

12th District
Federal Reserve Bank of San Francisco
Credit and Risk Management

DISCOUNT WINDOW PROGRAMS

Participation and Pledging Guide

Overview of the 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. These funds are available on a short-term basis, typically overnight and at 100 basis points above the Federal Open Market Committee's target rate for Federal Funds.

Advantages:

- Generally, there are no restrictions on borrowers' use of primary credit
- Ideally suited for contingency planning/operational risk management
- Access 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 those terms are used in Federal Reserve Board 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."

They 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 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 collateral, including:

Securities:

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

Loans:

- Residential real estate loans
- Commercial, industrial, or agricultural loans
- Commercial real estate loans
- Consumer 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.

Requesting Federal Reserve Advances

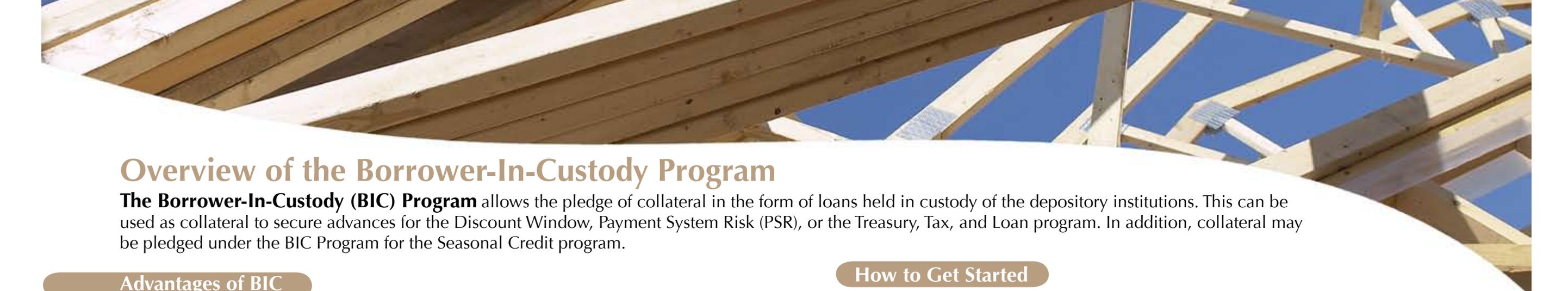
Requesting an advance is easy. Simply call the Credit and Risk Management Department's toll free number at (866) 974-7475. The discount window closes at 4:00 p.m. Pacific Time.

Information or Questions

For additional information, call (866) 974-7475 or visit www.frbdiscountwindow.org

- Documents specific to the Federal Reserve Bank of San Francisco can be found by selecting "Select Your FRB" on the menu bar. From the drop down menu, select "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 Borrower-In-Custody 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, Payments 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 is acceptable as collateral
- Competitive margins², with option of even higher margins through Automated Loan Detail³ (ALD) feature
- No fees or stock purchases required

Type of Loans Acceptable for BIC Program

- 1-4 Family mortgage
- Home equity loans & lines of credit
- Unsecured personal loans
- Auto loans & leases (Direct/Indirect)
- Credit card receivables
- Commercial real estate
- Commercial loans & lines of credit
- Construction loans
- Agricultural loans
- Participations

Minimum Eligibility Requirements⁴

- CAMELS composite rating of “1” or “2” (Composite ratings of “3” are generally acceptable)⁵
- “Adequately” or “Well” capitalized as evidenced by most recent capital ratios
- Asset quality is rated satisfactory
- Management, internal controls, and the audit function is rated satisfactory

² The Federal Reserve System Discount Window Collateral Margins Table (<http://www.frbdiscountwindow.org/discountmargins.xls>) lists other types of collateral that may be pledged and includes valuation margins for the most commonly pledged asset types.

³ Automated Loan Detail (ALD) specification results in more accurate margins being assigned to individually pledged loans held in the BIC arrangement. For more information, please contact us at sf.crm@sf.frb.org.

How to Get Started

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

- Application for Borrower-In-Custody Arrangement
- Irrevocable Power of Attorney
- Appendix A
- Email BIC Agreement (eBIC)
- The institution’s internal credit risk rating 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

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

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

On-going Collateral Maintenance

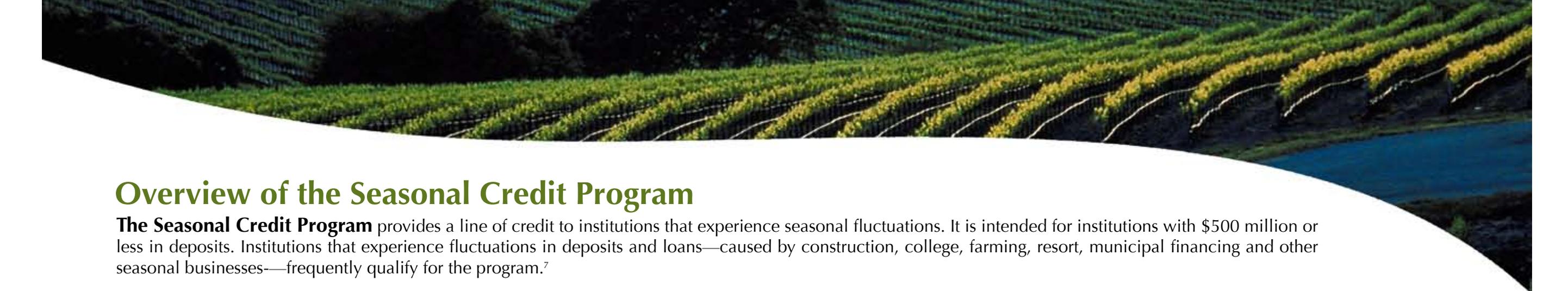
On a monthly basis, the institution submits updated loan balances allowing for additions and/or subtractions of loans. Reporting is via email and can be encrypted using the Reserve Bank’s free encryption service (Zix Corporation).⁶

Annually, the institution is required to certify compliance with the BIC Guidelines. In addition, collateral is occasionally verified through an on-site inspection.

⁴ Additional information on the BIC Program is available in our Borrower-In-Custody Guidelines (http://www.frbdiscountwindow.org/12_bicgdl.pdf). The guidelines further outline eligibility, reporting, maintenance, controls, inspection, and certification.

⁵ Where FBO and corresponding branches are in satisfactory condition.

⁶ For further information on our encryption service, FRSecure Message Center, go to the link, <https://secureemail.federalreserve.com/>, or contact us at sf.crm@sf.frb.org.



Overview of the 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.⁷

Advantages of the Seasonal Credit Program

- Floating market rate derived from 3-month CD and Fed Funds Rate
- 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 usually available on a daily, weekly, or 30 day maturity schedule

Minimum Eligibility Requirements

- Institution is in satisfactory financial condition
- Demonstrates a recurring seasonal need that persists for at least four weeks
- A portion of the seasonal funding is met by the institution's own liquidity resources

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 having 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, the requested amount and 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.⁸

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 generally are acceptable collateral, including:

Securities:

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

Loans:

- Residential real estate loans
- Commercial, industrial, or agricultural loans
- Commercial real estate loan
- Consumer loans

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 or questions on this or any other credit program, please contact the Credit and Risk Management office at the Federal Reserve Bank of San Francisco at our toll free number: (866) 974-7475 or *visit* http://www.frbdiscountwindow.org/12_seasonal.cfm.

⁷ 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.

⁸ For further information on the Seasonal Program and rates, go to the link, http://www.frbdiscountwindow.org/12_seasonal.cfm or contact us at sf.crm@sf.frb.org.

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