

Wednesday, October 22, 2008

More

News, Quotes, Companies, Video

SEARCH

Welcome, **Jeff Brannon**

Logout

My Account

My Online Journal

Help

Today's Paper

Video

Columns

Blogs

Graphics

Newsletters & Alerts

New! Journal Community

HOME

U.S.

WORLD

BUSINESS

MARKETS

TECH

PERSONAL FINANCE

LIFE & STYLE

OPINION

CAREERS

REAL ESTATE

SMALL BUSINESS

ASIA

EUROPE

EARNINGS

ECONOMY

HEALTH

LAW

MANAGEMENT

MEDIA & MARKETING

MORE INDUSTRIES

COLUMNS & BLOGS

TOP STORIES IN Business

6 of 10

7 of 10

8 of 10

Fed Offers More Help to Aid Money-Market Investors

U.K. Warns of Recession

Money-Market Rates Ease

Ea De

OCTOBER 22, 2008

Fed Offers More Help to Money Funds

By JON HILSENATH and DIYA GULLAPALLI

Article

Comments

MORE IN **ECONOMY** »

Email

Printer Friendly

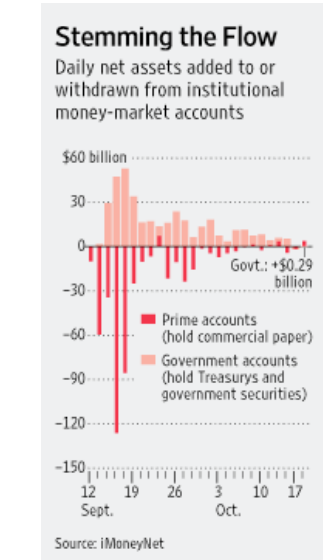
Share: 

Yahoo Buzz

Text Size

In another move to bolster fragile credit markets, the Federal Reserve said it would lend as much as \$540 billion to the money-market mutual-fund industry, which has been plagued by investor withdrawals.

It is the third major step Fed officials have taken in the past month tailored to address troubles with money-market funds, which normally are low-risk investments that earn modest returns by investing in short-term debt.



The money-market funds selling these instruments to the investment vehicle will get cash back in addition to 10% stakes in the special purpose vehicles. The Fed will lend to the special purpose vehicles, with the assets they hold as its collateral.

In effect, the move ensures that money funds can raise cash quickly from the Fed. The program can grow to up to \$600 billion, with the Fed providing \$540 billion in debt financing. It will backstop only high-rated A1/P1 short-term debt.

The move marks another dramatic transformation in the way the Fed manages its own finances. A year ago, it had an \$850 billion balance sheet that was filled mostly with U.S. Treasury bonds. It now has more than \$1.7 trillion in assets, most of them loans and commitments to banks and other struggling financial institutions in need of cash.

The money-market industry is a \$3.5 trillion business, according to the Investment Company Institute. Prime-money funds account for \$1.58 trillion of that, according to iMoneyNet Inc.

The Fed has taken a wide range of steps to support credit markets in the past few weeks. Under one program, it will begin buying commercial paper directly from some firms next week. Under another, it will backstop a kind of debt called asset-backed commercial paper.

Money-market-fund officials came to the Fed last month arguing that the programs were too narrow for them to handle the wave of investor redemptions they have faced. A senior Fed staffer said some funds could run out of liquid resources to meet redemption demands without Fed action.

Money funds remain nervous about holding instruments with maturities any longer than seven days. Big banks typically play a big role as so-called market makers facilitating trades. However, as such banks have become preoccupied with their own financial problems, a lot of secondary trading has seized up.

**Write to** Jon Hilsenrath at [jon.hilsenrath@wsj.com](mailto:jon.hilsenrath@wsj.com) and Diya Gullapalli at [diya.gullapalli@wsj.com](mailto:diya.gullapalli@wsj.com)

MORE IN **ECONOMY**

 Email  Printer Friendly  Order Reprints

Share:   

#### Sponsored Links

##### **Money Market Info**

Get Info on Money Market from 14 search engines in 1.  
[www.info.com](http://www.info.com)

##### **Money Market Guide**

Looking to find money market? See our comprehensive guide.  
[Imediaconnection.Com](http://Imediaconnection.Com)

##### **Money Market Accounts**

Compare online to secure best rate. High Yield, No Fees, FDIC Insured.  
[www.AllMoneyMarket.org](http://www.AllMoneyMarket.org)

#### Add a Comment

All comments will display your real name.

[Go to Comments tab](#)

#### video

**Bernanke:  
Congress Should  
Consider Stimulus**  
0:39

**Bernanke Before  
the House Budget  
Committee**  
1:41

**When Will Gas  
Prices Come  
Down?**  
2:16

#### More in Economy

[Glory Days Fade for U.S. Farmers](#)

[Fed to Aid Money-Market Investors](#)

[U.K. Warns of Recession](#)

[Money-Market Rates Ease](#)

[IMF: Europe to Enter Recession](#)

#### Most Popular

[Read](#) [Emailed](#) [Video](#) [Commented](#)

1. [Opinion : Bernanke Endorses Obama](#)
2. [Opinion : Get Ready For The New New Deal](#)
3. [Opinion : Palin's Failin'](#)
4. [Opinion : William McGurn: Obama Talks Nonsense On Tax Cuts](#)
5. [Volcker Makes Comeback As Obama Adviser](#)

[Most Read Articles Feed](#)

#### Latest Headlines

[California Home Sales Revive](#)

[Glory Days Fade for U.S. Farmers](#)

[Obama Opens Double-Digit Lead](#)

[Gay-Marriage Ban Gains in Polls](#)

[New National Alert System Is Set Back](#)

[Jurors to Deliberate in Stevens Trial](#)

[Voting Disputes Take on New Intensity](#)

[Black Voters Turn Out Early](#)

[Illegal Immigrants' Mortgage Hopes Dim](#)

[Bush Hosts International Aid Summit](#)

[More Headlines](#)

CLEAR

POST

Related Articles and Blogs from WSJ.com

James Pallotta to Relaunch Raptor Global Fund as Spinoff  
OCT 22, 2008

Mutual-Fund Flight Hits BlackRock OCT 22, 2008

Drop in Gottex's Assets Shows Hedge-Fund Woes OCT 21, 2008

McCain Promises \$2 Billion to Help NASA OCT 17, 2008

Sponsored by

Related News From the Web

Fed props up money-market funds - Richmond, Virginia,  
Business News and Fin... OCT 22, 2008  
inrich.com

Fed prepared to prop up money-markets OCT 22, 2008  
nbc.com

Fed to buy commercial paper from mutual funds OCT 21, 2008  
money.aol.com

Fed Offers More Help for Mutual Funds OCT 21, 2008  
news.aol.com

BACK TO TOP

Search News, Quotes, Companies

SEARCH

WSJ.com Account:

- My Account
- Billing Information

Help & Information Center:

- Help
- Customer Service
- Contact Us
- New on WSJ.com
- Tour the new Journal

About:

- News Licensing
- Advertising
- Conferences
- About Dow Jones
- Privacy Policy - Updated
- Subscriber Agreement & Terms of Use - Updated
- Copyright Policy
- Jobs at WSJ.com

WSJ.com:

- Site Map
- Home
- U.S.
- World
- Business
- Markets
- Market Data
- Tech
- Personal Finance
- Life & Style
- Opinion
- Autos
- Careers
- Real Estate
- Small Business
- Corrections

Tools & Formats:

- Today's Paper
- Video Center
- Graphics
- Columns
- Blogs
- Alerts
- Newsletters
- Mobile
- Podcasts
- RSS Feeds
- Journal Community
- Forums

Digital Network

- WSJ.com
- Marketwatch.com
- Barrons.com
- AllThingsD.com
- FiLife.com
- BigCharts.com
- Virtual Stock Exchange
- WSJ Asia
- WSJ Europe
- Foreign Language Editions:
  - WSJ Chinese
  - WSJ Portuguese
  - WSJ Spanish