General Information

The Primary and Secondary Lending Programs

Last Updated: 06.07.2024

Primary Credit

The Primary Credit program is the principal safety valve for ensuring adequate liquidity in the banking system. Primary credit is available to generally sound depository institutions at a rate set relative to the Federal Open Market Committee's (FOMC) target range for the federal funds rate and is normally granted on a “no-questions-asked,” minimally administered basis. Depository institutions are not required to seek alternative sources of funds before requesting advances of primary credit. Primary credit may be used for any purpose, including financing the sale of federal funds. By making funds readily available at the primary credit rate, the primary credit program complements open market operations in the implementation of monetary policy.

Reserve Banks ordinarily do not require depository institutions to provide reasons for requesting very short-term primary credit. Rather, borrowers are asked to provide only the minimum information necessary to process a loan, usually the amount and term of the loan.

On March 15, 2020, the Federal Reserve announced changes to primary credit via a Board press release. These changes, effective March 16, 2020, included the following:

- Narrowing the spread of the primary credit rate relative to the general level of overnight interest rates to help encourage more active use of the window by depository institutions to meet unexpected funding needs.
- Announcing that depository institutions may borrow from the discount window for periods as long as 90 days, prepayable and renewable by the borrower on a daily basis.

These changes will remain in effect until the Federal Reserve Board announces otherwise.

Secondary Credit

Secondary Credit is available to depository institutions not eligible for primary credit. Secondary credit entails a higher level of administration. It is extended on a very short-term basis, typically overnight, at a rate that is above the primary credit rate. Secondary credit is available to meet backup liquidity needs when its use is consistent with a timely return to a reliance on market sources of funding or the orderly resolution of a troubled depository institution. Secondary credit may not be used to fund an expansion of the borrower’s assets. The secondary credit program entails a higher level of Reserve Bank administration and oversight than the primary credit program. A Reserve Bank must have sufficient information about a borrower’s financial condition and reasons for borrowing to ensure that an extension of secondary credit would be consistent with the purpose of the facility.

Terms and Features

To access the Discount Window, eligible depository institutions first must execute the necessary documentation and pledge collateral to the Federal Reserve.
<table>
<thead>
<tr>
<th>Rate</th>
<th>The rate is set relative to the FOMC's target range for the federal funds rate.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term</td>
<td>Provided for periods as long as 90 days.</td>
</tr>
<tr>
<td>Eligibility</td>
<td>Depository institutions in generally sound financial condition.</td>
</tr>
<tr>
<td>Use</td>
<td>Generally no restrictions. May be used to fund sales of federal funds.</td>
</tr>
<tr>
<td>Administration</td>
<td>Ordinarily no questions asked.</td>
</tr>
</tbody>
</table>

**Note:** The spread of the primary credit rate over the FOMC's target federal funds rate was initially 100 basis points. During the financial crisis, this spread was reduced to 50 basis points on August 17, 2007, and was further reduced, to 25 basis points, on March 16, 2008. Effective February 19, 2010, the spread of the primary credit rate over the FOMC's target range for the federal funds rate was increased to 50 basis points. Effective March 16, 2020, the primary credit rate was set at the top of the FOMC target range for the federal funds rate. The Federal Reserve will assess over time whether further increases in the spread are appropriate.

**Eligibility**

Depository institutions to which the law grants access to the discount window and which the Federal Reserve deems generally sound are eligible to obtain primary credit. Reserve Banks determine eligibility on an ongoing basis using supervisory ratings and capitalization data; supplementary information, when available, may also be used.

The criteria that are used to determine eligibility for primary credit are very similar to the criteria that are used to determine eligibility for daylight credit under the [Board of Governors' Payment System Risk Policy](https://www.frbdiscountwindow.org/Pages/General-Information/Primary-and-Secondary-Lending-Programs). In brief:

- A depository institution assigned a composite CAMELS or CAMEL rating of 1, 2, or 3 (or a ROCA, Combined ROCA, and/or Combined U.S. Operations composite rating of 1, 2, or 3, and the lending Reserve Bank has no significant concerns about the strength of parental support) that is at least adequately capitalized is eligible for primary credit unless supplementary information indicates that the depository institution is not generally sound.
- Depository institutions assigned a composite CAMELS or CAMEL rating of 4 (or either a ROCA, Combined ROCA, and/or Combined U.S. Operations composite rating of 4 or 5, and the lending Reserve Bank has no significant concerns about the strength of parental support) are not eligible for primary credit unless an ongoing examination or other supplementary information indicates that the depository institution is at least adequately capitalized and that its condition has improved sufficiently to be deemed generally sound by its Reserve Bank.
- Depository institutions assigned a composite CAMELS or CAMEL rating of 5 (or, regardless of ROCA/Combined ROCA/Combined U.S. Operations composite ratings, the lending Reserve Bank has significant concerns about the strength of parental support) are not eligible for primary credit.

Depository institutions that do not qualify for primary credit are eligible for secondary credit when use of such credit is consistent with a timely return to a reliance on market sources of funding or the orderly resolution of a troubled depository institution, subject to limitations described below.

<table>
<thead>
<tr>
<th>Examination Rating (CAMELS or equivalent)</th>
<th>Capital Designation</th>
<th>Generally Eligible For</th>
</tr>
</thead>
<tbody>
<tr>
<td>1, 2, or 3</td>
<td>Adequately or well capitalized</td>
<td>Primary Credit</td>
</tr>
</tbody>
</table>
Depository Institution Guidance

By providing ready access to funding, the discount window helps depository institutions manage their liquidity risks efficiently and avoid actions that have negative consequences for their customers, such as withdrawing credit during times of market stress.

The minimal administration of the primary credit program makes it a convenient and ready source of funding for qualifying depository institutions. Moreover, only generally sound depository institutions are eligible to borrow primary credit, so borrowing primary credit should not be seen as a sign of financial weakness.

Generally, there are no restrictions on borrowers’ use of primary credit. Here are some examples of common borrowing situations:

- Tight money markets or undue market volatility
- Preventing an overnight overdraft
- Meeting a need for funding, including a short-term liquidity demand that may arise from unexpected deposit withdrawals or a spike in loan demand
- Arbitrage opportunities

Secondary credit is subject to a higher level of lending administration than primary credit. Examples of appropriate uses of secondary credit include:

- Tight money markets or undue market volatility
- Addressing an overnight overdraft
- Meeting a need for backup funding, including a short-term liquidity demand
- Inability to obtain funding from normal sources
- To assist the primary regulator in prompt closure of a troubled depository institution

Inappropriate Situations for Borrowing Secondary Credit:

- Arbitrage opportunities
- To facilitate balance sheet expansion

Bank Examiners Guidance

The introduction of the primary credit program in 2003 marked a fundamental shift - from administration to pricing - in the Federal Reserve’s approach to discount window lending. Notably, eligible depository institutions may obtain primary credit without exhausting or even seeking funds from alternative sources. Minimal administration of and restrictions on the use of primary credit makes it a reliable funding source. Being prepared to borrow primary credit enhances a depository institution’s liquidity.