

Discount Window Preparedness

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Lyle Kumasaka

*Lead Financial Institution and Policy Analyst
Board of Governors of the Federal Reserve System
Division of Monetary Affairs*

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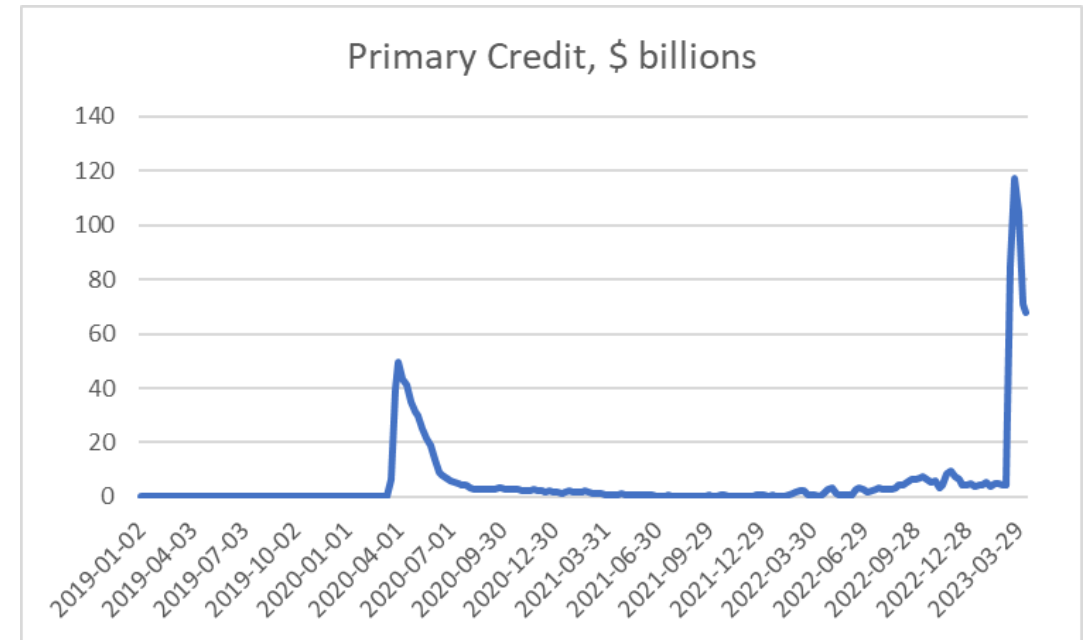
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Goals of Today's Session

- **Describe the steps in becoming prepared to borrow from the Federal Reserve's discount window and Bank Term Funding Program, including:**
 - Legal lending agreements
 - Pledging collateral

Why Use the Discount Window?

- The discount window is a tool available to depository institutions to help manage their liquidity risks efficiently.
- The discount window's primary credit program is a convenient and ready source of contingency funding in circumstances such as:
 - To avoid overnight overdrafts to master account
 - Increased volatility in market rates
 - Meeting an unexpected need for funding, including those that may arise from deposit withdrawals or a spike in loan demand
 - Unexpected operational challenges
- In March 2020 and March 2023, many depository institutions were able to meet their unexpected funding needs by borrowing from the discount window.



Source: Federal Reserve Board H.4.1 statistical release

Preparedness to Borrow

- **Banking regulators recommend:**
 - Establishing a diverse mix of existing and potential future funding sources
 - Regularly confirming and testing capacity to raise funds quickly from each source
- **More specifically regarding the discount window, regulators:**
 - View the discount window as a prudent and reliable contingent funding source
 - Encourage banks to assess the potential use of discount window borrowing as a contingency funding source
- **Discount window arrangements cannot be established immediately. Time-consuming steps include:**
 - Legal agreements can take some time to complete.
 - Collateral arrangements can take at least a few days to establish.

Step 1: Legal Lending Agreements

- The following agreements can be found at <https://www.frbdiscountwindow.org/Pages/Agreements/Required-Agreements:>
 - Letter of Agreement
 - Certificate: Schedule A to Letter of Agreement*
 - Authorizing Resolution for Borrowers
 - Official OC-10 Authorization List
 - Letter of Agreement to Correspondent**

*If institution wants to pledge loans

**If institution has relationship with Correspondent

Step 2: Pledging Collateral

- **The discount window accepts a wide range of assets:**
 - Investment-grade securities (e.g. Treasuries, Agency and private-label MBS, munis, corporates)
 - Performing loans (e.g. consumer, C&I, CRE, and residential mortgages)
 - Wider range of assets than accepted by FHLBs
 - A list of commonly pledged assets can be found at https://www.frbdiscountwindow.org/Pages/Collateral/collateral_eligibility
- **Discount window collateral margins and valuation practices can be found at https://www.frbdiscountwindow.org/Pages/Collateral/collateral_valuation**
- **Detailed instructions are available at https://www.frbdiscountwindow.org/Pages/Collateral/pledging_collateral**

Collateral—Securities Pledging

- **Securities are pledged via the Fedwire Securities Service (FSS), Depository Trust Company (DTC), or other approved securities depositories.**
 - FSS: pledger first establishes a U102 restricted securities account by contacting a Federal Reserve Wholesale Operations Site (<https://www.frbervices.org/contactus/fedwire.html>). The pledger repositions securities into its U102 account using Fedline® or by contacting the Federal Reserve Wholesale Operations site
 - DTC: pledger pledges securities to its Reserve Bank's DTC pledge account via DTC Participant Terminal System or through a DTC participant
- **Eligible securities can generally be pledged same day, subject to the securities depository's business hours.**

Collateral—Loans Pledging

- **Pledger documentation**
 - Borrower In Custody (BIC) Collateral Certification
 - Internal Risk Rating System (if used)
 - Most Recent Audit/Loan Review of Pledged Assets
 - Third Party Custodian Agreement*
 - Additional documentation and review may be needed for loans that exist only in electronic form
 - Pledge file listing
- **Reserve Bank procedures**
 - Filing of UCC public financing statement and filings search
 - Comfort Letter/Subordination Agreement*
 - Pledge file mapping

*if necessary

The Borrowing Process

- **To request a primary credit advance, simply call your local Reserve Bank (<https://www.frbdiscountwindow.org/Pages/Select-Your-District>) at its toll-free number. Please be prepared to supply the following information:**
 - Name and location (city and state) of your institution
 - Your institution's ABA and telephone numbers
 - Your name and title. If your institution's borrowing resolution requires that two people request a Discount Window loan, please have a second authorized individual available
 - The amount you are requesting
 - The number of days that funds will be needed
- **Current Interest Rates can be found the [frbdiscountwindow.org](https://www.frbdiscountwindow.org) homepage.**

Borrowing Details

- **Proceeds are posted to the borrowing institution's account or its correspondent's account, normally after the close of Fedwire.**
- **Discount Window loans are repaid automatically on the maturity date or, at the lending Reserve Bank's discretion, upon demand.**
 - Repayment of principal and accrued interest is charged to the same account
 - Term loans can be prepaid in whole or in part by the borrower
- **Test loans can be requested.**
 - Usually these are for nominal amounts, like \$10,000
 - Banking regulators have said they will not criticize institutions for testing discount window access
- **The identities of discount window borrowers and amounts of borrowing are disclosed about two years after the borrowing**

Bank Term Funding Program (BTFP)

- **March 12, 2023: Federal Reserve announced new BTFP to help ensure banks have the ability to meet the needs of depositors.**
- **Available to federally-insured depository institutions pledging as collateral U.S. Treasuries, agency debt and mortgage-backed securities, that were owned by the pledger on 3/12/2023.**
- **The BTFP uses different collateral valuation than the discount window, and in particular values the securities at par.**

	Discount Window <i>Primary Credit</i>	Bank Term Funding Program (BTFP)
Eligible institutions	<ul style="list-style-type: none"> • Depository institutions in generally sound financial condition 	<ul style="list-style-type: none"> • FDIC-insured depository institutions in generally sound financial condition
Eligible Collateral	<ul style="list-style-type: none"> • A wide range of securities and loans • See collateral eligibility information on frbdiscountwindow.org 	<ul style="list-style-type: none"> • Collateral eligible for purchase by Reserve Banks in open market operations, such as U.S. Treasuries and U.S. agency MBS. Securities must have been owned by the pledger on 3/12/2023
Collateral Valuation	<ul style="list-style-type: none"> • Fair Market Value 	<ul style="list-style-type: none"> • Par Value
Margin	<ul style="list-style-type: none"> • See collateral schedule on frbdiscountwindow.org 	<ul style="list-style-type: none"> • No haircuts (100% margin)

BTFP Terms and Preparedness

- BTFP loans can be extended for up to one year, a longer term than under primary credit.
- Unlike for primary credit, the BTFP lending rate is fixed for term of the loan, and is set daily at the 1-year OIS rate + 10 basis points.

	Discount Window <i>Primary Credit</i>	Bank Term Funding Program (BTFP)
Rate	<ul style="list-style-type: none">• Primary credit rate (today = 5.25%)• Rate changes as primary credit rate changes	<ul style="list-style-type: none">• 1-year OIS rate + 10 bps• Rate is fixed on day advance is made• Daily rate is posted on frbdiscountwindow.org
Term	<ul style="list-style-type: none">• Up to 90 days	<ul style="list-style-type: none">• Up to one year
Program Duration	<ul style="list-style-type: none">• Permanent; standing	<ul style="list-style-type: none">• Available until at least March 11, 2024

- In addition to completing the regular discount window lending legal agreements and pledging eligible collateral, BTFP borrowers must submit a form email agreeing to the terms of the program.
- Pledging BTFP collateral is almost identical to the process for pledging securities to the discount window; instructions can be found at [https://www.frbdiscountwindow.org/GeneralPages/bank term funding program](https://www.frbdiscountwindow.org/GeneralPages/bank_term_funding_program)

Federal Reserve Resources

- **Federal Reserve Discount Window Website**

<https://www.frbdiscountwindow.org/>

- **Federal Reserve Discount Window Mechanics of Borrowing**

<https://www.frbdiscountwindow.org/Pages/General-Information/The-Mechanics-of-Borrowing>

- **Federal Reserve Discount Window FAQs**

<https://www.frbdiscountwindow.org/pages/general-information/faq>

- **Bank Term Funding Program (BTFP) Information**

[https://www.frbdiscountwindow.org/GeneralPages/bank term funding program](https://www.frbdiscountwindow.org/GeneralPages/bank_term_funding_program)

Thanks for listening.

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