Credit and Liquidity Programs and the Balance Sheet

Lending to depository institutions

Please note: This page discusses lending to depository institutions (discount window lending) as implemented during and after the financial crisis that emerged in 2007. For current information on discount window lending, visit The Discount Window and Discount Rate and Federal Reserve Discount Window/Payment System Risk.

The discount window helps to relieve liquidity strains for individual depository institutions and for the banking system as a whole by providing a source of funding in time of need. Much of the statutory framework that governs lending to depository institutions is contained in section 10B of the Federal Reserve Act, as amended. The general policies that govern discount window lending are set forth in Regulation A. As described in more detail below, depository institutions have, since 2003, had access to three types of discount window credit--primary credit, secondary credit, and seasonal credit. Between December 2007 and April 2010, the Federal Reserve operated the Term Auction Facility (TAF), which provided credit to depository institutions through an auction mechanism.

All discount window loans must be fully collateralized to the satisfaction of the lending Reserve Bank, with an appropriate haircut applied to the collateral; in other words, the value of the collateral must exceed the value of the loan.

Related

Factors Affecting Reserve Balances (H.4.1)
Federal Reserve Act
Press release, August 17, 2007
Press release, March 16, 2008
Press release, June 25, 2009
Press release, Nov 17, 2009
Press release, Feb 18, 2010
Regulation A
Transaction data released quarterly
TAF Transaction data (Released December 1, 2010)
Primary Credit

Primary credit is a lending program available to depository institutions that are in generally sound financial condition. Because primary credit is available only to depository institutions in generally sound financial condition, it is generally provided with minimal administrative requirements; for example, there are essentially no usage restrictions on primary credit. Primary credit is available on a very short-term basis, typically overnight, at a rate 50 basis points above the Federal Open Market Committee’s (FOMC) target rate for federal funds. The primary credit facility helps provide an alternative source of funding if the market rate exceeds the primary credit rate, thereby limiting trading at rates significantly above the target rate.

As the financial crisis emerged, the Federal Reserve implemented a number of important temporary changes to the primary credit program. On August 17, 2007, to promote orderly market functioning, the Federal Reserve reduced the spread between the primary credit rate and the target federal funds rate to 50 basis points from its pre-crisis spread of 100 basis points and began to allow the provision of primary credit for terms as long as 30 days. On March 16, 2008, to bolster market liquidity, the Federal Reserve further reduced the spread of the primary credit rate over the target federal funds rate to 25 basis points and increased the maximum maturity of primary credit loans to 90 days.

In response to the improvement in financial conditions, on November 17, 2009, the Federal Reserve announced that the maximum maturity on primary credit loans would be reduced to 28 days effective January 14, 2010. On February 18, 2010, the Federal Reserve announced that typical maximum maturity on primary credit would be shortened to overnight, effective March 18, 2010. In addition, the Federal Reserve increased the spread between the primary credit rate and the top of the target range for the federal funds rate to 50 basis points, effective February 19, 2010. Detailed information is available on the Discount Window website.

Primary credit outstanding is reported in table 1 of the H.4.1 statistical release. In addition, primary credit is included in "Loans" in tables 4 and 5 of that release.

Secondary Credit

Secondary credit is available to depository institutions that are not eligible for primary credit. It is extended on a very short-term basis, typically overnight, at a rate 50 basis points above the primary credit rate. In contrast to primary credit, there are restrictions on the uses of secondary credit extensions. Secondary credit is available to meet backup liquidity needs when its use is consistent with a timely return by the borrower to a reliance on market sources of funding or the orderly resolution of a troubled institution. Secondary credit may not be used to fund an expansion of the borrower’s assets. Moreover, the secondary credit program entails a higher level of Reserve Bank administration and oversight than the primary credit program. Reserve Banks typically apply higher haircuts on collateral pledged to secure secondary credit. In addition, the liquidity position of secondary credit borrowers is monitored closely, and the Federal Reserve typically is in close contact with the borrower’s primary federal regulator. Detailed information is available on the Discount Window website.
Secondary credit outstanding is reported in table 1 of the H.4.1 statistical release. In addition, secondary credit is included in "Loans" in tables 4 and 5 of that release.

- Secondary credit

Seasonal Credit
The Federal Reserve’s seasonal credit program assists small depository institutions in managing significant seasonal swings in their loans and deposits. Eligible depository institutions may borrow term funds from the discount window during their periods of seasonal need, enabling them to carry fewer liquid assets during the rest of the year and, thus, allow them to make more funds available for local lending. The interest rate applied to seasonal credit is a floating rate based on market rates.

Seasonal credit is available only to depository institutions that can demonstrate a clear pattern of recurring intra-yearly swings in funding needs. Eligible institutions are usually located in agricultural or tourist areas. To become eligible for seasonal credit, an institution must establish a seasonal qualification with its Reserve Bank. Detailed information is available on the Discount Window website.

Seasonal credit outstanding is reported in table 1 of the H.4.1 statistical release. In addition, seasonal credit is included in "Loans" in tables 4 and 5 of that release.

- Seasonal Credit Program

Term Auction Facility
On December 12, 2007, the Federal Reserve introduced the TAF to improve depository institutions’ access to term funding. The TAF provided credit through an auction mechanism to depository institutions in generally sound financial condition. The TAF offered 28-day and, beginning in August 2008, 84-day loans.

On September 24, 2009, the Federal Reserve announced that the TAF would be scaled back in response to improvements in financial market conditions. Starting in late 2009, the auction amounts were gradually reduced, and the final TAF auction was held on March 8, 2010. Credit extended under the March 2010 auction matured on April 8, 2010. All TAF loans were fully collateralized to the satisfaction of the lending Reserve Bank, with an appropriate "haircut" applied to the value of the collateral and were repaid in full, with interest, in accordance with the terms of the facility.

- Term Auction Facility

Interest Rate Setting and Collateral
generally sound financial condition institution. Margins for commonly accepted assets [2].

Valuation and Haircuts: Where possible, collateral is marked to market daily using information supplied by a pricing service. The lendable value of such collateral incorporates a haircut that reflects the liquidity and credit and interest rate risk of the asset. Securities for which a price is not available from the Federal Reserve’s pricing services receive zero collateral value.

Spread above the primary credit rate, currently 50 basis points.

Average of the effective federal funds rate and the three-month CD rate, typically resulting in a rate close to the federal funds rate target.

Set in an auction process subject to a minimum bid rate.  

Footnotes
1. Daily pricing was implemented on January 30, 2009. Prior to that, collateral was priced weekly. Return to text
2. Prior to October 2009, for assets that could not be marked to market, a haircut was applied to the par value in the case of a security or to the outstanding balance in the case of a loan. Return to text
3. Current and historical primary, secondary, and seasonal rates can be found at https://www.frbdiscountwindow.org/pages/discount-rates [2]. Return to text
4. Rates for all programs are proposed by the board of directors of the lending Reserve Bank and approved by the Board of Governors of the Federal Reserve System. Return to text
5. Prior to January 12, 2009, the minimum bid rate was based on a measure of the average expected overnight Fed Funds rate over the term of the credit being auctioned. From January 12, 2009, to the conclusion of the program, the minimum bid rate was set equal to the rate that Reserve Banks pay on excess reserve balances. Return to text

Risk Management
Condition monitoring of depository institutions
Monitoring the financial condition of depository institutions is a four-step process designed to minimize the risk of loss to the Federal Reserve posed by weak or failing depository institutions. The first step is monitoring, on an ongoing basis, the safety and soundness of all depository institutions that access or may access the discount window and the payment services provided by the Federal Reserve. The second step is identifying institutions whose condition, characteristics, or affiliation would present higher-than-acceptable risk to the Federal Reserve in the absence of controls on their access to Federal Reserve lending facilities and other Federal...
Reserve services. The third step is communicating relevant information about those institutions identified as posing higher risk to staff within the Federal Reserve System and to other supervisory agencies, if and when necessary. The fourth step is implementing appropriate measures to mitigate the risks posed by such entities.

At the heart of the condition monitoring process is an internal rating system that provides a framework for identifying institutions that may pose undue risks to the Federal Reserve. The rating system relies mostly on information from each institution's primary supervisor, including CAMELS ratings, to identify potentially problematic institutions and classify them according to the severity of the risk they pose to the Federal Reserve. Having identified institutions that pose a higher risk, the Federal Reserve then puts in place a standard set of risk controls that become increasingly stringent as the risk posed by an institution grows; individual Reserve Banks may implement additional risk controls to further mitigate risk if they deem it necessary to do so.

**Collateral for Discount Window loans**

All discount window loans must be secured to the satisfaction of the lending Reserve Bank by acceptable collateral. Although such loans are made with recourse to the borrower beyond the pledged collateral, collateral nonetheless plays an important role in mitigating the credit risk associated with these extensions of credit. Collateral is pledged under the terms and conditions specified in the Federal Reserve Banks' standard lending agreement, *Operating Circular No. 10.* (320 KB PDF) [ ]. Many depository institutions that do not have an outstanding discount window loan nevertheless routinely pledge collateral to ensure that they can borrow from the Federal Reserve should the need arise. Borrowers may be required to pledge additional collateral if their financial condition weakens.

The Federal Reserve generally accepts as collateral for discount window loans any assets that meet regulatory standards for sound asset quality. This category of assets includes most performing loans and most investment-grade securities, although for some types of securities (including commercial mortgage-backed securities, collateralized debt obligations, collateralized loan obligations, and certain non-dollar-denominated foreign securities) only AAA-rated securities are accepted. Institutions may not pledge as collateral any instruments that they or their affiliates have issued.

Assets accepted as collateral are assigned a lendable value deemed appropriate by the Reserve Bank; lendable value is determined as the market price of the asset less a haircut or, when a market price is not available, an internally modeled fair market value estimate less a haircut. Haircuts reflect credit risk and, for traded assets, the historical volatility of the asset's price and the liquidity or illiquidity of the market in which the asset is traded; the Federal Reserve's haircuts are generally in line with typical market practice. For a broader overview of the Federal Reserve's Discount Window loan collateral program, as well as a listing of the most commonly pledged asset types and the associated lendable values, please refer to the Federal Reserve Discount Window Margins and Collateral Guidelines. [ ].

**Information on Borrowers**

[https://www.federalreserve.gov/monetarypolicy/bst_lendingdepository.htm](https://www.federalreserve.gov/monetarypolicy/bst_lendingdepository.htm)
As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), on December 1, 2010, the Federal Reserve disclosed detailed information about the entities that received loans or other financial assistance from Federal Reserve special facilities (including the TAF) during the financial crisis. These transaction data are available at www.federalreserve.gov/newsevents/reform_transaction.htm.

Also as required under the Dodd-Frank Act, on September 28, 2012, the Federal Reserve began the regular publication of detailed information on individual discount window loans. This information, which is made available on a quarterly basis and with an approximately two-year lag, is available at www.federalreserve.gov/newsevents/reform_quarterly_transaction.htm.

Payment System Risk

In addition to the lending described above, the Federal Reserve extends credit to depository institutions on an intraday basis to promote effective functioning of the payment system. On March 24, 2011, the Federal Reserve implemented changes to its Payment System Risk policy (PDF).