Insights: Alert

Federal Reserve Board Announces Bank Term Funding Program to Help Safeguard Deposits

MARCH 13, 2023 Written by Christina M. Gattuso and Ross M. Speier

On Sunday, March 12, 2023, the Federal Reserve Board ("FRB") announced the creation of the Bank Term Funding Program ("BTFP"). The program will offer loans of up to one year in length to banks, savings associations, credit unions, and other eligible depository institutions pledging U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral, with the assets valued at par.

The formation of the BTFP arrives on the heels of the closure of Silicon Valley Bank (Santa Clara, California) and the closure of Signature Bank (New York, New York) by their respective banking regulators. In its press release, the FRB indicated that BTFP will "serve as an additional source of liquidity against high-quality securities, eliminating an institution's need to quickly sell those securities in times of stress."

As detailed in the FRB's term sheet for the BTFP and the associated FAQ in the Federal Reserve Discount Window's website, the BTFP will have the following features:

- **Immediate Availability:** Eligible borrowers that have discount window borrowing documentation in place and are eligible for primary credit will be able to borrow from the BTFP immediately. This includes any eligible federally insured depository institution or U.S. branch or agency of a foreign bank. Advances can be requested under the BTFP until at least March 11, 2024.
- **Eligible Collateral:** Any collateral that is eligible for purchase by the Federal Reserve Banks in open market operations to the extent the collateral was owned by the borrower as of March 12, 2023. Such collateral includes U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets.
- **Advance Size:** Advances will be limited to the value of collateral pledged by the borrower. Banks are also permitted to receive primary credit advances in addition to advances received under the BTFP.
- **Rate:** One-year overnight index swap rate plus 10 basis points, with the rate fixed for the term of the advance on the day the advance is made. The program rate will be updated daily and posted on https://frbdiscountwindow.org.
- **Collateral Valuation and Margin:** The collateral valuation will be par value (as opposed to fair market value), and margin will be 100% of par value, with no haircuts to the collateral. Advances made under the BTFP are made with recourse beyond the pledged collateral to the eligible borrower.

  As a protective measure in connection with the formation of the BTFP, the Department of Treasury will make available a $25 billion backstop from the Exchange Stabilization Fund to the BTFP. In addition, the FRB indicated that the Federal Reserve Banks' discount window will apply the same margins used for the securities

eligible for the BTFP, “further increasing lendable value at the discount window.” Margins for collateral eligible for the Federal Reserve discount window but not eligible for the BTFP will not be affected.

Depository institutions eligible to participate in the BTFP can access the program page on the Federal Reserve discount window website for more information - https://www.frbdiscountwindow.org/GeneralPages/bank_term_funding_program.

If you have any questions regarding this alert, please reach out to your contact at Kilpatrick Townsend.

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