Feds to Help Ailing Banks

The Federal Reserve boosted its lending to commercial banks and investment firms over the past week, indicating that a severe credit crisis was still squeezing the financial system.

The Fed released a report Friday saying commercial banks averaged $93.6 billion in daily borrowing for the week ending Wednesday. That was up from an average of $91.6 billion for the week ending Nov. 19.

The report also said investment firms borrowed an average of $52.4 billion from the Fed's emergency loan program over the week ending Wednesday, up from an average of $50.2 billion the previous week.

The Fed said its net holdings of business loans known as commercial paper over the week ending Wednesday averaged $282.2 billion, an increase of $16.5 billion from the previous week.

Financial firms are borrowing from the Fed because they are having trouble raising money through normal channels as the financial system endures its worst crisis since the Great Depression.

Banks are hoarding cash rather than making loans out of fear that they won't be repaid. The Fed and the Treasury have been flooding the financial system with money in hopes that banks can return lending operations to more normal levels.

The central bank on Oct. 27 began buying commercial paper, the short-term debt that companies use to pay everyday expenses. It was one of a series of moves the Fed has made to try to unfreeze credit markets.

The Fed's goal is to raise demand in this area as a way to boost the availability of commercial paper, which has been seriously constrained since the financial crisis hit with force in September.

The report said insurance giant American International Group's loan from the Fed averaged $79.6 billion for the week ending Wednesday. That was down by $5.6 billion from the average the previous week.

The reduction reflected a modification of the government's support program for AIG earlier this month. Under that change, Treasury stepped in with a $40 billion purchase of stock in AIG, using money from the government's $700 billion financial system rescue package. The increased support from Treasury allowed the Fed to reduce slightly the size of its total loans to AIG.

The Fed unveiled two new programs Tuesday in a further effort to get consumer credit flowing again.

It said it would begin buying mortgage-backed securities from mortgage giants such as Fannie Mae and Freddie Mac. And it announced a program to lend to financial firms that buy securities backed by various types of consumer debt, from credit cards to auto and student loans.