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FRB Establishes Bank Term Funding Program to Aid Liquidity Availability

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As we noted very briefly on Monday in our "Quick Take on a Sudden Change in the Banking Landscape," among the various actions the government took Sunday evening to try to stabilize the banking market, the Federal Reserve Board ("FRB") invoked its authority under Section 13(3) of the Federal Reserve Act to establish the Bank Term Funding Program ("BTFP") "to support American businesses and households by making additional funding available to eligible depository institutions to help assure banks have the ability to meet the needs of all depositors."

As articulated in the posted term sheet and the FAQs about the program released yesterday, the FRB has designed this program with generous terms for insured depository institutions (including credit unions). The program differs from regulatory discount window lending – for example, one of the major ways is that eligible collateral is valued at par, with no haircut and no marking to market. This feature of the program is important to encourage use and is an important feature that alleviates some of the reported stress experienced by Silicon Valley Bank. However, loans made under the program are made with recourse to the eligible borrower beyond the eligible collateral.

Examples of eligible collateral include the following direct obligations:

- U.S. Department of the Treasury;
- Federal Agricultural Mortgage Corporation (Farmer Mac);
- Federal Farm Credit Banks Funding Corporation (Farm Credit System);
- Federal Home Loan Bank (FHLB) System;
- Federal Home Loan Mortgage Corporation (Freddie Mac);

- Federal National Mortgage Association (Fannie Mae);
- Financing Corporation (FICO);
- Resolution Funding Corporation (REFCO);
- Student Loan Marketing Association (SLMA); and
- Tennessee Valley Authority.

Mortgage-backed securities issued or guaranteed by Ginnie Mae, Freddie Mac and Fannie Mae are also eligible collateral under the program.

The program will be open until at least March 11, 2024.