

Federal Reserve System Discount Window Credit Facilities

FedExchange 2009

May 6, 2009

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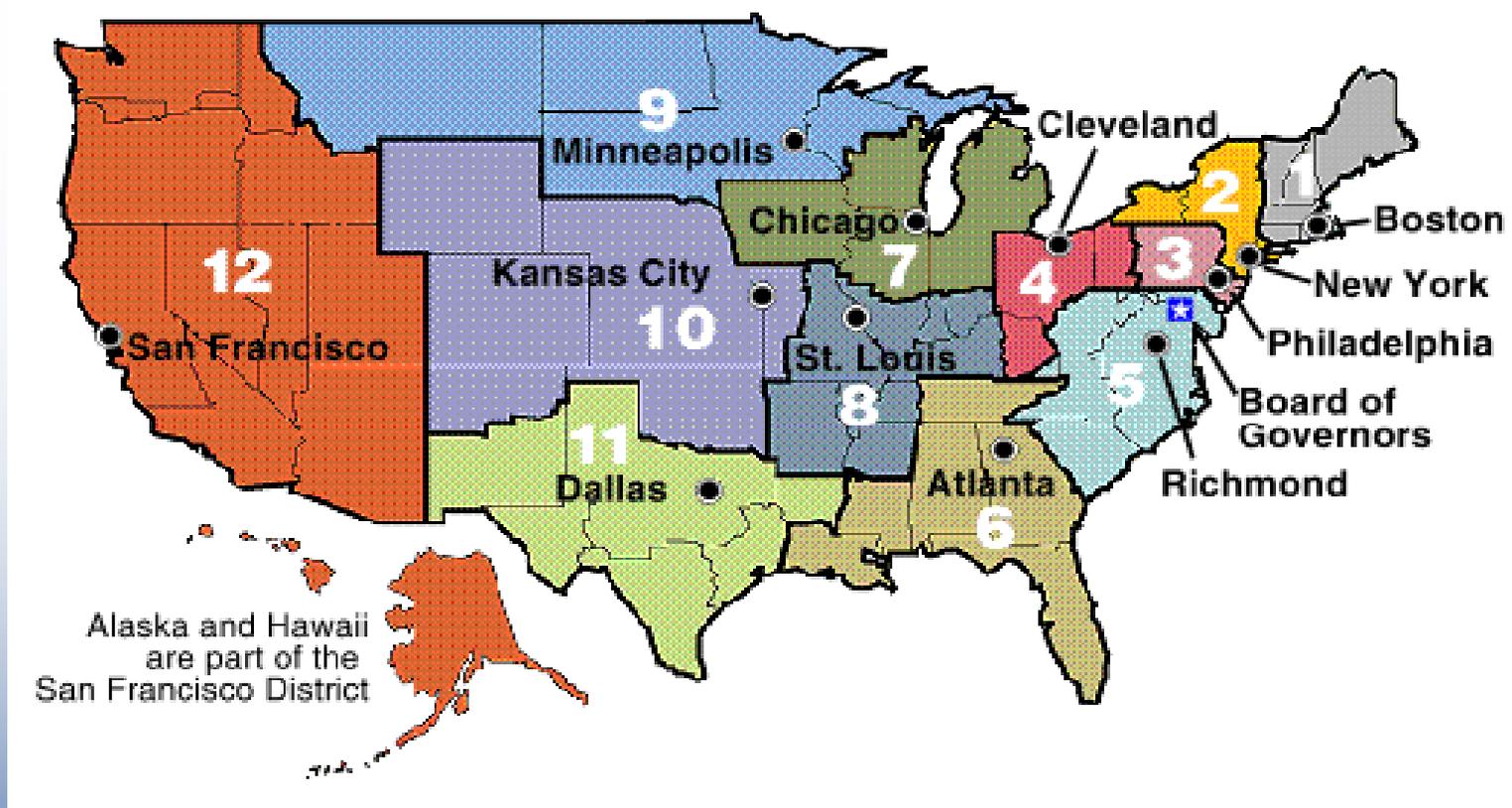
Agenda

- Role of the Federal Reserve in Managing Liquidity
- Permanent Lending Programs
- Temporary Liquidity Facilities
 - Term Primary Credit
 - Term Auction Facility
- Discount Window Preparedness

Role of the Fed in Managing Liquidity

- Federal Reserve serves as the “bank” for all segments of the banking system: commercial banks, thrifts, and credit unions
- Discount Window
 - Traditional “safety valve” that relieves temporary liquidity strains
 - Recently used to provide market liquidity
 - Conducted at “above-market” rates
 - Available for depository institutions in generally sound financial condition

System Structure: Federal Reserve Districts



Discount Window Lending Programs

- **Permanent Programs**
 - Primary Credit
 - Secondary Credit
 - Seasonal Credit
- **Temporary Programs**
 - Term Primary Credit
 - Term Auction Facility
 - Other Liquidity Facilities

Permanent Program: Primary Credit

- Rate Currently set at 25 basis points above the FOMC's target for the Federal Funds rate
- Term Short-term
- Collateral Fully collateralized
- Eligibility Available to eligible depository institutions in generally sound financial condition
- Use No restrictions
- Prepayment No restrictions

Minimal FRS Administration – “No Questions Asked”

Permanent Program: Secondary Credit

- Rate 50 basis points above the primary credit rate
- Term Short-term, usually overnight. Can be extended for a longer term, subject to statutory requirements (FDICIA restrictions)
- Collateral Fully collateralized, with additional haircut applied
- Eligibility Depository institutions that do not qualify for primary credit.
- Use As a backup source of funding on a very short-term basis or to facilitate an orderly resolution
- Prepayment No restrictions

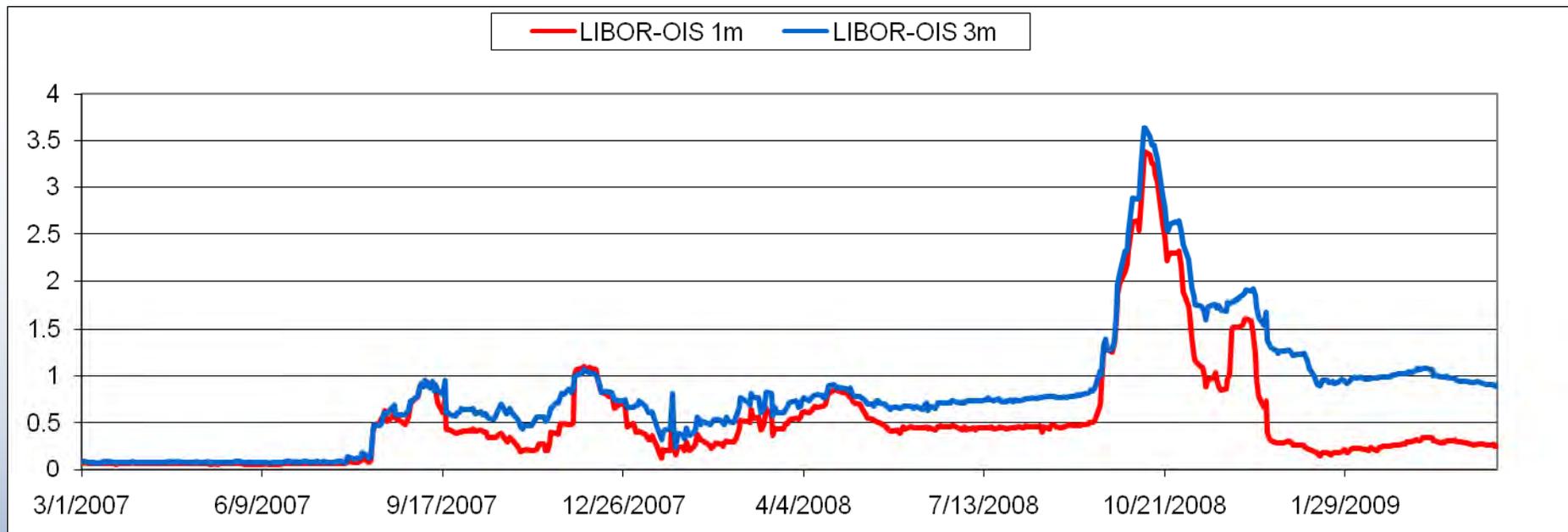
Intensive FRS Administration: Ensure consistency with regulatory requirements

Permanent Program: Seasonal Credit

- Rate Market rate of interest
- Term Available for up to 9 months per year
- Collateral Fully collateralized
- Eligibility Limited availability; community banks < \$500MM in total assets that have yearly swings in deposits and loans that persist for at least four weeks
- Use Bridge funding gaps between year round loan demand and cyclical deposit base
- Prepayment No restrictions

FRS Administration: Monitor financial trends

Temporary Liquidity Facilities – Why The Need?



Recap: FRS Temporary Liquidity Measures since August 2007

- Term Discount Window Program: August 17, 2007
- Term Auction Facility (TAF): December 12, 2007
- Term Repo Operations: March 7, 2008
- Term Securities Lending Facility: March 11, 2008
- JPM/BSC Discount Window Loan: March 14, 2008*
- Primary Dealer Credit Facility: March 17, 2008*

*** Represents credit extended under the “unusual and exigent circumstances” provisions of Section 13(3) of the Federal Reserve Act**

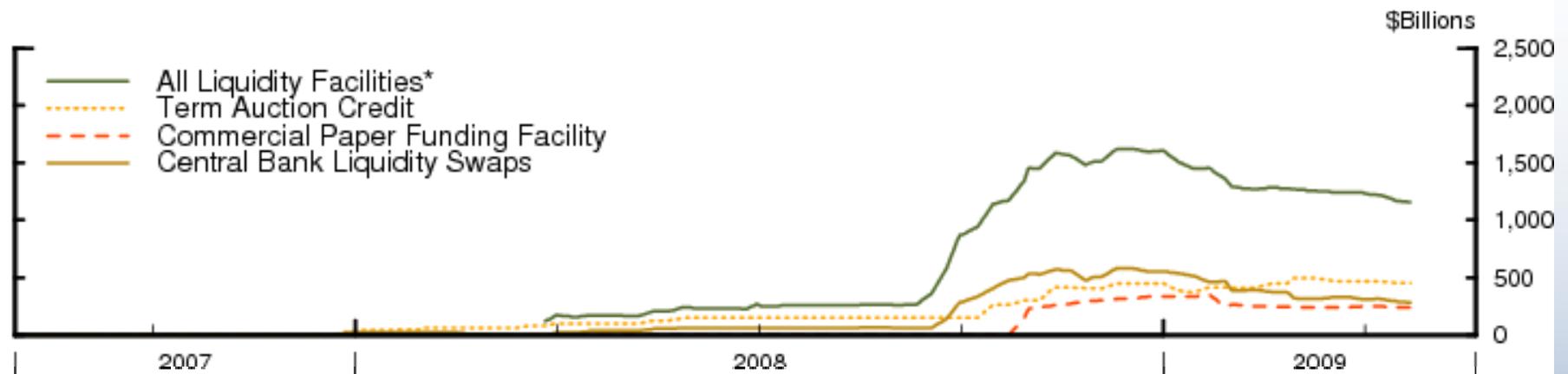
Recap: FRS Temporary liquidity measures since August 2007 (con't)

- AIG Discount Window Loan (AIG loan): September 16, 2008*
- Asset-Backed Commercial Paper MMMF Lending Facility: September 19, 2008*
- Commercial Paper Funding Facility: October 14, 2008*
- Money Market Investor Funding Facility: October 21, 2008*
- Swap lines with other major central banks (various dates)
- Term Asset-Backed Securities Loan Facility: November 25, 2008

*** Represents credit extended under the “unusual and exigent circumstances” provisions of Section 13(3) of the Federal Reserve Act.**

Credit Extended through Fed Liquidity Facilities

Credit Extended through Federal Reserve Liquidity Facilities



Source: www.federalreserve.gov/monetarypolicy/bst.htm

Temporary Program: Term Primary Credit

- Rate Currently set at 25 basis points above the FOMC's target for the Federal Funds rate
- Term Available for up to 90-days
- Collateral Fully collateralized; for advances > 28 days, credit cannot exceed 75% of available collateral
- Eligibility Available to eligible depository institutions in generally sound financial condition
- Use No restrictions
- Prepayment No restrictions

Minimal FRS Administration – “No Questions Asked”

Temporary Program: Term Auction Facility (TAF)

- Rate Determined by auction process
- Term 28 or 84 days
- Collateral Fully collateralized; for advances > 28 days, credit cannot exceed 75% of available collateral
- Eligibility Available to eligible depository institutions in generally sound financial condition
- Use No restrictions
- Prepayment Not permitted

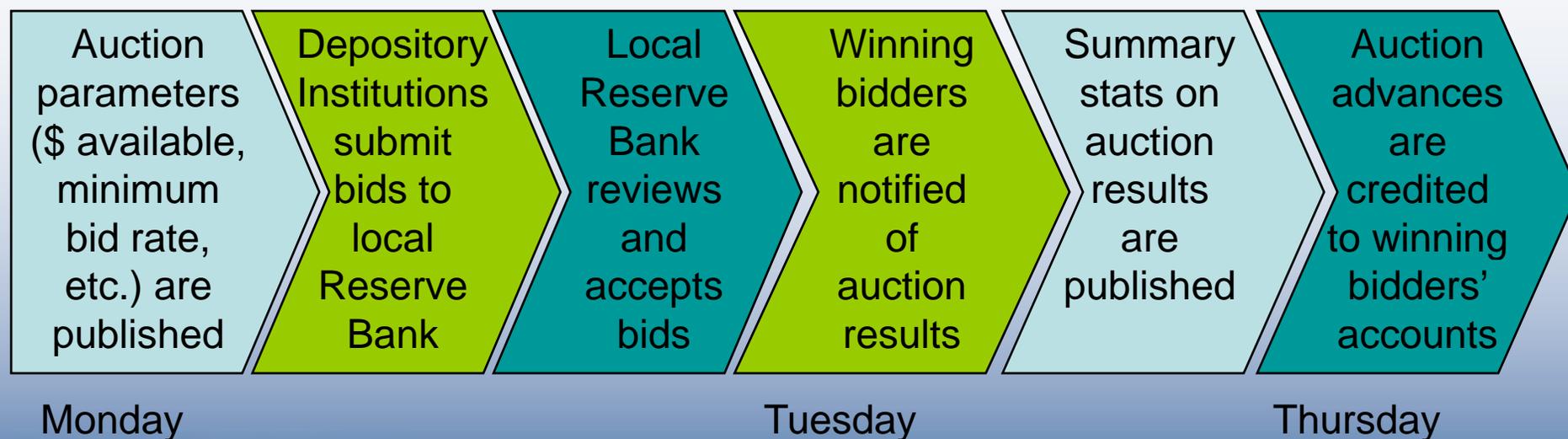
Minimal FRS Administration – “No Questions Asked”

TAF vs. Primary Credit

	Term Auction Facility	Primary Credit Facility
Schedule	Specified Bidding Window	Any time during normal business hours
Rate	Stop out rate or minimum rate specified by the Board; rate is fixed for loan term	25 bps over FF target rate; rate is variable
Minimum Bid or Loan Amount	\$5 million	None
Maximum Bid or Loan Amount	Constrained to auction parameters – larger of 10% of total auction size or 75% of available collateral	For credit extensions > 28 days, constrained to 75% of available collateral For credit extensions < or equal to 28 days, up to available collateral
Eligible Collateral	All Discount Window eligible collateral	All Discount Window eligible collateral
Loan Maturity	28 days or 84 days	Overnight through 90 days; renewable by borrower
Loan Prepayment	Not Permissible	Permissible
Testing of	Not Permissible	Permissible (Encouraged)

TAF Auction Mechanics

- Auction is open to depository institutions:
 - Generally sound financial condition
 - Borrowing documents in place
 - Collateral pledged

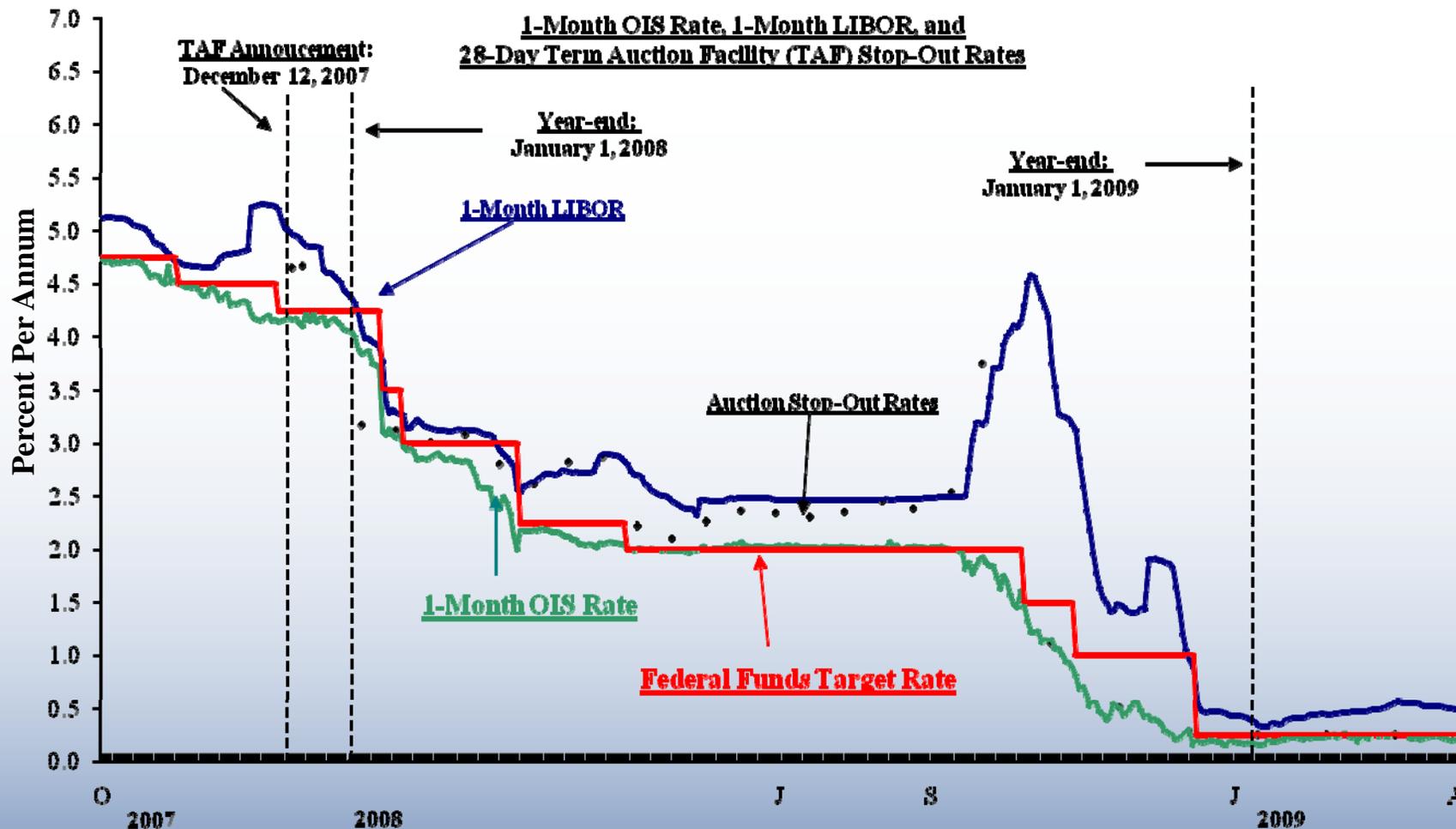


Example of Stop-Out Rate

Assume a \$50 million auction with a minimum bid rate of 2.12%

	<u>\$ Bid</u>	<u>Rate Offered</u>	<u>\$ Awarded</u>
• Bank A:	\$10 million	2.47%	\$10 million
• Bank B:	\$9 million	2.43%	\$9 million
• Bank C:	\$5 million	2.39%	\$5 million
• Bank D:	\$10 million	2.31%	\$10 million
• Bank E:	\$8 million	2.25%	\$8 million
• Bank F:	\$9 million	2.24%	\$8 million
• Bank G:	\$5 million	2.12%	\$0
• The stop-out rate in this example is 2.24%			

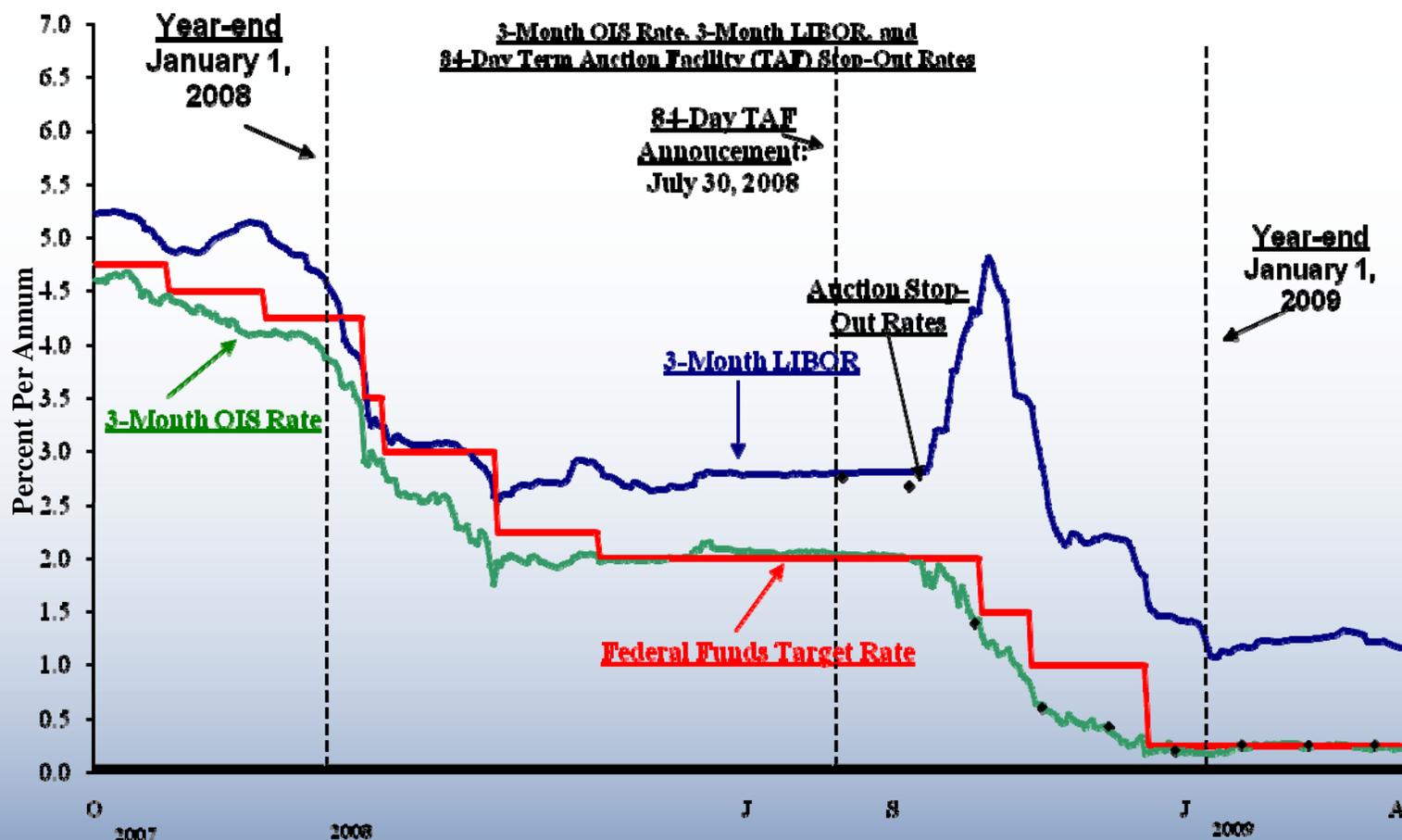
Market Dynamics



* Funds available increased to \$150 B. Auction undersubscribed.

Source: FAME (LIBOR series RILSPLEPM01_N B LIBOR Eurodollar 11 A.M. Fixing 1 Month)

Market Dynamics



* Funds available increased to \$150 B. Auction undersubscribed.

Source FAME (LIBOR series: RIL3PLEPM01_N B: LIBOR Eurodollar 11 A M: Fixing 3 Month)

Discount Window Preparedness

- **Execution of Borrowing Documents**
 - Standard set of documentation
 - www.discountwindow.org
- **Collateral Pledge**
 - Collateral must be in place at the time loan is requested
 - FRS will perfect its collateral position

Collateral Arrangements

- **Securities**
 - Eligibility
 - US Treasury & Agency
 - Municipals & Corporates
 - Asset-Backed Securities (ABS), Collateralized Mortgage Obligations (CMOs)
 - Investment Grade
 - Fed Book Entry or DTC

Collateral Arrangements (con't)

- **Loans**
 - Eligibility
 - Commercial & Agricultural
 - Commercial Real Estate
 - Construction
 - 1-4 Family Residential, Home Equity
 - Consumer Loans: Autos, Credit Card Receivables, etc
 - Borrower-in-Custody (BIC) Program

Collateral Arrangements (con't)

- Loans: Borrower-in-Custody Program
 - Application Process
 - Monthly Reporting
 - Periodic On-Site Reviews
 - Federal Home Loan Bank considerations

Credit and Risk Management Information Resources

- <http://www.frbdiscountwindow.org/>
 - Contains all guidelines and forms necessary
 - Contains contact information for all Federal Reserve Banks
- **FRBB Discount Window toll-free number 1.800.716-3773**
- **FRBB contacts:**
- Jackie Palladino, Vice President
 - 1.617.973.3344 or Jackie.Palladino@bos.frb.org
- Maureen Savage, Assistant Vice President & Discount Officer
 - 1.617.973.3467 or Maureen.B.Savage@bos.frb.org
- Eileen Leighton, Credit Manager
 - 1.617.973.3212 or Eileen.Leighton@bos.frb.org
- Stephanie Wallace, Supervisory Analyst
 - 1.617.973.3230 or Stephanie.P.Wallace@bos.frb.org



**Federal Reserve System
Discount Window
Credit Facilities**

Appendix



Term Auction Facility Schedule

Second Quarter, 2009

Date	Term (Days)	Amount	Settlement Date	Maturity Date
March 23	84	\$150 Billion	March 26	June 18
April 6	28	\$150 Billion	April 9	May 7
April 20	84	\$150 Billion	April 23	July 16
May 4	28	*	May 7	June 4
May 18	84	*	May 21	August 13
June 1	28	*	June 4	July 2
June 15	84	*	June 18	September 10
June 29	28	*	July 2	July 30

Please see the July 30, 2008 Federal Reserve announcement of a collateral requirement for long-term advances.

Federal Reserve System Discount and PSR Collateral Margins Table* Effective: April 27, 2009** Changes can be viewed in the 'Change History' worksheet tab						
Collateral Category	Lendable Value for Securities or Instruments with Market Prices /1 (% of Market Value)			Lendable Value for Securities or Instruments if Market Price Not Available (% of Par or Outstanding Balance)	Lendable Value for Loans Individually Deposited at FRS/7 (% of Market Value)	Lendable Value for Loans Not Individually Deposited at FRS/8 (% of Outstanding Balance)
	Duration Buckets					
	0 to 5	>5 to 10	>10			
U.S. Treasuries and Fully Guaranteed Agencies:						
Bills, Notes, Bonds, Inflation Indexes	98%	97%	93%	90%		
Zero Coupons, STRIPS	98%	95%	90%			
Government Sponsored Enterprises:						
Bills, Notes, Bonds, Inflation Indexes	97%	96%	92%	85%		
Zero Coupons, STRIPS	96%	94%	89%			
FDIC Temporary Liquidity Guarantee Program (TLGP):						
Notes, Bonds - US Dollar Denominated	97%	96%	92%	85%		
Notes, Bonds - Foreign Denominated /2	92%	91%	87%			
Zero Coupons - US Dollar Denominated	96%	94%	89%			
Commercial Paper/Certificates of Deposit		97%		95%		
International Agencies:						
Bills, Notes, Bonds - US Dollar Denominated	97%	95%	93%	80%		
Bills, Notes, Bonds - AAA - Foreign Denominated /2	92%	90%	85%			
Zero Coupons, STRIPS	94%	92%	86%			
Brady Bonds - US Dollar Denominated	95%	92%	88%	60%		
Brady Bonds - Foreign Denominated /2	90%	87%	83%			
Foreign Governments - US Dollar Denominated	97%	95%	90%	75%		
Foreign Governments - Foreign Denominated /2	92%	90%	85%			
Foreign Government Agencies - US Dollar Denominated	97%	95%	90%	75%		
Foreign Government Agencies - AAA - Foreign Denominated/2	92%	90%	85%			
Municipal Bonds - US Dollar Denominated	97%	95%	92%	75%		
Municipal Bonds - AAA - Foreign Denominated /2	90%	85%	80%			
Corporate Bonds -US Dollar Denominated	97%	95%	93%	80%		
Corporate Bonds - AAA -Foreign Denominated /2	92%	90%	85%			
German Jumbo Pfandbriefe - AAA - US Dollar Denominated	96%	92%	90%	60%		
German Jumbo Pfandbriefe - AAA - Foreign Denominated/2	92%	90%	85%			
Asset-Backed Securities - AAA (includes Collateralized Loan and Debt Obligations)	98%	96%	93%	85%		
Asset-Backed Securities - non AAA (excludes Collateralized Loan and Debt Obligations)	97%	95%	92%	80%		
Commercial Mortgage-Backed Securities - AAA	97%	95%	92%	80%		
Mortgage Backed Securities (includes agency and private label)	98%	96%	93%	90%		
Collateralized Mortgage Obligations - AAA (includes agency and private label)	97%	95%	92%	80%		
Trust Preferred Securities	94%	92%	90%	70%		
Mutual Funds (tcuux, tcudx, tcuux) /5 /6		90%				
Government Sponsored Enterprise Stock (FNMA, FHLM) /6		87%				
Bankers Acceptances, Certificates of Deposit, and Commercial Paper		97%		95%		
Commercial and Agricultural Loans:						
Minimal Risk Rated /3					90%	80%
Normal Risk Rated /4					87%	65%
Agency Guaranteed Loans						
Commercial Real Estate Loans					93%	90%
Construction Real Estate Loans					87%	65%
1-4 Family Residential Mortgages					91%	70%
Home Equity					89%	50%
Consumer Loans - Autos, Private Banking, Installment, Etc.					87%	65%
Consumer Loans - Credit Card Receivables, Student Loans						60%
Consumer Loans - SubPrime Credit Card Receivables						45%