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The Federal Reserve’s Primary Dealer Credit Facility

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Abstract

As liquidity conditions in the “repo market” - the market where broker-dealers obtain financing for their securities - deteriorated following the near-bankruptcy of Bear Stearns in March 2008, the Federal Reserve took the step of creating a special facility to provide overnight loans to dealers that have a trading relationship with the Federal Reserve Bank of New York. Six months later, in the wake of new strains in the repo market, the Fed expanded the facility by broadening the types of collateral accepted for loans. Both initiatives were designed to help restore the orderly functioning of the market and to prevent the spillover of distress to other financial firms.

Keywords: Primary Dealer Credit Facility, primary dealers, financial stability, monetary policy, Federal Reserve, triparty repo

JEL Classification: E50, G18, N22

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