Banking and Finance Law Daily Wrap Up, TOP STORY—Federal rates slashed again; financial regulators combat economic impact of COVID-19, (Mar. 16, 2020)

Banking and Finance Law Daily Wrap Up

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By Thomas G. Wolfe, J.D.

Federal financial regulators launched initiatives to support the flow of credit to U.S. households and businesses, to enhance the liquidity of the U.S. dollar, and to encourage and guide banks with assisting customers and communities affected by the coronavirus outbreak.

Based on recent developments that have taken place in connection with the 2019 Coronavirus Disease (COVID-19) as well as on information it has received since it last met, the Federal Open Market Committee decided (in a 9-to-1 vote) to further reduce the target range for the federal funds rate by a full percentage point to a new zero- to 0.25-percent level. While it previously had reduced the funds rate by 50 basis points in early March (see *Banking and Finance Law Daily*, March 3, 2020), the FOMC determined that the "coronavirus outbreak has harmed communities and disrupted economic activity in many countries, including the United States." In a related monetary action, the Federal Reserve Board voted unanimously to approve a 1.50 percentage-point decrease in the primary credit "discount" rate to 0.25 percent, effective March 16, 2020, and the Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency joined the Fed in encouraging banks to use the "discount window" to support the flow of credit to U.S. households and businesses. Meanwhile, the Fed joined together with central banks (Bank of Canada, Bank of England, Bank of Japan, European Central Bank, and Swiss National Bank) to enhance the provision of liquidity "via the standing U.S. dollar liquidity swap line arrangements." Further, in separate guidance issuances, the FDIC and OCC encouraged banks to assist financial institutions and their customers affected by the coronavirus outbreak.

Economic outlook. According to the FOMC, global financial conditions have been "significantly affected" by COVID-19, and "the energy sector has come under stress" in recent times. Still, "the U.S. economy came into this challenging period on a strong footing." For instance, the labor market has "remained strong through February and economic activity rose at a moderate rate," the Committee stated. In addition, job gains have been "solid, on average, in recent months," and the unemployment rate has "remained low." However, while household spending "rose at a moderate pace," business fixed investment and exports "remained weak," the FOMC indicated.

Further, on a 12 month basis, overall inflation and inflation for items other than food and energy "are running below 2 percent," the Committee said. Meanwhile, market-based measures of inflation compensation "have declined," and survey-based measures of longer-term inflation expectations "are little changed." Notably, the FOMC reported that the "effects of the coronavirus will weigh on economic activity in the near term and pose risks to the economic outlook."

Federal rates. In light of these economic developments, the Committee decided to lower the target range for the federal funds rate to zero to 0.25 percent. The Committee expects to maintain this target range until it is confident that the economy "has weathered recent events and is on track" to achieve the Committee's "maximum employment and price stability goals." According to the FOMC, this action will "help support economic activity, strong labor market conditions, and inflation returning to the Committee's symmetric 2 percent objective."

Similarly, in connection with the primary credit "discount" rate, the interest rate charged for short-term credit extensions to depository institutions, the Federal Reserve voted unanimously to approve a 1.50 percentage-point decrease in the primary credit rate to 0.25 percent, effective March 16, 2020. In taking this action, the Fed

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approved the requests to establish that rate submitted by the Boards of Directors of the Federal Reserve Banks of Minneapolis and New York. The prior 1.75-percent level for the primary credit rate had been in place for a brief period—since March 4, 2020.

Moreover, in a joint statement on the Fed's "discount window," the Fed, FDIC, and OCC have encouraged banks to use the discount window to "continue supporting households and businesses."

Treasury securities, MBS holdings. Next, to "support the smooth functioning of markets for Treasury securities and agency mortgage-backed securities that are central to the flow of credit to households and businesses," the FOMC plans to increase its holdings of Treasury securities "by at least $500 billion" and its holdings of agency mortgage-backed securities "by at least $200 billion" over the coming months. Also, the Committee will "reinvest all principal payments from the Federal Reserve's holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities." Further, the Open Market Desk has expanded its "overnight and term repurchase agreement operations" as well.

Fed, FDIC, OCC issuances. In separate issuances to provide regulatory relief and guidance, the Fed (SR 20-4; CA 20-3), FDIC (FIL-17-2020), and the OCC (OCC 2020-15) are encouraging financial institutions to take prudent steps to assist customers and communities affected by COVID-19.

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