

Term Funding Financing Facility (TFFF)

Basic Idea: Provide a financial incentive for depository institutions to purchase term CP and bank wholesale term CDs by offering credit on favorable terms through a special discount window facility—the Term Funding Financing Facility (TFFF).

Option 1: Standing Facility

- Standing Facility: Depositories could turn to the special TFFF window at any time.
- Rate: 25 basis points below the primary credit rate. Interest accrues daily based on primary credit rate in effect each day.
- Maturities: Loans would be for a set maturity of [1] month.

Option 2: Auction Facility

- Auction Facility: Depositories would bid at special TAF auctions.
- Maturities: Loans would be for a set maturity of [1] month.
- Rate: Determined by auction. Minimum bid rate on the auction could be set at a low level to encourage participation.

Collateral Management Under Both Options

- Acceptable Collateral: A1/P1 collateral (unsecured or ABCP) and bank large time deposits with remaining maturities of [1] month or more and that were issued within the last [two] weeks.
- Valuation: Marked-to-market based on existing discount window practice (weekly).
- Collateral Haircut: Standard discount window practice (3 percent).
- Collateral Maintenance: Collateral would be accepted through DTC and segregated in special sub accounts.

Option 1: Standing Facility	Option 2: Auction Facility
Assures that financing for term CP and CDs is available to depositories at any time.	Rate would adjust to make borrowing attractive.
Rate may be too high and constrain participation.	Greater control over quantity of credit provided.
Rate may be too low and encourage very high level of borrowing.	But uncertainty about winning at auction may inhibit participation.
Recommendation: Consult with depositories to further refine the format and parameters of the proposed facility.	