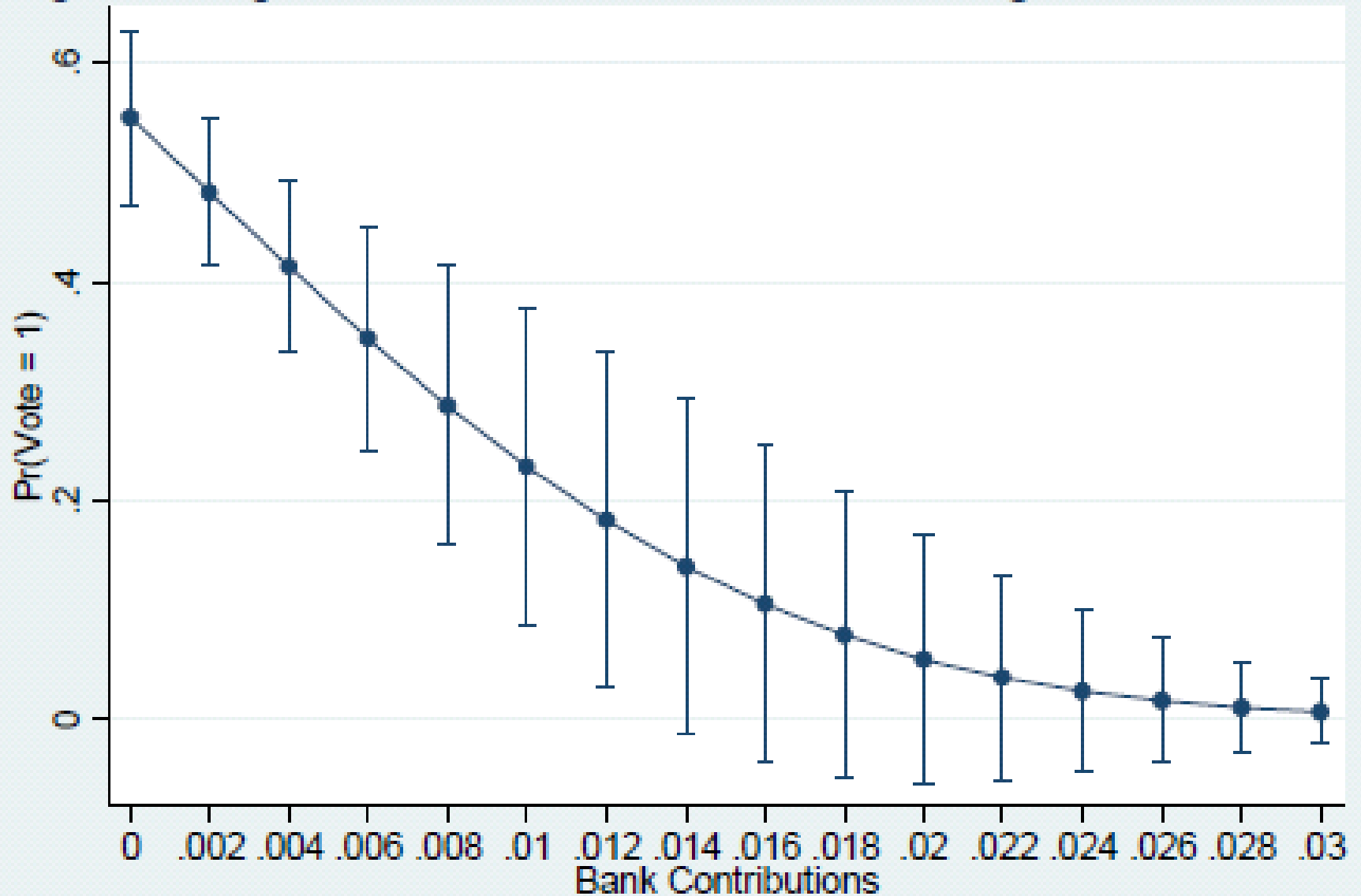
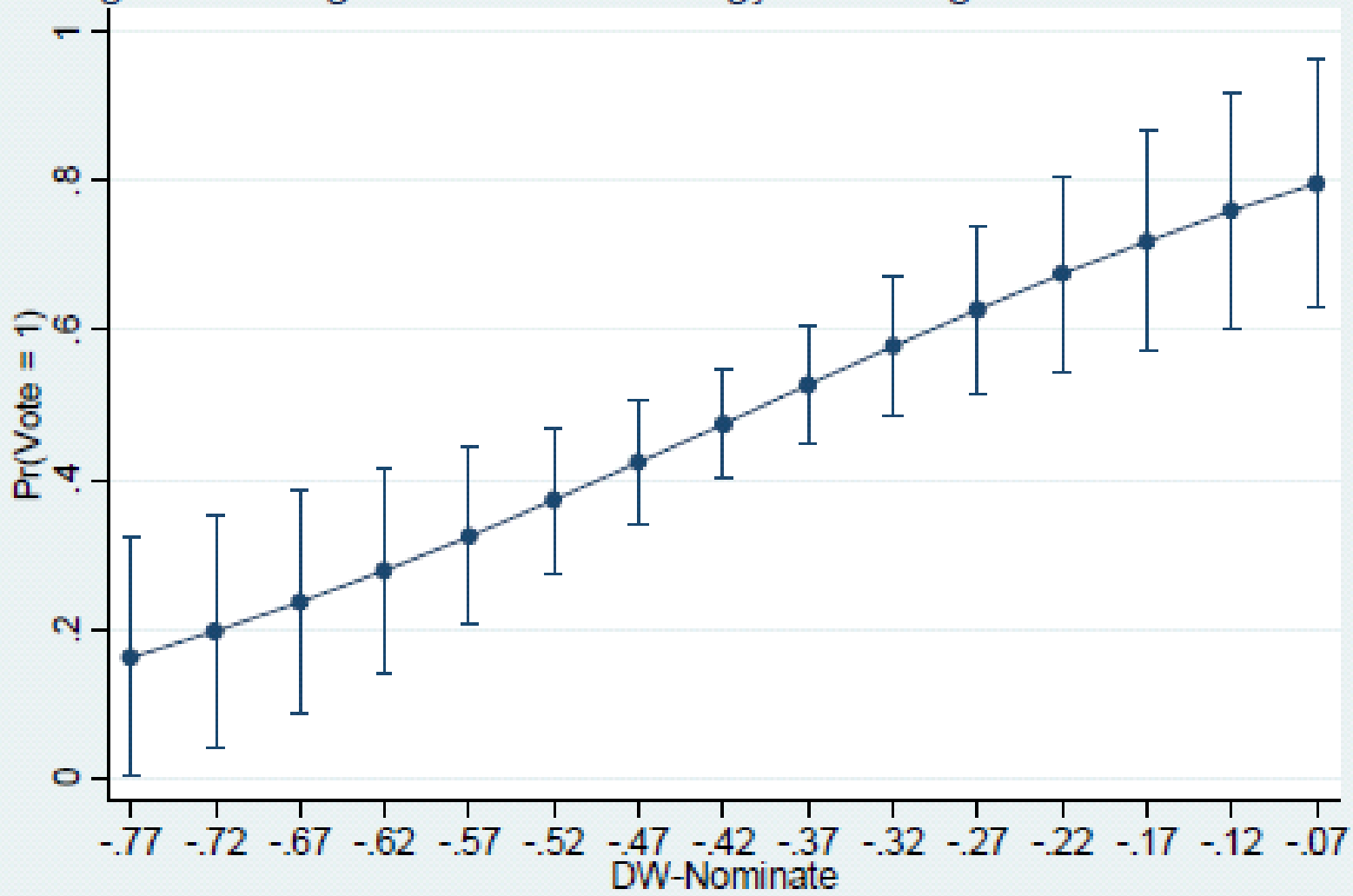




Figure 5: Marginal Effects of Ideology on Voting to Audit the Fed



Conclusion #1

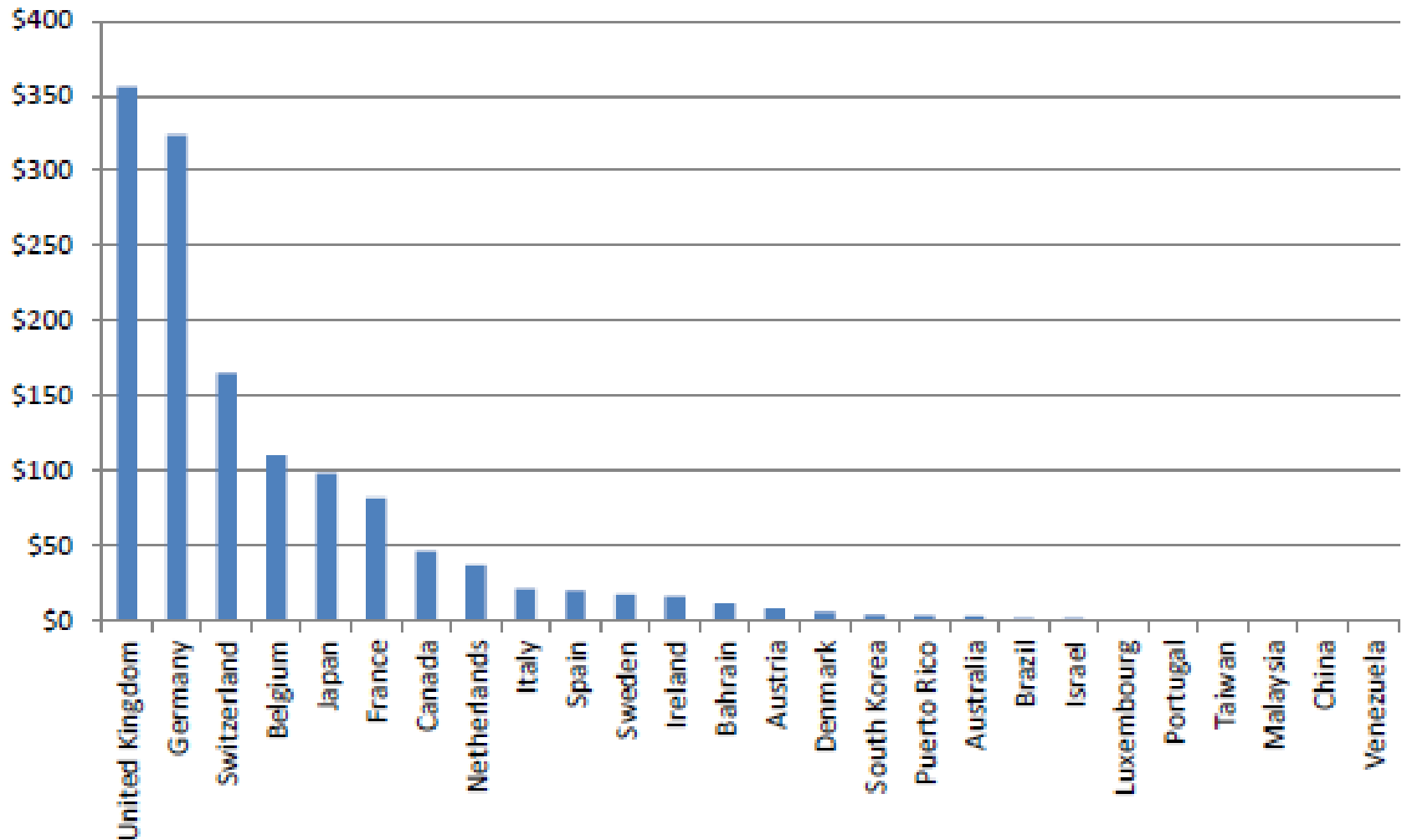
- U.S. money-center banks appear to sway Fed policy AND the congressional response
 - Their exposure in foreign markets correlates strongly with the Fed's foreign lending decisions
 - Their PAC contributions correlate negatively with Democrats' votes on "Audit the Fed"

Conclusion #2

- After the disclosures, ideological positions on the Fed reversed
 - The Right is now challenging the Fed to be more transparent, more accountable, and less beholden to money-center banks
 - The Left is positioning itself as the defender of the Fed

Extra slides for Q&A

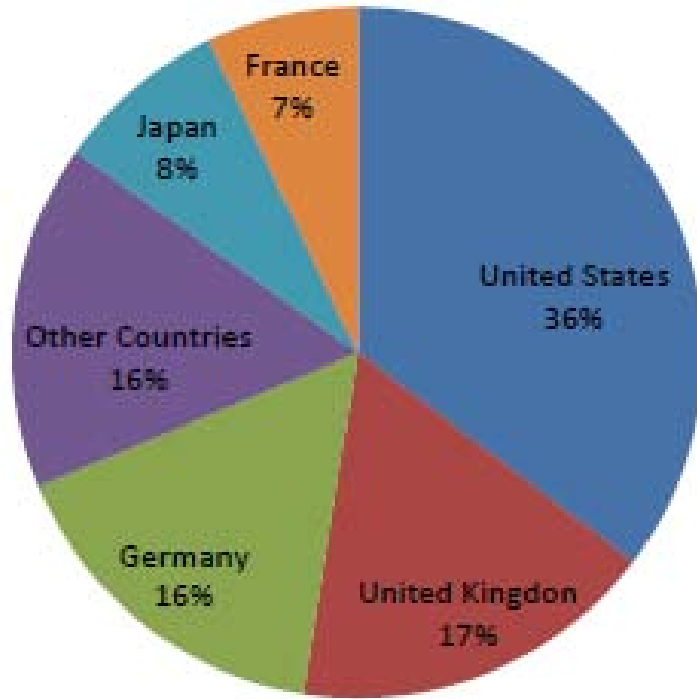
Fed Lending to Foreign Banks, by Country (Billions USD at peak)



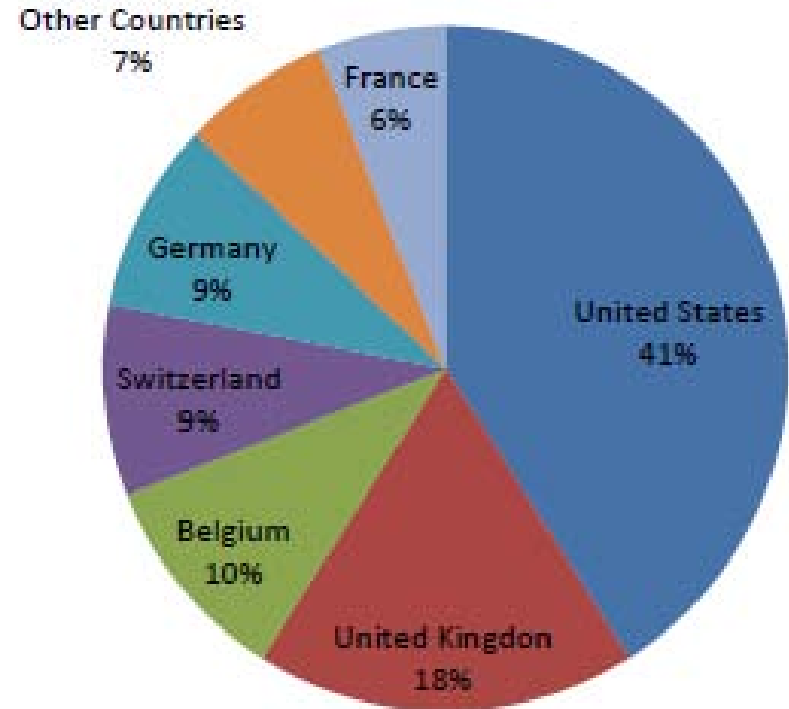
Fed's Dollar Swap Lines with Central Banks

Foreign Central Bank (date announced)	Number of Transactions	Peak Amount (Billions USD)	Peak Trade Date
European Central Bank (12/12/2007)	271	170.93	Oct 15 2008
Bank of England (09/18/2008)	114	76.31	Oct 15 2008
Bank of Japan (09/18/2008)	35	50.17	Oct 21 2008
Swiss National Bank (12/12/2007)	81	13.11	Jan 13 2009
Danmarks Nationalbank (09/24/2008)	19	10.00	Oct 24 2008
Sveriges Riksbank (09/24/2008)	18	10.00	Oct 15 2008
Reserve Bank of Australia (09/24/2008)	10	10.00	Sep 26 2008
Norges Bank (09/24/2008)	8	7.05	Jan 27 2009
Bank of Korea (10/29/2008)	10	4.00	Dec 2 2008
Banco de Mexico (10/29/2008)	3	3.22	Apr 21 2009
Bank of Canada (09/18/2008)	0	0	-
Reserve Bank of New Zealand (10/28/2008)	0	0	-
Banco Central do Brasil (10/29/2008)	0	0	-
Monetary Authority of Singapore (10/29/2008)	0	0	-

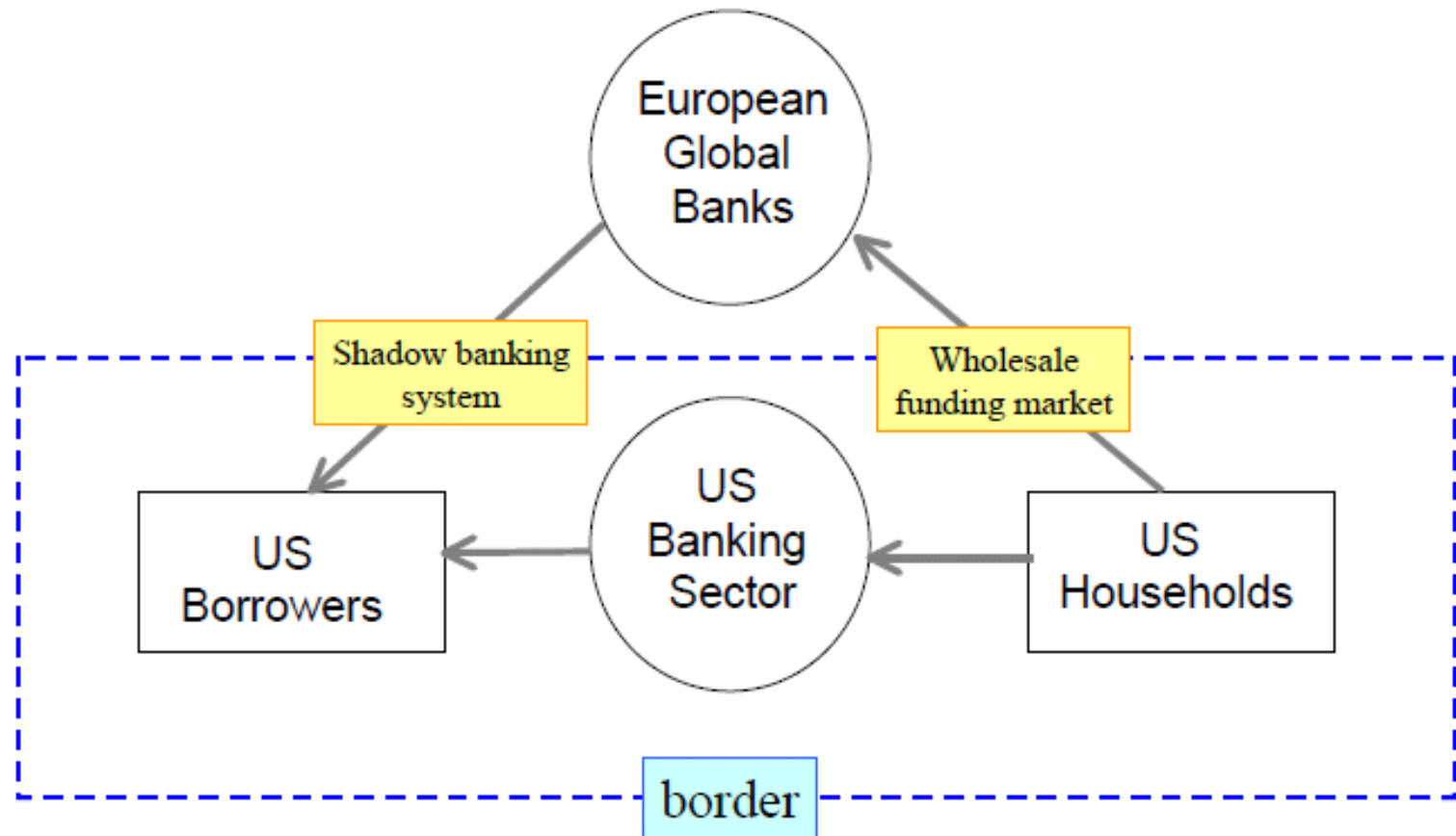
Term Auction Facility (TAF)



Commerical Paper Funding Facility (CPFF)



Why the Fed acted as global LLR



Shin, Hyun Song. 2012. "Global Banking Glut and Loan Risk Premium."