<table>
<thead>
<tr>
<th>New <strong>Limits</strong> on Liquidity Assistance</th>
<th>New <strong>Avenues</strong> For Liquidity Assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ban on Federal Reserve 13(3) emergency lending to <em>individual institution</em>; Treasury approval required for 13(3) lending.</td>
<td>Section 1101 of DFA can be read to permit very extensive 13(3) lending to <em>multiple institutions</em> (‘broad based’ program).</td>
</tr>
<tr>
<td>Exchange Stabilization Fund cannot be used to backstop money market funds.</td>
<td>Treasury line of credit for failing financial institutions in resolution.</td>
</tr>
<tr>
<td>FDIC debt guarantees now require (fast track) Congressional approval.</td>
<td>Discount window access for non-bank financial market utilities during ‘unusual and exigent’ circumstances.</td>
</tr>
</tbody>
</table>
13(3) Emergency Lending

• Federal Reserve proposed rules contain almost no specific restrictions.
  – Duration of program use.
  – Solvency.
  – Definition of ‘broad based’.
  – Rates and terms compared to market.

• Collateral valuation -- value of collateral may depend on availability of emergency liquidity.
Single Point of Entry Resolution and Treasury Line of Credit

- Ability to keep subsidiaries open may depend on Treasury-provided liquidity.
- Treasury credit secured by value of company.
- But value of company may depend on availability of Treasury credit.
- Potentially unlimited period to pay back losses incurred during resolution.
“The ideal way to deal with moral hazard is to have in place before the crisis begins a well-developed structure that gives clear indications in what circumstances and on what terms the government will intervene with respect to a systemically important institution. We have found ourselves, though, in this episode in a situation in which events are happening quickly, and we don’t have those things in place.”

Ben Bernanke, FOMC Transcripts, 2008.