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Term Securities Lending Facility: Frequently Asked Questions

Federal Reserve System: Federal Reserve Bank of New York

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The following is intended to address operational questions about the System Open Market Account (SOMA) Term Securities Lending Facility (TSLF).

Effective February 3, 2009

GENERAL

What is the TSLF?
The TSLF is a 28-day facility that will offer Treasury general collateral (GC) to the Federal Reserve Bank of New York's primary dealers in exchange for other program-eligible collateral. It is intended to promote liquidity in the financing markets for Treasury and other collateral and thus to foster the functioning of financial markets more generally.

What are the differences between the SOMA Securities Lending program and the TSLF?
The SOMA Securities Lending program offers specific Treasury securities held by SOMA for loan against Treasury GC on an overnight basis. Dealers bid competitively in a multiple-price auction held every day at noon. The TSLF will offer Treasury GC held by SOMA for a 28-day term. Dealers will bid competitively in single-price auctions held weekly and borrowers will pledge program-eligible collateral.

What are the differences between the TSLF and other Federal Reserve operations, like the TAF and term repo operations?
The Term Auction Facility (TAF) offers term funding to depository institutions via a bi-weekly competitive auction. In contrast, the TSLF will offer Treasury GC to the New York Fed's primary dealers in exchange for other program-eligible collateral. The New York Fed term repo operations are designed to temporarily add reserves to the banking system via term repos with the primary dealers. These agreements are cash-for-bond agreements and have an impact on the aggregate level of reserves available in the banking system. The security-for-security lending of the TSLF, however, will have no impact on reserve levels.

Do these operations have a reserve impact?
No, the securities loans will not affect overnight bank reserves since the loans are collateralized with other securities.

What collateral is eligible for pledging?
Eligible collateral will be determined by the Federal Reserve and presently includes all collateral eligible for tri-party repurchase agreements arranged by the Open Market Trading Desk (Schedule 1) and investment grade corporate securities, municipal securities, mortgage-backed securities, and asset-backed securities (Schedule 2). Schedule 2 also includes everything in Schedule 1.

How often will the New York Fed lend securities for term?
The New York Fed will auction a set amount of Treasury GC weekly for Schedule 2 operations and bi-weekly for Schedule 1 operations.

What is the term of a loan?
Loans will settle the business day following the auction and will mature 28 days later unless otherwise stated in the announcement. For example, the term of the loan may be adjusted to reflect holidays.

Can a dealer terminate a loan early?
No.

How are loans allocated among dealers?
Loans are awarded based on a competitive bidding process in a single-price auction format. Primary dealers that have elected to participate in the program may submit up to two bids via FedTrade or, if necessary, over the phone, after the auction has been announced at approximately 2:00 p.m. ET.

How much can dealers borrow at each auction?
Dealers can borrow no more than 20 percent of the par value offered of Treasury GC. In addition, the New York Fed reserves the right to reject bids at its discretion.

When will the New York Fed announce auction offering amounts?
The New York Fed will announce the par value of offering amounts as well as other auction details at 3:00 p.m. ET the day prior to the auction. Announcements will be posted to the New York Fed website shortly after the auction close time.

Which general collateral Treasury securities will SOMA lend?
The New York Fed will detail the basket of Treasury GC that will be lent in the operation in each auction announcement, though the New York Fed reserves the right to alter the basket at any time. In addition, the New York Fed may substitute particular securities in the general collateral basket during the life of the securities loan.

Which general collateral Treasury securities will be designated to the respective primary dealers awarded through the auction?
The allocation of these general Treasury securities will be done on a pro rata basis.

Are the auction results released to the public?
The total amount of propositions and awards, as well as the stop-out award rate, will be released in a timely manner after the auction is complete via FedTrade or by phone. In addition, summary information will be posted on the New York Fed website following the auction.

Are primary dealers required to bid? Can other market participants bid in the operation?
Only primary dealers are eligible counterparties for the TSLF. Dealer participation is entirely voluntary. The New York Fed does not evaluate dealer performance based on participation in the TSLF. No other market participants are eligible.

Can the New York Fed modify program terms?
Similar to the existing SOMA securities loan program for specific Treasury collateral, the New York Fed can modify program terms at any time.

BIDDING

How do firms bid?
Dealers that have elected to participate in the program may submit bids via FedTrade or over the phone. The bid rate represents the lending fee rate that a participant is willing to pay in order to borrow a basket of Treasury GC against other pledged collateral. It is not a repo rate. Because the program operates on a borrow-versus-pledge basis, the bid rate may be considered equivalent to the spread between the GC rate for the pledged collateral and the Treasury GC financing rate.

In what sequence are bids considered?
Bids will be tiered from highest fee rate to lowest. The highest bid rate will be awarded prior to the bid with the next highest rate until the announced auction size is filled. If a dealer's aggregate bid amount exceeds 20 percent of the offering amount, the higher accepted bid rate will be awarded first and the lower accepted bid would be curtailed to the maximum loan amount.

How many bids can a dealer submit?
Dealers can submit up to two propositions per auction.

What is the minimum and maximum amount for which a firm can bid?
The minimum bid for both collateral type auctions is $10 million. Each dealer bid can be for no more than 20 percent of the offering amount and each dealer will be awarded no more than 20 percent of the offering amount.

What dollar increments should be used when bidding?
Bids must be submitted in increments of $10 million. Bids submitted in less than $10 million increments will not be accepted. However, partial awards can be rounded to the nearest $1 million.

How many decimal places should be used when bidding?
TSLF bids can be submitted in percent form out to four decimal places.

How are dealers notified of awards?
Dealers are notified of their firm's awards via FedTrade or by phone in a timely manner after the auction is complete.

Where do dealers call if they experience difficulties?
Dealers may call New York Fed Primary Dealer Support at 877-376-9837 if they are having system-related problems.

FEES AND SETTLEMENT

How and when are the loans and collateral settled?
Loans and collateral will be exchanged free of payment between securities accounts at the dealer's designated clearing bank. Loans will settle on a T+1 basis.

How are collateral pledges handled?
Collateral pledges must be submitted to the dealer's clearing bank.

When are loans delivered?
Loaned securities are pledged to a dealer's custody account when the dealer sends eligible collateral, adjusted for market value and margin to the New York Fed's custody account.

How is the lending fee calculated?
On auction date, the New York Fed will determine the total lending fee owed, in dollars, that will be due at the end of the loan. Dealers' clearing bank accounts will be charged for the fees due on the maturity date.

The lending fee will be calculated* by multiplying: a) the total quoted price of the borrowed securities excluding accrued interest (i.e. the "clean" price) as of the close of business on the day before the auction, by b) the stop-out fee rate, by c) the term of the loan, in days, divided by 360.

*This calculation does not depend on the accrued interest on the securities lent by the New York Fed, or on whether and when coupon payments are required to be remitted back to the New York Fed. Changes to the invoice price of the borrowed securities resulting from changes to the quoted price, accrual of interest and/or coupon payments will affect the value of the collateral required to be pledged, but will not change the total lending fee owed.

Will the New York Fed substitute announced collateral for other general collateral?
The New York Fed reserves the right to substitute lent general collateral each day so as to avoid pledging collateral that may trade with scarcity value in the repo market. In addition, the New York Fed can call for collateral substitutions by a dealer if the pledged collateral were to deteriorate in value or quality and fall out of the eligible collateral pools.

Can dealers substitute pledged collateral?
Dealers can substitute eligible pledged general collateral for other program-eligible general collateral.

How long will the TSLF be in operation?
The TSLF will remain available to primary dealers until October 30, 2009 or longer if conditions warrant.

FAQs: December 2, 2008 ››