

Bachus Asks Whether Fed's Policy is Discouraging Banks From Lending

December 12, 2008

Congressman Spencer Bachus, Ranking Member of the House Financial Services Committee, sent the attached letter to the Federal Reserve to inquire as to whether the new rules allowing it to pay interest on member banks' required reserves are counterproductive.

In his letter Ranking Member Bachus asked whether "the statutory provision [in the Emergency Economic Stabilization Act] authorizing the Federal Reserve to pay interest on member banks' required reserves and excess balances might also be discouraging these institutions from lending."

"In exchange for hundreds of billions of dollars of cash, Congress expected financial institutions to lend to credit-worthy businesses, large and small, and to American families. I am disappointed that banks have scaled back lending and I am trying to understand why," Bachus said.

"If by paying interest on reserves the Fed is discouraging bank lending, we must immediately reexamine the policy."

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