Credit and Liquidity Programs and the Balance Sheet

Lending to depository institutions

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. In December of 2007, the Federal Reserve introduced the Term Auction Facility (TAF), which provided credit to depository institutions through an auction mechanism. All regular discount window loans and TAF 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. Information on collateral policies and interest rates charged for lending are discussed in the collateral and rate setting and risk management sections of this website.

Related

Factors Affecting Reserve Balances (H.4.1)

Federal Reserve Act

Press release, August 17, 2007

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

Press release, March 16, 2008

Press release, June 25, 2009

Press release, Nov 17, 2009

Press release, Feb 18, 2010

Regulation A

provided with minimal administrative requirements; for example, there are essentially no usage restrictions on primary credit. Before the current financial crisis, primary credit was available on a very short-term basis, typically overnight, at a rate 100 basis points above the Federal Open Market Committee's (FOMC) target rate for federal funds. The primary credit facility helps provides an alternative source of funding if the market rate exceeds the primary credit rate, thereby limiting trading at rates significantly above the target rate.

The Federal Reserve implemented a number of important changes to the primary credit program as the financial crisis emerged. 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 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. In extending primary credit, Reserve Banks must judge that the borrower is likely to remain eligible for primary credit for the term of the loan. 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. These changes represented further normalization of the Federal Reserve's lending facilities and did not signal any change in the outlook for the economy or for monetary policy. 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 8 and 9 of that release.

- Primary credit

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 8 and 9 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 8 and 9 of that release.

- Seasonal Credit Program

Term Auction Facility

On December 12, 2007, the Federal Reserve created 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 continued improvements in financial market conditions. The auction amount for the 84-day auctions was reduced in late 2009 and the maturity dates of the 84-day auctions were adjusted over time to align with the maturity dates of the 28-day auctions. Subsequently, the auction amount for the remaining 28-day auctions was tapered, 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

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