In response to recent financial market turmoil, the Federal Reserve has introduced an alphabet soup of programs (TAF, TSLF, PDCE, etc.). What are these, and how do they work?

Since August, the Fed has implemented a variety of programs to deal with this turmoil. Each program is intended to inject liquidity into a potential trouble spot in the market.

The Term Discount Window Program (TDWP) essentially extends the term of discount window loans from overnight to up to 90 days. Depository institutions that borrow under the TDWP or the conventional discount window pay the primary credit rate.

Under the Term Auction Facility (TAF), the Fed auctions off loans to depository institutions every other Thursday for a term of 28 days. The size of the auction is set (currently $75 billion), and depository institutions bid for the funds. The interest rate paid is the lowest rate that exhausts the funds (or the lowest rate proposed by any bidder if the total requests are smaller than the amount to be auctioned). Consequently, the rate can be higher or lower than the primary credit rate.

The Primary Dealer Credit Facility (PDCF) extends overnight borrowing from the Fed to primary dealers. (Currently, there are 20 dealers with whom the Fed trades government securities.) The loans are overnight but may be renewed daily for a period of six months or longer if conditions warrant. The interest rate charged is the primary credit rate. The collateral requirements under the PDCF are somewhat different from those used for regular discount borrowing.

The Term Securities Lending Facility (TSLF) established term swaps of securities between the Fed and primary dealers. Primary dealers are permitted to exchange various securities for U.S. Treasuries for a term of 28 days. The securities are auctioned weekly with the amount of the auction and the Treasuries available determined in advance of the auction. The rate is essentially the spread between the rate on Treasuries being auctioned and the rate on the pledged collateral presented by the primary dealers.

The TSLF differs from conventional open market operations (OMO) in that with OMO the Fed exchanges funds, i.e., deposits at the Fed, for securities from the dealers—it does not swap securities for securities. Moreover, the Fed accepts a wider range of securities under the TSLF than it accepts with OMO.

Finally, on March 7, 2008, the Fed announced the Single-Tranche OMO Program. Funds provided through this program are made available weekly for a term of 28 days—longer than the overnight to 14-day term of conventional OMO.