



Written by [Dennis Behreandt](#) on October 7, 2008

Fed to Buy Commercial Paper

According to the Associated Press, “The Fed said it is creating a new entity to buy three-month unsecured and asset-backed commercial paper directly from eligible companies. It hopes to have the program up and running soon.”



The new Fed entity will be named the Commercial Paper Funding Facility (CPFF). According to the [press release](#) announcing the creation of the CPFF, the new entity “will provide a liquidity backstop to U.S. issuers of commercial paper through a special purpose vehicle (SPV) that will purchase three-month unsecured and asset-backed commercial paper.”

The CPFF will be funded initially by the Treasury Department. According to the Fed press release, “The Treasury believes this facility is necessary to prevent substantial disruptions to the financial markets and the economy and will make a special deposit at the Federal Reserve Bank of New York in support of this facility.”

A document released by the Fed, which details the [terms and conditions](#) under which the CPFF will operate, indicates that the new entity operates under [section 13\(3\) of the Federal Reserve Act](#). The paragraph in question reads:

In unusual and exigent circumstances, the Board of Governors of the Federal Reserve System ... may authorize any Federal reserve bank ... to discount for any individual, partnership, or corporation, notes, drafts, and bills of exchange when such notes, drafts, and bills of exchange are indorsed or otherwise secured to the satisfaction of the Federal Reserve bank.

The amount of money the Fed could channel into the short-term commercial paper market could surpass the \$700 billion bailout passed by Congress last week. According to the Associated Press, “Fed officials said that they’ll buy as much of the debt as necessary to get the market functioning again. They refused to say how much that might be, but they noted that around \$1.3 trillion worth of commercial paper would qualify.”

The money the Treasury will deposit with the Federal Reserve Bank of New York will not come from the \$700 billion bailout bill that President Bush signed into law last week, but will be in addition to it. And it may not be the last injection of cash into the economy either. Yesterday, the Fed promised to take “additional measures as necessary” to solve the credit crisis. Among those was to announce a doubling of the cash auctions it uses to make money available to banks. According to [Bloomberg.com](#), the Fed will now make as much as \$900 billion available through the auctions.

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