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Canada: Term Loan Facility[1]

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Abstract

As the Global Financial Crisis deepened into late 2008, liquidity continued to deteriorate in Canadian credit markets. Canadian financial institutions curtailed their lending, which increased funding costs and reduced market-wide liquidity. In response, the Bank of Canada (BoC) took extraordinary measures to provide liquidity to financial market participants and improve credit conditions. On November 12, 2008, the BoC established the Term Loan Facility (TLF) to extend credit at a penalty rate for terms of approximately one month. The TLF was available to 14 major banks that were direct participants in Canada's payments system, the Large Value Transfer System. Participants could pledge their relatively illiquid, CAD-denominated non-mortgage loan portfolios in exchange for central bank funding. The BoC established two other liquidity facilities during this period, the regular Term PRA and the Term PRA for Private Sector Instruments. The BoC conducted 50 auctions through the TLF, of which just seven were subscribed. In total, it auctioned CAD 5.2 billion (USD 4.2 billion) in funding. The limited participation in the TLF may suggest that Canadian financial institutions were able to obtain short-term funding from other, more cost-effective sources. The TLF expired on October 28, 2009, along with the Term PRA for Private Sector Instruments.

Keywords: Bank of Canada, BBEL, broad-based emergency liquidity, Canada, Term Loan Facility, TLF

[1] This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering broad-based emergency lending programs. Cases are available from the *Journal of Financial Crises* at
https://elischolar.library.yale.edu/journal-of-financial-crises/.

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Overview

In September 2008, stressed conditions in global financial markets, precipitated by the failure of Lehman Brothers, a US investment bank, caused liquidity in Canadian markets to deteriorate suddenly. Credit spreads spiked to unprecedented levels (Longworth 2010, 4–5; Zorn, Wilkins, and Engert 2009, 7). The Bank of Canada (BoC) responded by expanding liquidity programs that it had introduced earlier in the global financial crisis—for example, it conducted Term Purchase and Resale Agreements (Term PRAs) more frequently against a broader range of collateral and expanded the collateral eligible for its Standing Liquidity Facility (SLF) to include non-mortgage loan portfolios (BoC 2007; Zorn, Wilkins, and Engert 2009, 7). The SLF was available to major banks that were direct participants in the payments system, the Large Value Transfer System (LVTS); the Term PRAs were available both to LVTS banks and primary dealers.

But the SLF provided only overnight liquidity. On November 12, 2008, the BoC established the Term Loan Facility (TLF) to lend to LVTS banks at terms of 26-30 days, using non-mortgage loans as collateral.[3] The TLF's weekly auctions offered backstop funding at a penalty rate (Zorn, Wilkins, and Engert 2009, 8). The BoC conducted 50 auctions over the TLF's lifespan. Ultimately, the BoC lent

Key Terms

Purpose: To give participants "increased flexibility in the management of their balance sheets and to improve conditions in money and credit markets" (Zorn, Wilkins, and Engert 2009, 19)

Launch Dates	November 12, 2008 (Announcement) November 19, 2008 (Operational)
Expiration Dates	October 28, 2009 (Final Auction)
Legal Authority	Section 18(h) of the Bank of Canada Act
Peak Outstanding	More than CAD 4 billion
Participants	Banks that were participants in the Large Value Transfer System (LVTS), Canada's payments system
Rate	Non-mortgage loan portfolios
Collateral	The DWF offered banks the opportunity to borrow gilts, also known as government securities, for a fee, against a range of less-liquid collateral
Loan Duration	26-30 days
Notable Features	N/A
Outcomes	Little use relative to other BoC liquidity facilities

[3] The Canadian government explicitly insured many outstanding mortgage loans either through a crown corporation, the Canada Mortgage and Housing Corporation (CMHC), which carried a 100% guarantee; or

just CAD 5.2 billion (USD 4.2 billion)[4] through the TLF in seven subscribed auctions (BoC 2013b). As conditions in funding markets improved and use of the TLF declined, the BoC allowed the facility to expire on October 28, 2009 (BoC 2009f).

Summary Evaluation

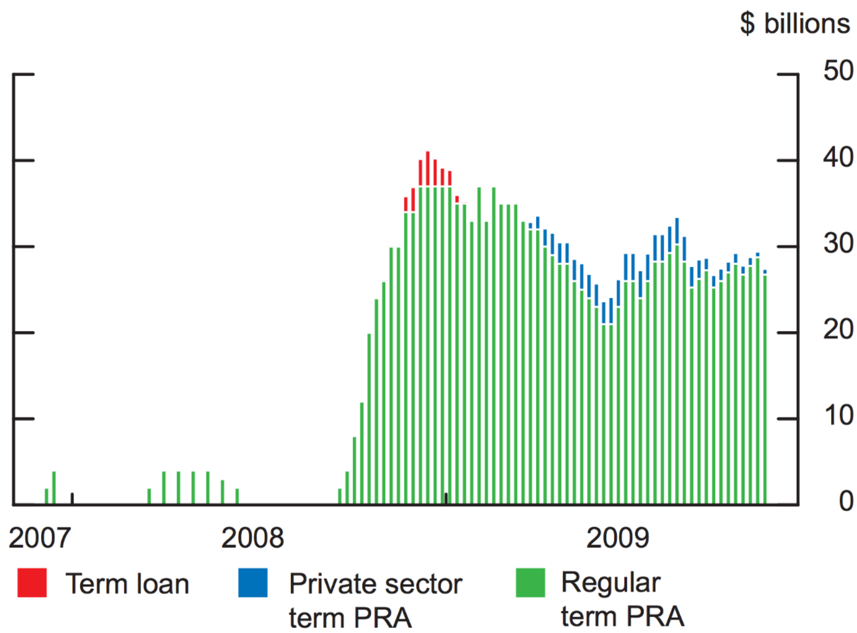
Throughout the financial crisis, financial market participants tapped the BoC's regular Term PRA facility, which "contributed to reduced market stress and a return to well-functioning money markets." In contrast, demand was relatively low for the Term Loan Facility and for the private-sector Term PRA facilities that the BoC created to provide liquidity against specific types of collateral. Market participants favored the regular Term PRA because of its longer-term lending and broader collateral that aligned with the SLF. Nevertheless, the announcement and presence of the other facilities "helped to mitigate uncertainty among market participants about the availability of liquidity" (Longworth 2010, 6).

Although the BoC continued to offer weekly auctions of term funding through October 2009, the TLF was only used briefly at the end of 2008. Utilization peaked at about CAD 4 billion in early December 2008 (see Figure 1). The TLF auctioned liquidity at a penalty rate in order to minimize market distortions and provide the BoC with a natural exit once participants were able to source market funding (Zorn, Wilkins, and Engert 2009, 11; Longworth 2010, 5). The low rate of participation in the TLF may suggest that Canadian financial institutions were able to obtain short-term funding from other, more cost-effective sources (Zorn, Wilkins, and Engert 2009, 16).

through privately insured mortgages—Genworth Financial and Canada Guaranty, an AIG subsidiary—which carried a 90% guarantee (McKeown 2017, 9, 19).

[4] Per Yahoo Finance, USD 1 = CAD 1.25 on December 1, 2008.

Figure 1: Amount Outstanding Under the BoC's Liquidity Facilities (CAD)



Note: End of week par values.

Source: Zorn, Wilkins, and Engert 2009, 8.

Context: Canada 2008–2009	
GDP (SAAR, nominal GDP in LCU converted to USD)	\$1.553 trillion in 2008 \$1.526 trillion in 2009
GDP per capita (SAAR, nominal GDP in LCU converted to USD)	\$46,711 in 2008 \$40,876 in 2009
Sovereign credit rating (five-year senior debt)	Data for 2008: Moody's: Aaa S&P: AAA Fitch: AAA Data for 2009: Moody's: Aaa S&P: AAA Fitch: AAA
Size of banking system	\$1.827 trillion in 2008 Data not available for 2009
Size of banking system as a percentage of GDP	136.39% in 2008 Data not available for 2009
Size of banking system as a percentage of financial system	Data not available for 2008 Data not available for 2009
Five-bank concentration of banking system	93.0% in 2008 97.3% in 2008
Foreign involvement in banking system	4% in 2008 5% in 2008
Government ownership of banking system	Data not available for 2008 Data not available for 2009
Existence of deposit insurance	Yes, in 2008 Yes, in 2009
Sources: Bloomberg, World Bank Global Financial Development Database, World Bank Deposit Insurance Dataset.	

Key Design Decisions

1. Purpose: The BoC established the TLF to backstop funding for banks' illiquid collateral so they could deploy their liquid assets elsewhere.

Through the TLF, the BoC provided backstop funding to Canadian banks to "[increase] flexibility in the management of their balance sheets." By allowing banks to pledge their illiquid non-mortgage loan portfolios to the TLF and reallocate their more liquid assets, the BoC sought to "improve conditions in money and credit markets" (Zorn, Wilkins, and Engert 2009, 8, 19). The BoC believed the term lending facilities would be most useful "when liquidity premiums in money markets are distorted" and when "at least two deposit-taking financial institutions face liquidity shortages" (Longworth 2008, 4).

The BoC used the TLF to make liquidity available to individual financial institutions whose difficulty in managing their balance sheets exceeded the capacity of the Standing Liquidity Facility,[5] but whose problems were not serious enough to warrant recapitalization or restructuring through Emergency Lending Assistance (Longworth 2010, 5). Ultimately, financial institutions primarily tapped the BoC's regular Term PRA (Zorn, Wilkins, and Engert 2009, 8).

2. Legal Authority: Section 18(h) of the Bank of Canada Act authorized lending to financial institutions through the TLF.

The Bank of Canada Act authorized the BoC to issue loans of up to six months to any member of the Canadian Payments Association (CPA) (1985, vol. c. B-2, sec. 18[h]). Membership in the CPA, also known as Payments Canada, included all Canadian-chartered banks (Payments Canada 2016). Such loans could be backed by "any property that the institution to which the loan or advance is made is authorized to hold" (Legislative Services Branch 2008).

3. Part of a Package: The TLF complemented two other liquidity facilities—the regular Term PRA and Private Sector Term PRAs—that the BoC had already established to assist financial institutions during the Global Financial Crisis.

In the fall of 2008, the BoC expanded its standing facility and implemented two additional programs. In September 2008, the BoC reintroduced the Term Purchase and Resale Agreements (Term PRA) program, first implemented in December 2007[6] (Zorn, Wilkins, and Engert 2009, 8). The regular Term PRA extended credit to large Canadian banks for a period of up to one year to address heightened pressures in short-term funding markets (Zorn, Wilkins, and Engert 2009, 6; Macdonald 2012, 36). On October 14, 2008, the BoC established the Term PRA for Private Sector Money Market Instruments, which it replaced in February 2009 with the Term PRA for Private Sector Instruments (BoC 2008b; BoC 2009a). Both

[5] The BoC operated two standing lending facilities: the Standing Liquidity Facility (SLF), available to LVTS participants, and the Overnight Standing Purchase and Resale Agreement Facility, available to primary dealers (Longworth 2010, 2; BoC 2009b).

[6] For more information on the regular Term PRA facility, see Sankar (2022).

Private Sector PRAs sought to provide liquidity to money market participants and support Canadian corporate credit markets (Engert, Selody, and Wilkins 2008, 5–7; BoC 2008b; BoC 2009a). Together, the term liquidity outstanding through the Term PRA facilities reached over CAD 40 billion by December 2008; use of the TLF was limited to about CAD 4 billion (Zorn, Wilkins, and Engert 2009, 8).

Figure 2: Bank of Canada's Liquidity Facilities

	Term PRA facility	Term PRA for Private Sector Instruments (two iterations)	Term Loan Facility
First announced	December 12, 2007	October 14, 2008	November 12, 2008
Participants	Primary dealers and banks that were direct participants in the LTVS	Primary dealers, as well as money market participants on an indirect basis	Banks that were direct participants in the LTVS
Eligible collateral	Securities eligible for the BoC's Standing Liquidity Facility, a permanent overnight facility for temporary imbalances in settlement balances	Initially, investment-grade private sector money market instruments; later included bonds issued by Canadian or foreign entities	Non-mortgage loans
Term	Initially 2 weeks and 1 months; later included 3, 6, 9, 12 months	Initially 2 weeks; later 1 and 3 months	1 month
Frequency	Varied from weekly to monthly	Weekly	Weekly
Peak outstanding (CAD)	37 billion	3 billion	4 billion
Final Expiration	July 21, 2010	October 27, 2009	October 28, 2009

Source: BoC 2013a.

On October 17, 2008, the BoC expanded eligible collateral for its Standing Liquidity Facility (SLF) to include Canadian dollar non-mortgage loans. The BoC had, since 2003, routinely provided overnight credit through the SLF to major banks that participated in Canada's payment system, the Large Value Transfer System (LVTS), when they experienced temporary liquidity shortages (BoC 2021; BoC 2004, 49).

However, the BoC had intended the SLF to be utilized for payment settlement purposes, not for institutions experiencing "persistent liquidity shortages," and offered only overnight liquidity (de Guzman 2016, 15). To lend in a similar capacity but at longer terms, the BoC established the TLF. Through the TLF, the BoC auctioned liquidity at a minimum bid rate equal to the rate charged at the SLF, and also secured by Canadian-dollar non-mortgage loan portfolios (Longworth 2010, 2, 5; Zorn, Wilkins, and Engert 2009, 6–9).

The BoC also provided long-term liquidity assistance to severely stressed financial institutions through its Emergency Lending Assistance (ELA) (BoC 2021; BoC n.d.b). The BoC used emergency lending to provide liquidity in support of an institution's recovery efforts, such as raising capital or restructuring business lines. It established the TLF in part as an alternative to ELA, which was stigmatized and saw little usage (Longworth 2010, 7).

4. Management: The BoC managed the TLF.

The BoC announced the details of TLF auctions and established the terms and conditions (BoC 2008d).

5. Administration: The BoC conducted single-price auctions weekly, with all winning bidders paying the rate of the minimum accepted yield.

To minimize market distortions, the BoC chose to allocate liquidity by auction where the price of liquidity would be determined competitively by participants (Longworth 2010, 5). The auction mechanism also allowed the BoC to offer an alternative to the Emergency Lending Assistance (ELA) program, which was stigmatized (Longworth 2010, 7).

The BoC limited participants to two bids each, which were submitted on a yield basis up to two decimal points (BoC 2008a). The minimum bid rate was the Bank Rate (overnight target rate + 25 basis points [bps], which is considered a penalty rate) and the minimum bid amount was CAD 5 million, in increments of CAD 1 million (BoC 2008a; Longworth 2010, 7).

The BoC allocated funds to all bids based on the rate offered, proceeding from the highest to the lowest, until all funds were allocated. The rate of the lowest bid accepted became the cut-off (minimum accepted) yield; bids at the cut-off yield were pro-rated and rounded to the nearest CAD thousand. Before receiving their funds, bidders submitted a loan application to the BoC. For final settlement, which occurred one day after the auction, all winning bids by a single participant were combined into one transaction and credited to the bidder's LVTS General Sub-account (BoC 2008a).

The BoC set out terms and conditions of the TLF and had the right to revise them, as well as the ability to reject bids in whole or in part (BoC 2008a).

6. Eligible Participants: Major banks that were direct participants in Canada's Large Value Transfer System could participate in the TLF.

Only LVTS participants were eligible for the TLF (BoC 2008d). The Large Value Transfer System is Canada's payments and inter-bank transfer system (BoC n.d.a). All chartered banks operating in Canada must be members of the LVTS (Payments Canada 2016). LVTS participants are also required to be members of Payments Canada[7] (the entity that owns and operates the LVTS system), use the SWIFT telecommunications network, have adequate backup capability for LVTS operations, have a settlement account at the BoC, and enter into agreements relating to taking loans from the central bank and to pledging eligible collateral

[7] Under the Canadian Payments Association Act of 1980, all members of Payments Canada (formerly Canadian Payments Association) must be regulated, supervised, deposit-taking, financial institutions, and in most cases they participate in federal or provincial deposit-insurance programs (BoC 1998).

(BoC n.d.a). Ultimately, 14 participants were eligible for the TLF[8] (Zorn, Wilkins, and Engert 2009, 8). Unlike the BoC's other liquidity facilities, primary dealers were not directly eligible for the TLF unless they were LVTS participants; eight of the 14 LVTS participants had primary dealer affiliates (Zorn, Wilkins, and Engert 2009, 8).

7. Funding Source: The BoC funded the TLF with its balance sheet.

The BoC reported TLF advances on its balance sheet combined with regular overnight liquidity provided to LVTS participants through the SLF (BoC 2011).

8. Program Size: The TLF had no predetermined size, but the BoC announced in advance that it would make at least CAD 2 billion available at each auction; it lowered the minimum allocation to CAD 1 billion in July 2009.

The BoC announced that it was prepared to allocate at least CAD 2 billion to each weekly auction. Individual banks with credit ratings of A or higher could bid for up to 25 percent of that minimum amount, or CAD 500 million; banks with lower credit ratings could bid for up to 12.5 percent, or CAD 250 million. As a result, it was possible that bids in aggregate could exceed the minimum allocation of CAD 2 billion. However, banks never subscribed fully to that amount (BoC 2008f; BoC 2008d; BoC 2009c)

On July 29, 2009, the BoC lowered the weekly minimum allocation to CAD 1 billion (BoC 2009d).

Ultimately, only seven of the TLF's auctions were subscribed, extending a total of CAD 5.2 billion to participants (see Figure 3) (BoC 2013c).

[8] These banks were Alberta Treasury Branches, Bank of America National Assoc., Bank of Montreal, Bank of Nova Scotia, BNP Paribas (Canada), Caisse centrale Desjardins, Canadian Imperial Bank of Commerce, Credit Union Central of Canada, HSBC Bank Canada, Laurentian Bank of Canada, National Bank of Canada, Royal Bank of Canada, State Street Bank and Trust Company, and the Toronto-Dominion Bank (Zorn, Wilkins, and Engert 2009, 8).

Figure 3: Select Term Loan Facility Auction Results and Yield

Auction Date	Amount Used (CAD million)	Yield (%)
2008		
November 19	1,850	2.50
November 2	1,050	2.50
December 1	275	2.50
December 10	1,000	1.75
December 15	900	1.75
December 22	0	*N/A*
December 29	0	*N/A*
2009		
January 5	100	1.75
January 12	0	*N/A*
January 21	25	1.75
January 26	0	*N/A*
. . .	. . .	. . .
October 28	0	*N/A*

Notes: Auctions were offered weekly from November 19, 2008, until October 28, 2009. No participants bid in auctions held between February 2, 2009, and October 28, 2009.

Source: BoC 2013b.

9. Individual Participation Limits: Participation level was based on a bidder's credit rating.

LVTS banks with a credit rating of A or higher could bid up to 25 percent of the amount auctioned. For LVTS participants with a credit rating of BBB or lower (and for those without credit ratings), the bidding limit was 12.5 percent of the amount auctioned (BoC 2008a).

10. Rate Charged: The BoC held auctions with a minimum bid that the BoC considered to be a penalty rate.

The TLF priced its liquidity provision using a competitive auction with a minimum bid rate equal to the Bank Rate, which carries a 25 bp premium to the overnight target rate (Longworth 2010, 7).

Ultimately, winning bids paid the rate at the cut-off yield, or the minimum accepted yield in the auction (BoC 2008a). The Bank Rate, which stood at 2.75 percent when the TLF launched in November 2008, was cut to 0.75 percent by April 2009, where it stayed until the TLF's expiration in October 2009 (FRED n.d.). Lending through the Standing Liquidity Facility (SLF), which routinely provided liquidity to individual financial institutions, was also offered at the Bank Rate (Longworth 2010, 2).

The BoC characterizes its lending at or above the Bank Rate as a penalty rate. According to an article in the BoC's June 2010 *Financial System Review*: "This borrowing comes with a penalty, not only because the Bank Rate is set above the overnight rate, but also because it invites a stronger degree of regulatory scrutiny of the institution's liquidity and risk-management practices" (Selody and Wilkins 2010, 30). The rate supports the exit strategy for when markets return to normal.

Interest on the funds was calculated on a fixed, non-compounded rate (BoC 2008a).

11. Eligible Collateral: Participants could pledge the portion of their non-mortgage loan portfolio that was not included in the High Availability Banking System pool, with a 40 percent haircut.

The BoC allowed non-mortgage loans as eligible collateral for the TLF, as it had temporarily allowed in the SLF (BoC 2008a). By accepting these non-marketable illiquid assets, the BoC maximized its ability to secure not only short-term loans (under the SLF) but also longer-term loans (under the TLF) for a broad range of participants, who could then deploy their liquid assets elsewhere in the market (Longworth 2010, 5).

A participant could only pledge the portion of its non-mortgage loan portfolio that was not already included in the High Availability Banking System (HABS) pool, which is to say, securities already collateralizing LVTS transactions (BoC 2008a). The HABS is the system used to value and manage collateral pledged by LVTS participants (BoC n.d.c). In the event that not enough collateral was eligible for the TLF, a successful bidder could request for the BoC to release securities from the collateral pool, so long as the request was made by the day prior to the settlement date (BoC 2008a).

Participants' non-mortgage loan portfolio collateral was valued at 60 percent of the reported value. Collateral had to cover the principal value of the term loan plus the accrued interest over the term (BoC 2008a).

12. Loan Duration: The TLF extended loans with terms of one month.

The first auction held by the TLF on November 19, 2008, had a term of 26 days, while auctions held on November 24, December 1, and December 8, 2008, had terms of 28 days (BoC 2008d). The terms offered by the TLF differed from the overnight terms offered under the SLF, which also accepted non-mortgage loans as collateral along with other assets (BoC 2008a). In contrast, the regular Term PRA and the Term PRA for Private Sector Instruments, both extended credit at one-month and three-month terms, but accepted different assets as collateral. The BoC would not introduce six-month, nine-month, and one-year term PRAs until Spring 2009, when it shifted the focus of the program to supporting monetary policy (Zorn, Wilkins, and Engert 2009, 6).

The BoC expected term loans to be repaid in full by noon on the day of maturity (BoC 2008a).

13. Other Conditions: Research did not determine other conditions implemented by the Bank of Canada.

Further research did not uncover additional conditions attached to TLF loans.

14. Impact on Monetary Policy Transmission: Along with its term PRA facilities, the TLF helped the BoC reinforce its target overnight rate.

The BoC lowered its overnight target rate from 2.75% to 2.25% on October 8, 2008, and again on October 21 from 2.25% to 2.50% upon announcing it would respond to financial market stress with the provision of extraordinary liquidity measures coordinated with central banks in the US, UK, and EU (BoC 2008c). Another 75 bp rate cut followed in December 2008 which, in addition to the BoC's liquidity provision, helped to reduce the spread between the weighted average of bank borrowing rates and the BoC's expected overnight rate. The BoC estimated that this spread narrowed from a peak of 200 bps in October 2008 to roughly 170 bps in January 2009, reducing overall bank funding costs by about 100 bps (BoC 2009h, 6).

15. Other Options: Research did not find other options considered by the BoC.

Research did not determine additional options considered by the BoC prior to the introduction of the TLF.

16. Similar Programs in Other Countries: The TLF was one of many central bank facilities auctioning liquidity to many counterparties.

The TLF was similar to the Federal Reserve's Term Auction Facility which, through its auction mechanism, provisioned liquidity anonymously at a penalty rate to a wide range of counterparties, making it less stigmatized than regular standing lending facilities, such as the Federal Reserve's discount-window lending (Longworth 2008, 5). Many Canadian banks have operations in the United States, which provided them access to the Federal Reserve's discount window for US-dollar funds (Zorn, Wilkins, and Engert 2009, 8).

17. Communication: The BoC announced the TLF through a press release on their website and published auction procedures weekly.

The BoC announced the TLF in a press release on November 12, 2008. The BoC intended the TLF to improve conditions in money and credit markets by "providing greater flexibility for liquidity provision with regard to eligible collateral." The BoC also stated its willingness to continue providing term liquidity "as long as conditions in financial markets warrant" (BoC 2008c). The BoC said the TLF was consistent with its commitment to provide "extraordinary liquidity" in conjunction with central banks in the US, UK, and EU under a G7 Plan of Action announced by the BoC on October 14, 2008 (BoC 2008d; BoC 2008b).

At the beginning of each month, the BoC announced a schedule of forthcoming auctions (BoC 2008d). One week prior to each auction, the BoC announced the amount to be offered, the settlement date, and the term (between 26 and 30 days) (BoC 2009e). On the day of settlement, the BoC published the amount bid, the final allocation, and the yield (BoC 2008e).

In order to reduce stigma associated with the TLF, the BoC sought to "[enhance] the understanding of all market participants regarding the role of such facilities" (Longworth 2008, 5). The BoC endeavored to "actively communicate any unusual steps taken in its operations, as well as the reasons for those steps," citing speeches made by BoC Governor Mark Carney and Deputy Governor David Longworth, as well as BoC staff outreach to market participants (Longworth 2008, 5). Deputy Governor Longworth stated that "we have been clear about our liquidity operations, both when we expanded them and when we became the first major central bank to end special operations" (Longworth 2008, 5).

18. Disclosure: The BoC reported aggregate data on its liquidity facilities but did not release transaction-level detail of TLF participants.

The Bank of Canada Act requires the BoC to report information about its assets and liabilities, including for extraordinary liquidity measures, on a weekly basis; publish its balance sheet on a monthly basis; and deliver its financial account to Parliament annually (*Bank of Canada Act* 1985 Sec. 29[1]-[3]). The BoC reported TLF lending under section (4) Loans and Receivables, subsection (b) Advances to members of the Canadian Payments Association combined with its routine overnight advances to LVTS members through the SLF (BoC 2011).

The BoC published aggregate data on its liquidity facilities on a monthly basis but did not reveal counterparty-level details about the collateral posted by participants nor the funds they received in return (Macdonald 2012, 36).

19. Stigma Strategy: The BoC designed the TLF to appeal to a broad array of participants as an alternative to the stigmatized Emergency Lending Assistance.

The BoC said that the TLF "should have little stigma attached to its use, because it will be offered at the Bank's discretion at times of stress that involve more than one deposit-taking financial institution" (Longworth 2008, 5).

The BoC's Emergency Lending Assistance faced stigma as it was only used for firms facing severe liquidity stress as support for their recapitalization or restructuring efforts (Longworth 2008, 5; BoC 2021). Historically, the SLF was not stigmatized, as it offered one-day loans for temporary and relatively small liquidity needs (Longworth 2008, 5). The BoC drew a comparison between the TLF and the Federal Reserve's Term Auction Facility, noting that the Term Auction Facility was "significantly less stigmatized" than the Federal Reserve's discount window lending (Longworth 2008, 5). The BoC also sought to reduce stigma by "[enhancing] the understanding of all market participants regarding the role of such facilities" (Longworth 2008, 5).

20. Exit Strategy: The BoC designed the TLF to be self-liquidating by setting a minimum bid rate that exceeded normal market rates.

In each TLF auction announcement, the BoC stated it would continue "to provide additional term liquidity as long as conditions in financial markets warrant" (BoC 2008d). The BoC considered both the TLF and the Term PRA for Private Sector Instruments to be backstop facilities and set the minimum bid rates accordingly (Zorn, Wilkins, and Engert 2009, 11; Longworth 2010, 5). This provided the Bank with a natural exit once potential participants in the BoC's programs could source liquidity in the market at a better rate than the central bank offered (Zorn, Wilkins, and Engert 2009, 11; Longworth 2010, 5).

As funding conditions improved, the BoC announced on September 22, 2009, that the TLF would expire after October 28, 2009, along with the Term PRA for Private Sector Instruments a day earlier (BoC 2009f). In April 2009, the regular Term PRA closed; shortly after that, it became a standing facility for primary dealers to access funds at the Bank Rate at their discretion and a means for the BoC to influence overnight interest rates[9] (Zorn, Wilkins, and Engert 2009, 9–10).

[9] On February 1, 2010, the BoC began gradually reducing the percentage of LVTS and SLF collateral that can be made up of non-mortgage loan portfolios (BoC 2009g, 9).

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