Federal Reserve Release

# Press Release

*Release Date: July 20, 1999*

For immediate release

The Federal Reserve Board today voted to establish a Century Date Change Special Liquidity Facility, a program for lending to depository institutions from **October 1, 1999**, through **April 7, 2000**.

The facility will help ensure that depository institutions have adequate liquidity to meet any unusual demands in the period around the century date change. Among other things, it should help enable institutions to more confidently commit to supplying loans to other financial institutions and businesses through the rollover period.

The interest rate charged on loans from the special facility will be 150 basis points higher than the Federal Open Market Committee's intended federal funds rate. Although the collateral requirements will be the same as for regular discount window loans, there will be no restrictions on the use and duration of loans from the special facility while it is in operation. Moreover, borrowers will not be required to seek funds elsewhere first.

The Board proposed the special facility on **May 21, 1999**, and received 93 comments. All but three favored its establishment. Commenters frequently noted that, even though the financial services industry was well prepared for the Year 2000, the facility would increase certainty that funds would be available to meet liquidity needs around the end of the year.

In response to comments, the Board set an earlier start date for the special facility than it had first proposed, **October 1** rather than **November 1**.

It also decided not to automatically tie eligibility for borrowing from the special facility to meeting minimum capital requirements. Lending Reserve Banks will evaluate the eligibility of borrowers who had been adequately capitalized and in sound financial condition, but whose capital ratios temporarily have fallen below minimum requirements as a result of developments related to the century date change.

Many commenters had suggested a lower interest rate on loans from the special facility. But the Board set the rate at 150 basis points above the federal funds rate target, as it had first proposed. That spread was judged to be high enough to ensure that depository institutions would still have incentives to seek funds in the private sector but low enough to provide a reasonable backstop should strains develop in funding and credit markets.

1999 Banking and consumer regulatory policy

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