What has the Fed done to stabilize our banking system?

- Added liquidity to the banking system
  
  Central banks provide emergency cash—liquidity—to the banking system during periods of financial distress. In normal times, banks borrow from each other for terms ranging from overnight to several months. When banks find it difficult to borrow from other banks, they can borrow from what is known as the Federal Reserve's "discount window," where they secure a loan with collateral. Starting in August 2007, banks became increasingly reluctant to make short-term loans to each other. In response, the Federal Reserve created a mechanism, known as the Term Auction Facility, to provide one- and three-month discount-window loans to banks. It also created swap lines with foreign central banks to increase the availability of dollar-denominated loans to banks in other countries. In addition, in October 2008, the Federal Deposit Insurance Corporation launched the Temporary Liquidity Guarantee Program, which expanded deposit insurance coverage and provided guarantees on newly issued bank debt.

References:
- The Federal Reserve's Balance Sheet: An Update, speech by Ben S. Bernanke, Chairman, Federal Reserve Board of Governors, at the Federal Reserve Board Conference on Key Developments in Monetary Policy, Washington, DC, October 8, 2009.

- Conducted "stress tests" of major banks
  
  The financial crisis undermined confidence in the banking system. In the spring of 2009, the Federal Reserve, in conjunction with other federal regulatory agencies, conducted an exhaustive and unprecedented review of the financial condition of the 19 largest U.S. banks. This included a "stress test" that measured how well these banks could weather a bad economy over the next two years. Banks that didn't have enough of a capital cushion to protect them from loan losses under the most adverse economic scenario were required to raise new money from the private sector or accept federal government funds from the Troubled Asset Relief Program.

References:

- Supported systemically important banks
  
  Massive loan losses and the failure of two large financial institutions—Lehman Brothers and Washington Mutual—fueled fears that other large banks could fail. The resulting panic threatened to lead to a full-scale "run" on banks by depositors and lenders, a nightmare scenario that could have caused the entire financial system to break down. That made it essential to support institutions whose failure could lead to such a meltdown. In concert with the Treasury Department and other federal agencies, the Federal Reserve agreed to provide nonrecourse loans to two giant banks: Citigroup and Bank of America. Although these loans were not ultimately needed, backing from the Federal Reserve and other government agencies helped calm investors.

References:
- Troubled Asset Relief Program, testimony by Donald L. Kohn, Vice Chairman, Federal Reserve Board of Governors, before the Committee on Financial Services, U.S. House of Representatives, Washington, DC, January 13, 2009.

http://www.frbsf.org/econanswers/response_q2more.htm