Term Funding Financing Facility (TFFF) Plan

Federal Reserve System: Board of Governors
**Term Funding Financing Facility (TFFF)**

**Basic Idea:** Provide a financial incentive for depository institutions to purchase term CP and bank wholesale term CDs by offering credit on favorable terms through a special discount window facility—the Term Funding Financing Facility (TFFF).

**Option 1: Standing Facility**
- Standing Facility: Depositories could turn to the special TFFF window at any time.
- Rate: 25 basis points below the primary credit rate. Interest accrues daily based on primary credit rate in effect each day.

**Option 2: Auction Facility**
- Auction Facility: Depositories would bid at special TAF auctions.
- Rate: Determined by auction. Minimum bid rate on the auction could be set at a low level to encourage participation.

**Collateral Management Under Both Options**
- Acceptable Collateral: A1/P1 collateral (unsecured or ABCP) and bank large time deposits with remaining maturities of [1] month or more and that were issued within the last [two] weeks.
- Valuation: Marked-to-market based on existing discount window practice (weekly).
- Collateral Haircut: Standard discount window practice (3 percent).
- Collateral Maintenance: Collateral would be accepted through DTC and segregated in special sub accounts.

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<thead>
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<th><strong>Option 1: Standing Facility</strong></th>
<th><strong>Option 2: Auction Facility</strong></th>
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<td>Assures that financing for term CP and CDs is available to depositories at any time.</td>
<td>Rate would adjust to make borrowing attractive.</td>
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<td>Rate may be too high and constrain participation.</td>
<td>Greater control over quantity of credit provided.</td>
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<tr>
<td>Rate may be too low and encourage very high level of borrowing.</td>
<td>But uncertainty about winning at auction may inhibit participation.</td>
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**Recommendation:** Consult with depositories to further refine the format and parameters of the proposed facility.