

Credit and Liquidity Programs and the Balance Sheet

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Collateral and rate setting

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Collateral Eligibility, Valuation, and Haircuts by Program

Lending to depository institutions

Program	Collateral Eligibility, Valuation, and Haircuts
Primary, Secondary, Seasonal, and TAF Credit (Depository Institutions) <i>(the TAF was closed in March 2010)</i>	<p>Eligibility: The Federal Reserve is willing to consider any sound asset that can be held by a depository institution. Margins for commonly accepted assets.</p> <p>Valuation and Haircuts: Where possible, collateral is marked to market daily using information supplied by a pricing service.¹</p> <ul style="list-style-type: none"> • The lendable value of such collateral incorporates a haircut that reflects the liquidity and credit and interest rate risk of the asset. • For assets that cannot be marked to market, a haircut is applied to an internally modeled fair market value estimate.²

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](#)

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Lending to primary dealers

Program	Collateral Eligibility, Valuation, and Haircuts
Primary Dealer Credit Facility (PDCF) <i>(closed in February 2010)</i>	<p>Eligibility: All assets that are eligible for tri-party repo arrangements with the major clearing banks are eligible collateral.</p> <p>Valuation and Haircuts: Assets are priced by the borrower's clearing bank, using the lowest price available in the clearing bank's valuation systems.</p> <ul style="list-style-type: none"> • For collateral that is eligible for open market operations (OMOs)-- Treasury, agency, and agency mortgage-backed securities-- the haircuts are those used for OMOs. • For non-OMO-eligible collateral, haircuts are assigned based on the riskiness of the asset and are generally higher than for OMO-eligible

collateral.

[PDCF Collateral Margins Table \(16 KB\)](#)

[Transitional Lending Arrangements Collateral Margins Table \(20 KB\)](#)

Eligibility: OMO-eligible collateral and investment-grade corporate, municipal, mortgage-backed, and asset-backed securities

Valuation and Haircuts: Assets are priced by the borrower's clearing bank, using the lowest price available in the clearing bank's valuation systems.

- For OMO-eligible collateral, the haircuts are those used for OMOs.
- For non-OMO-eligible collateral, haircuts are assigned based on the risk of the asset and are generally higher than for OMO-eligible collateral.

[TSLF Collateral Margins Table \(16 KB\)](#)

Term Securities Lending Facility (TSLF) and TSLF Options Program (TOP)
(closed in February 2010)

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Other lending facilities

Program

Collateral Eligibility, Valuation, and Haircuts

Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF)
(closed in February 2010)

Eligibility: U.S. dollar-denominated asset-backed commercial paper (ABCP) rated at least A-1/P-1/F1. The ABCP must be purchased from a money market mutual fund (MMMF).

Valuation and Haircuts: Pledged ABCP is valued at the amortized cost at which the ABCP was originally acquired by the MMMF (the program requires the borrower to purchase the ABCP from the MMMF at that price). There is no haircut applied.

Commercial Paper Funding Facility (CPFF)
(closed in February 2010)

Eligibility: Three-month U.S. dollar-denominated CP (including ABCP) that is rated at least A-1/P-1/F1.

Risk Management: CPFF assets are purchased by a special purpose vehicle (SPV). ABCP purchased by the SPV is backed by underlying assets. Unsecured CP purchased by the SPV is subject to an additional fee, indorsement/guarantee, or separate collateral arrangement. The CPFF also collects registration and other fees that provide a cushion against potential loss.

Term Asset-Backed Securities Loan Facility (TALF)

Eligibility: Asset-backed securities (ABS) backed by auto loans, student loans, credit cards loans, SBA-guaranteed small business loans, mortgage servicing advances, loans or leases relating to business equipment, leases of vehicle fleets, floorplan loans, insurance premium finance loans, and commercial mortgages. The ABS must have two or more top (for example, AAA) ratings from a list of approved ratings agencies--and must not have a rating below the top rating from any of these agencies--or, in the case of SBA ABS, must be fully guaranteed by the U.S. Government.

Valuations and Haircuts: The ABS must have been purchased by a third party and valued at a market price. Haircuts are chosen so that estimated losses in a stress scenario is more than covered by the excess interest rate spread earned on the loans.

Collateral Pledged to Various Facilities

For information on the types and amounts of collateral pledged to various Federal Reserve facilities, please see the *[Federal Reserve System Monthly Report on Credit and Liquidity Programs and the Balance Sheet](#)*.

Interest rate setting for Federal Reserve lending programs¹

As of July 18, 2012

Lending to depository institutions

Lending Program	Eligible Borrowers	Setting of Interest Rate
Primary Credit	Depository institutions (DIs) in generally sound financial condition	Recommended by the Boards of Directors of the Reserve Banks and approved by the Board of Governors ²
Secondary Credit	DIs that do not qualify for primary credit	Spread above the primary credit rate, currently 50 basis points
Seasonal Credit	Smaller DIs with a regular seasonal need for funds	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
Term Auction Facility (TAF) <i>(closed in March 2010)</i>	DIs in generally sound financial condition	Set in an auction process subject to a minimum bid rate. ³

Lending to primary dealers

Lending Program	Eligible Borrowers	Setting of Interest Rate
Primary Dealer Credit Facility (PDCF) <i>(closed in February 2010)</i>	Banks and securities broker-dealers that trade in U.S. Government securities with the Federal Reserve Bank of New York ("Primary Dealers")	Equal to the primary credit rate in effect at the Federal Reserve Bank of New York
	Primary Dealers	Set in an auction process subject to a

Term Securities Lending Facility (TSLF) and TSLF Options Program (TOP)
(closed in February 2010)

minimum bid rate. The TSLF minimum bid rate is 10 or 25 basis points, depending on the type of collateral used in the auction. The TOP minimum bid rate is 1 basis point

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Other lending facilities

Lending Program	Eligible Borrowers	Setting of Interest Rate
Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF) <i>(closed in February 2010)</i>	DIs and bank holding companies (to finance purchases of high-quality asset-backed commercial paper from money market mutual funds under certain conditions)	Equal to the primary credit rate in effect at the Federal Reserve Bank of Boston at the time the advance is made
Commercial Paper Funding Facility (CPFF) <i>(closed in February 2010)</i>	A special purpose vehicle that purchases three-month unsecured and asset-backed commercial paper directly from eligible issuers	Equal to the Federal Open Market Committee's target federal funds rate at the time loan is made
	<p>Holders of certain AAA-rated asset-backed securities backed by consumer, business, and commercial mortgage loans</p>	<p>Varies by the type of collateral securing the loan (and in some cases by the term of the loan):</p> <ul style="list-style-type: none"> • ABS backed by federally guaranteed student loans: 50 basis points over 1-month Libor. • SBA Pool Certificates: federal funds target rate plus 75 basis points. • SBA Development Company Participation Certificates: <ul style="list-style-type: none"> ◦ Three-year TALF loans: 50 basis points over the 3-year Libor swap rate. ◦ Five-year TALF loans: 50 basis points over the 5-year Libor swap rate. • Commercial mortgage-backed securities: <ul style="list-style-type: none"> ◦ Three-year TALF loans: 100 basis points over the 3-year Libor swap

Term Asset-Backed Securities Loan Facility (TALF)

- rate.
- Five-year TALF loans: 100 basis points over the 5-year Libor swap rate.
- Other eligible fixed-rate ABS:
 - Three-year TALF loans: 100 basis points over the 1-year Libor swap rate for securities with a weighted average life less than one year, 100 basis points over the 2-year Libor swap rate for securities with a weighted average life greater than or equal to one year and less than two years, 100 basis points over the 3-year Libor swap rate for securities with a weighted average life of two years or greater.
- Private student loan ABS bearing a prime-based coupon: the higher of 1 percent and the rate equal to the Prime rate minus 175 basis points.
- Other eligible floating-rate ABS: 100 basis points over 1-month Libor.

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Support for specific institutions

Lending Program	Eligible Borrowers	Setting of Interest Rate
Loan to Maiden Lane LLC to facilitate the acquisition by JPMorgan Chase & Co. of Bear Stearns <i>(repaid in June 2012)</i>	A limited liability company (Maiden Lane LLC) that acquired about \$30 billion of less liquid assets of The Bear Stearns Companies, Inc.	Equal to the rate in effect from time to time for primary credit at the Federal Reserve Bank of New York
Loans to American International Group, Inc. <i>(repaid in January 2011)</i>	American International Group, Inc. (AIG)	Three-month Libor plus 300 basis points ⁴
Loan to Maiden Lane II LLC as part of AIG assistance package <i>(repaid in March 2012)</i>	A limited liability company (Maiden Lane II LLC) that acquired residential mortgage-backed securities from AIG	One-month Libor plus 100 basis points
Loan to Maiden Lane III LLC as part of AIG assistance package <i>(repaid in June 2012)</i>	A limited liability company (Maiden Lane III LLC) that acquired collateralized debt obligations from counterparties of AIG	One-month Libor plus 100 basis points
Lending authority to Fannie Mae and Freddie Mac*	Fannie Mae and Freddie Mac	Equal to the primary credit rate in effect at the Federal Reserve Bank of New York
Certain residual financing for Citigroup, Inc.*	Citigroup, Inc. (if needed to help finance a pool of assets that the U.S.	A floating rate equal to the 3-month overnight index

<i>(terminated in December 2009)</i>	Government has agreed to guarantee)	swap rate plus 300 basis points, reset quarterly
Certain residual financing for Bank of America* <i>(terminated in September 2009)</i>	Bank of America (if needed to help finance a pool of assets that the U.S. Government has agreed to guarantee)	A floating rate equal to an overnight index swap rate plus 300 basis points (term of OIS to be determined)

Footnotes

NOTE: *No loans have been extended under these programs.

1. 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](#)

2. Current and historical primary, secondary, and seasonal rates can be found at <http://www.frbdiscountwindow.org/currentdiscountrates.cfm>. [Return to text](#)

3. 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](#)

4. Prior to November 10, 2008, the rate was three-month Libor plus 850 basis points. [Return to text](#)

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