

FEDERAL RESERVE SYSTEM

Docket No. OP- 1838

Request for Information and Comment on Operational Aspects of Federal Reserve Bank Extensions of Discount Window and Intraday Credit

AGENCY: Board of Governors of the Federal Reserve System

ACTION: Request for information and comment.

SUMMARY: The Board of Governors of the Federal Reserve System (Board) seeks public input on questions related to the operational aspects of Federal Reserve Bank (Reserve Bank) extensions of discount window and intraday credit. This Request for Information (RFI) offers the opportunity for interested individuals and institutions to identify ways to enhance the efficiency of Reserve Bank credit operations. This RFI does not seek comment on discount window or intraday credit policy considerations, such as the eligibility criteria and terms for discount window advances and intraday credit.

DATES: Comments must be received by [INSERT 90 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER].

ADDRESSES: You may submit comments, identified by Docket No. OP-1838, by any of the following methods:

- *Agency Web Site:* <http://www.federalreserve.gov>. Follow the instructions for submitting comments at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm>.
- *E-mail:* regs.comments@federalreserve.gov. Include docket number in the subject line of the message.
- *FAX:* (202) 452-3819.
- *Mail:* Ann E. Misback, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW, Washington, DC 20551. All public comments will be made available on the Board's website at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm> as submitted, and will not be modified to remove confidential, contact or any identifiable information. Public comments may also be viewed electronically or in paper in Room M-4365A, 2001 C St. NW, Washington, DC 20051 between 9:00 a.m. and 5:00 p.m. during Federal business weekdays.

FOR FURTHER INFORMATION CONTACT: Lyle Kumasaka, Lead Financial Institution Policy Analyst, (202) 452-2382, Division of Monetary Affairs; Brajan Kola, Lead Financial Institution Policy Analyst, (202) 591-6094, Division of Reserve Bank Operations and Payment Systems; Benjamin Snodgrass, Senior Counsel, (202) 263-4877 or Corinne Milliken Van Ness, Senior Counsel, (202) 641-1605, Legal Division, Board of Governors of the Federal Reserve System, 20th and C Streets NW, Washington, DC 20551. For users of text telephone systems (TTY) or any TTY-based Telecommunications Relay Services, please call 711 from any telephone, anywhere in the United States.

SUPPLEMENTARY INFORMATION:

I. Background

The discount window of the Federal Reserve System (Federal Reserve) plays an important role in the effective implementation of monetary policy and in supporting the liquidity of the banking system and overall financial stability. The discount window allows depository institutions and U.S. branches and agencies of foreign banks (hereinafter, collectively referred to as depository institutions) to borrow from the Reserve Banks after executing legal agreements and pledging collateral.¹ By providing ready access to funding, the discount window helps depository institutions manage their liquidity risks efficiently and avoid actions that would have negative consequences for their customers, such as withdrawing credit during times of market stress. Thus, the discount window supports the smooth flow of credit to households and businesses.²

The twelve Reserve Banks operate the discount window and work together to promote consistent and effective discount window operations across the Federal Reserve. The Board oversees Reserve Bank discount window operations and provides guidance to Reserve Banks on discount window policy through the Board's Regulation A (12 CFR part 201).

In addition to the discount window, Reserve Banks provide intraday credit (also known as daylight overdrafts) to depository institutions that are eligible for regular access to the discount

¹ The Board's Regulation A (12 CFR part 201) sets out which depository institutions and U.S. branches and agencies of foreign banks are eligible to borrow from a Reserve Bank.

² See, <https://www.federalreserve.gov/monetarypolicy/discountrate.htm>.

window and have accounts at a Reserve Bank.³ Intraday credit supports the safety and efficiency of the payments system. Intraday credit, if collateralized, draws on the same pool of collateral as the discount window, with the same collateral margins and eligibility standards as for the discount window. The Federal Reserve Policy on Payment System Risk (PSR policy) outlines the methods that Reserve Banks use to mitigate credit risk associated with providing intraday credit.⁴

The Federal Reserve continually assesses and strives to improve the operational aspects of discount window and intraday credit. These assessments have led, for example, to the recent introduction of Discount Window Direct, a secure online portal that can be used to request discount window advances. The Federal Reserve routinely engages with depository institutions regarding operational aspects of the discount window and intraday credit. Formally seeking broad input from the public on these issues should help the Federal Reserve further improve discount window and intraday credit operations.

II. Reserve Bank Credit Operations

A. Discount Window Operations

The Reserve Banks extend discount window credit to depository institutions by making advances secured by acceptable collateral. In order to borrow from the discount window, a depository institution must take several steps. First, it must complete, and submit to its lending Reserve Bank, the necessary lending agreements and corporate resolutions, which are described in the Reserve Banks' Operating Circular No. 10 (Lending).⁵ Second, it must pledge collateral that is acceptable to the lending Reserve Bank. Finally, once it has submitted the necessary legal documents and pledged collateral, it must request an advance from its lending Reserve Bank.

Depository institutions may request discount window advances over the phone or by using the recently introduced Discount Window Direct secure online portal.⁶ A request may be made only by an authorized person identified on the depository institution's current official

³ An extension of intraday credit or a "daylight overdraft" occurs when an institution's Reserve Bank account is in a negative position at any point during the business day.

⁴ See, https://www.federalreserve.gov/paymentsystems/psr_about.htm.

⁵ See, <https://www.frbservices.org/resources/rules-regulations/operating-circulars.html#10>.

⁶ See, https://www.frbdiscountwindow.org/Articles/2024/06/24/12/05/DWD_20240624.

authorization list.⁷ A discount window advance is issued with a stated maturity date. The lending Reserve Bank will normally credit the borrowing institution's (or its correspondent's) account at 7:00 p.m. ET, the close of the business day. Reserve Banks may approve earlier availability of advance proceeds if requested by the borrowing institution. Multi-day advances may be prepaid in whole or in part at the borrowing depository institution's option. Repayment of principal and accrued interest is charged to the account to which the advance was posted.

B. Intraday Credit Operations

The Reserve Banks provide uncollateralized and collateralized intraday credit to eligible depository institutions. The Reserve Banks mitigate their credit risk through several methods, including by offering a financial incentive for institutions to collateralize daylight overdrafts, setting limits on daylight overdrafts in institutions' Reserve Bank accounts, and requiring collateral in certain situations.⁸ Under the PSR policy, each depository institution that maintains an account at a Reserve Bank is assigned or may establish a limit on the amount of uncollateralized daylight overdrafts that the depository institution may incur in its Reserve Bank account. This limit is commonly referred to as the "net debit cap." In addition, subject to Reserve Bank approval, certain institutions may pledge collateral to access daylight overdraft capacity above their net debit caps. The combination of the uncollateralized capacity from the institution's net debit cap plus the additional collateralized capacity is known as the "maximum daylight overdraft capacity" or "max cap."

C. Collateral

Reserve Banks accept a wide range of loans and securities as collateral for discount window advances.⁹ Collateral pledged to a Reserve Bank also secures any other obligations of the pledging depository institution to a Reserve Bank, including intraday credit. Collateral is assigned a lendable value deemed appropriate by the Reserve Bank.¹⁰ Lendable value is based on market value (or a market-value estimate) multiplied by a margin.

⁷ The relevant documentation is appended to the Reserve Banks' Operating Circular No. 10 (Lending).

⁸ The Reserve Banks do not charge a fee on collateralized daylight overdrafts.

⁹ Assets accepted as collateral can be found at https://www.frbdiscountwindow.org/Pages/Collateral/collateral_eligibility. Reserve Banks require a perfected, first-priority security interest in collateral.

¹⁰ The current collateral margins tables can be found at https://www.frbdiscountwindow.org/Pages/Collateral/collateral_valuation.

Depository institutions pledge securities to a Reserve Bank by transferring them to restricted securities accounts held at approved securities depositories, including the Fedwire[®] Securities Service (FSS) and The Depository Trust Company (DTC).¹¹ In the absence of unusual concerns about the eligibility or valuation of the security, the pledge is generally effected and given lendable value the same day, subject to the securities depositories' operating hours.

The Reserve Banks accept multiple loan types as collateral, including consumer loans; residential and commercial real estate loans; and commercial, industrial, or agricultural loans. Loans are generally pledged to Reserve Banks through a “borrower in custody” (BIC) arrangement, in which a depository institution pledges a portfolio of its loans while maintaining possession of the loan documentation on its own premises. Loans may also be pledged under a custodial arrangement where the loans are maintained on the premises of a custodian.¹²

Generally, the process for pledging loans takes longer than the process for pledging securities given the additional steps required for the Reserve Banks to obtain information on loan collateral. Pledgors are generally expected to provide data on individual pledged loans so that the Reserve Bank can determine the fair market and lendable value of the collateral—except for credit card receivables, which are reported in pools. Larger depository institutions (generally those with \$50 billion or more in total consolidated assets), as well as all U.S. branches and agencies of foreign banks, are generally expected to provide more data on loan collateral than are other depository institutions. For these larger institutions and U.S. branches and agencies of foreign banks, the number of required data elements varies by type of loan.

A depository institution works with its lending Reserve Bank to ensure that the Reserve Bank has a perfected, first-priority security interest in collateral. For example, when a Reserve Bank receives a pledge of loans from a depository institution, the Reserve Bank will file a financing statement on the pledged loans, conduct a lien search, and, if necessary, take steps to protect its security interest against the claims of other creditors. In some cases, a Federal Home Loan Bank (FHLB) may have a “blanket lien” that already encumbers some portion of a

¹¹ Fedwire is a registered service mark of the Reserve Banks. A list of marks related to financial services products that are offered to financial institutions by the Reserve Banks is available at FRBservices.org.

¹² Custodians must be approved by the Reserve Bank and are required to execute an agreement found in Appendix 5 to the Reserve Banks' Operating Circular No. 10 (Lending).

depository institution's assets. The Reserve Banks and FHLBs coordinate to ensure that advances to the same borrower are not secured by the same collateral.

III. Public Information on Discount Window and Intraday Credit Operations

Depository institutions and other members of the public can obtain guidance on Federal Reserve operational processes from the Reserve Banks' Discount Window and Payment System Risk website (<https://www.frbdiscountwindow.org>). This website provides instructions for accessing discount window and intraday credit, as well as contact information for Reserve Bank discount window offices. In addition, the Board publishes general information about the discount window on its website (<https://www.federalreserve.gov/monetarypolicy/discountrate.htm>).

To assist depository institutions in implementing the PSR policy, the Federal Reserve has prepared two guidance documents: the Overview of the Federal Reserve's Payment System Risk Policy on Intraday Credit (Overview) and the Guide to the Federal Reserve's Payment System Risk Policy on Intraday Credit (Guide).¹³ The Guide contains detailed eligibility standards for requesting and maintaining uncollateralized intraday credit capacity.

IV. Request for Information

The Federal Reserve continually assesses and strives to improve operational aspects of the Reserve Banks' extensions of discount window and intraday credit. Responses to this RFI will inform the Federal Reserve as it considers further improvements to promote efficiency and reduce burden on depository institutions. In addition to reducing burden on depository institutions, such improvements could encourage institutions to use Federal Reserve credit, increasing the effectiveness of the discount window and intraday credit in meeting the Federal Reserve's goals.

This RFI only solicits views on credit-related operational practices and not on broader discount window or intraday credit policy considerations, such as the terms of lending for discount window programs or eligibility standards for intraday credit.

The Federal Reserve is seeking responses to the following questions:

¹³ The Overview and the Guide are available at https://www.federalreserve.gov/paymentsystems/psr_relpolicies.htm.

Discount Window Operations

1. For the following discount window operational processes, what operational frictions or inefficiencies exist? Are there any specific actions that could be taken by the Federal Reserve to address those issues?

- a. Submitting legal documents to a Reserve Bank.
- b. Pledging or withdrawing securities as collateral.
- c. Pledging or withdrawing loans as collateral.
- d. Requesting discount window advances and receiving proceeds.
- e. Repaying discount window advances before their full maturity.
- f. Using the Discount Window Direct online portal.

2. Are there operational frictions or inefficiencies in the processes mentioned above that are particularly acute or pressing for FHLB members? What specific improvements could be made with respect to depository institutions that are members of an FHLB?

3. Are there operational frictions or inefficiencies in the processes mentioned above that are particularly acute or pressing for smaller depository institutions or depository institutions that use correspondents to interact with the Federal Reserve? What specific improvements could be made with respect to these institutions?

Intraday Credit Operations

4. Are there operational or communications-related frictions associated with accessing intraday credit (i.e., daylight overdrafts)? For example:

- a. Knowledge about the availability of intraday credit.
- b. Timing of credits and debits impacting the account balance, including discount window loans and repayments.
- c. Processes for establishing an uncollateralized intraday credit limit or “net debit cap.”
- d. Voluntary collateralization of daylight overdrafts.
- e. Processes for requesting additional collateralized intraday credit capacity or a “max cap.”
- f. Reporting of intraday credit usage and/or fees.
- g. Expectation to effectively manage accounts to avoid breaches of intraday credit limits.

h. Expectation to avoid overnight overdrafts.

5. Are there intraday credit frictions and issues in the items mentioned above that are particularly acute or pressing for smaller depository institutions?

Information on Discount Window and Intraday Credit Operations

6. Are there improvements that could be made to Federal Reserve communications practices about discount window and intraday credit operations? For example:

- a. Provision of operational information and guidance to depository institutions via the Reserve Banks' discount window and payment system risk website (<https://www.frbdiscountwindow.org>).
- b. Provision of operational information and guidance to depository institutions on a bilateral basis from an institution's lending Reserve Bank.
- c. Provision of information to the general public via the Board's website (<https://www.federalreserve.gov/monetarypolicy/discountrate.htm>; https://www.federalreserve.gov/paymentsystems/psr_about.htm).

Other

7. Are there other changes that the Federal Reserve could make to improve the operational efficiency of the discount window and intraday credit?

8. What operational aspects of accessing Federal Reserve discount window and intraday credit programs are most costly or burdensome for depository institutions, both in terms of direct expenses and staff hours?

By order of the Board of Governors of the Federal Reserve System.

Ann E. Misback,
Secretary of the Board.

BILLING CODE: 6210-01-P