



Discount Window Programs Participation and Pledging Guide

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Financial Institution Supervision and Credit
Credit Risk Management



Overview of the Federal Reserve Bank's

Discount Window

The Discount Window is a source of liquidity for depository institutions. It also ensures the basic stability of the payment system by providing funding in contingency situations.

Primary Credit Program¹

Primary credit is the main lending program that provides a back-up source of short-term funds for depository institutions. Primary credit is priced at a rate above the FOMC's target for the federal funds rate and is normally granted on a "no-questions asked," minimally administered basis.

Advantages:

- Generally, there are no restrictions on borrowers' use of primary credit
- Ideally suited for contingency planning or operational risk management
- Access is generally available until 4:00 p.m. Pacific Time

Typical uses include:

- Funding an unexpected deposit outflow
- Avoiding an overnight overdraft or reserve deficiency
- Reselling proceeds

Eligibility to Borrow

By law, depository institutions that maintain reservable transaction accounts or nonpersonal time deposits (as defined in Regulation D) generally may establish a borrowing relationship at the Discount Window. Eligibility to borrow is not contingent on the use of Federal Reserve priced services or having a Federal Reserve account.

How to Get Started

To access the Discount Window, borrowers must file the necessary lending agreements and authorizing resolutions under the terms set forth in Operating Circular No. 10: Lending. These documents are available at <http://www.frbdiscountwindow.org>, under "Agreements."

The documents include:

- The Form of Letter of Agreement
- The Form of Authorizing Resolution For Borrowers
- The Official OC-10 Authorization List
- The Form of Certificate (Schedule A to Letter of Agreement)
- The Form of Letter of Agreement to Correspondent Credit and Payment Agreement (*as applicable*)

Pledging of Collateral

All loans from the Federal Reserve Bank must be secured by collateral. Most performing loans or investment grade assets held by depository institutions are generally acceptable as collateral, including:

Securities:

- U.S. Treasuries, agencies, and GSE obligations
- Collateralized mortgage obligations
- Corporate and municipal bonds
- Asset backed securities
- Various structured securities and instruments

Loans:

- Residential real estate loans
- Commercial, industrial, or agricultural loans
- Commercial real estate loans
- Consumer loans (includes auto and credit card receivables)

Qualifying institutions may choose to be a part of the Borrower-In-Custody (BIC) Program, with collateral being held in the custody of the servicer/institution or by an acceptable third-party custodian.

Requesting Federal Reserve Advances

Requesting an advance is easy. Simply call the Credit Risk Management Department's toll free number at (866) 974-7475. The Discount Window closes at 4:00 p.m. Pacific Time.

Information or Questions

For additional information, call (866) 974-7475 or visit www.frbdiscountwindow.org. Documents, resources, and contact information specific to the Federal Reserve Bank of San Francisco can be found by using the drop down menu and selecting San Francisco (12th District).

¹ Secondary credit is available to depository institutions that are not eligible for primary credit due to their financial condition or other factors.



Overview of the Federal Reserve Bank's

Borrower-In-Custody (BIC) Program

The Borrower-in-Custody (BIC) Program allows the pledge of collateral in the form of loans held in custody of the depository institutions. This can be used as collateral to secure advances for the Discount Window, Payment System Risk (PSR), or the Treasury, Tax, and Loan program. In addition, collateral may be pledged under the BIC Program for the Seasonal Credit Program.

Advantages of BIC

- Enables loans to be used as collateral (Discount Window, Payment System Risk, and Treasury programs), thereby freeing up more liquid assets, e.g., securities
- Custody and maintenance of the loans remains at the participating institutions
- Wide range of loans are acceptable as collateral
- No fees or stock purchases required

Type of Loans Acceptable for BIC Program

- Agricultural loans
- Commercial loans and leases
- Commercial real-estate loans
- Construction real-estate loans
- Raw land loans
- 1-4 family mortgage loans (first lien, second lien, home equity)
- Private banking loans
- Secured consumer loans (auto, boat, etc.)
- Unsecured consumer loans
- Credit card receivables (prime and subprime)
- Student loans

Minimum Eligibility Requirements

- CAMELS composite rating of "1" or "2" (Composite ratings of "3" are generally acceptable)¹
- "Adequately" or "Well" capitalized as evidenced by most recent capital ratios
- Acceptable controls in place to ensure satisfactory compliance with the BIC Program

How to Get Started

In addition to the Operating Circular No. 10: Lending documents, the following completed documents are required:

- Application for Borrower-in-Custody Arrangement
- Irrevocable Power of Attorney
- Appendix A
- Imaging Questionnaire, if the institution images loans or generates them automatically
- The institution's internal credit risk ratings definitions
- The institution's internal Loan Policy handbook and/or guidelines
- The Form of Agreement for Third-Party Custodian to Hold Collateral, if the loans are held by a third-party custodian, including subsidiaries or affiliates
- Test Pledge Listing Submission

After submitting the Application for BIC Arrangement and necessary documents, a response generally will be provided within 30 days.

On-going Collateral Maintenance

On a monthly basis, the institution submits updated loan balances allowing for the addition and/or subtraction of loans. Reporting is via email and can be encrypted using the Reserve Bank's free encryption service (FRSecure Message Center).²

Annually, the institution is required to certify compliance with the BIC Guidelines. In addition, collateral is periodically verified through online or on-site reviews.

Information or Questions

Complete information and documentation requirements can be found at http://www.frbdiscountwindow.org/12_bic.cfm or by calling (866) 974-7475.

¹ Similarly, FBO and corresponding branches must be in satisfactory condition.

² For further information on our encryption service, FRSecure Message Center, go to the link, <https://securemail.federalreserve.com/>, or contact us at sf.crm@sffrb.org.



Overview of the Federal Reserve Bank's

Seasonal Credit Program

The Seasonal Credit Program provides a line of credit to institutions that experience seasonal fluctuations. It is intended for institutions with \$500 million or less in deposits. Institutions that experience fluctuations in deposits and loans—caused by construction, college, farming, resort, municipal financing, and other seasonal businesses—frequently qualify for the program.¹

Advantages of the Seasonal Credit Program

- No fees or stock purchases required
- Partial and full prepayments on outstanding loans are allowed at any time without penalty
- Advances under the seasonal line are available daily

Minimum Eligibility Requirements

- The institution confirms to the Federal Reserve Bank of San Francisco that a seasonal need exists
- The seasonal need persists for at least four consecutive weeks
- The institution funds a portion of the seasonal need from its own liquidity sources

Occasionally, institutions may experience unusual seasonal requirements during periods of general liquidity strain that are not adequately identified by the normal seasonal calculations. Reserve Banks have discretionary authority to accommodate such unusual needs.

How to Get Started

In addition to the Operating Circular No 10: Lending documents in place, an application for Seasonal Credit must be completed along with the following information:

- A brief description of the seasonal factors, requested amount, and requested duration of the credit.
- A minimum of three years of consistent deposit and loan data is required to adequately analyze seasonal swings. Monthly deposit and loan data can be on a daily average basis, as of a specific day each month, or at month end.

After submitting the Seasonal application and necessary documents, a response normally will be provided within 14 days.

Pledging Collateral

All loans from the Federal Reserve Bank must be secured by collateral. Most performing loans or investment grade assets held by depository institutions are generally acceptable as collateral including:

Securities:

- U.S. Treasuries, agencies and GSE obligations
- Collateralized mortgage obligations
- Corporate and municipals bonds
- Asset backed securities
- Various structured securities and instruments

Loans:

- Residential real estate loans
- Commercial, industrial, or agricultural loans
- Commercial real estate loans
- Consumer loans (includes auto and credit card receivables)

For loans, qualifying institutions may choose to be a part of the Borrower-In-Custody (BIC) Program, with collateral being held in the custody of the servicer/institution or by an acceptable third party custodian.

Information or Questions

For additional information, call (866) 974-7475, or visit http://www.frbdiscountwindow.org/12_seasonal.cfm.

¹ To comply with provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), an approved seasonal line may be significantly reduced or revoked should an institution, at any time, be classified as a problem institution by a federal banking agency, or if it becomes undercapitalized.