FAQs: Primary Dealer Credit Facility

May 7, 2020

What is the Federal Reserve’s Primary Dealer Credit Facility (PDCF)? Why are we introducing the PDCF and what are some of its terms?

The Primary Dealer Credit Facility (PDCF) is a loan facility that will provide credit to primary dealers in exchange for a broad range of collateral for term funding with maturities up to 90 days. The PDCF is intended to support the credit needs of American households and businesses by fostering the functioning of financial markets more generally and to expand the ability of primary dealers to gain access to term funding.

How does the PDCF announced on March 17, 2020, differ from the facility operated between 2008 and 2010?

There are several differences between the facilities. Most notably, the recently announced PDCF offers term funding for up to 90 days, while the facility in operation between 2008 and 2010 offered only overnight loans.

Who can participate?

Eligible participants include the primary dealers. A list of the primary dealers is available here.

What are the terms of the PDCF loan?

PDCF loans will settle on the same business day and will mature up to 90 days after settlement. The rate paid on the loan (regardless of the duration of the loan) will be the same as the primary credit rate at the Federal Reserve Bank of New York in effect at the time the loan is made. Click here for the current primary credit rate.

Can borrowers prepay loans?

Yes. A primary dealer that wishes to prepay should submit early termination instructions through the Bank of New York Mellon’s tri-party system by 12:00 PM, which will be reviewed and processed by the Federal Reserve Bank of New York.

What collateral is eligible for pledging?

Eligible collateral includes a broad range of investment grade debt securities, including commercial paper and municipal bonds, and a broad range of equity securities. See this collateral schedule, as well as the Term Sheet for Primary Dealer Credit Facility for additional detail.

What commercial paper is acceptable collateral for the PDCF? What happens if commercial paper that was originally accepted is downgraded?

Commercial paper must be rated investment grade, i.e. rated A2/P2/F2 or better by a major nationally recognized statistical rating organization (NRSRO). If rated by multiple NRSROs, the lowest rating will be used.

Should commercial paper collateralizing a term PDCF loan no longer meet the criteria described above (e.g., an NRSRO downgrade below A2/P2/F2 occurs), the primary dealer will need to replace the security with collateral that meets all applicable eligibility criteria to maintain full collateralization of the loan, or initiate an early termination of the loan. This is consistent with the treatment of other eligible collateral for a PDCF term loan that later fails to meet all applicable eligibility criteria over the life of the loan.

How can a primary dealer find out if a specific type of collateral is eligible for the PDCF?

Based on the broad collateral types indicated in the PDCF term sheet, a more detailed collateral schedule was provided by the Federal Reserve Bank of New York to the Bank of New York Mellon in keeping with the triparty setup process. This information was also shared with each primary dealer as a counterparty to the PDCF. Primary dealers can engage the Bank of New York Mellon should questions of additional granularity and eligibility arise.

How will collateral be valued?

The collateral will be subject to daily repricing by the Bank of New York Mellon according to a schedule designed to be similar to the margin schedule for lending by the Discount Window, to the extent possible. In the event the loan becomes under-
collateralized, the borrower will need to pledge additional collateral to cover the shortfall or prepay the loan. The collateral schedule may be adjusted as conditions warrant and upon further analysis.

**Can a firm pledge its own obligations to the PDCF as collateral?**

No. Obligations issued by the borrower or its affiliates are not accepted.

**How do primary dealers initiate the loans?**

Primary dealers should initiate transactions with their clearing bank for PDCF funds no later than 2:00 p.m. ET on business days. This time is subject to change.

**Will there be tri-party fees assessed by the Bank of New York Mellon?**

Yes, normal tri-party fees will apply.

**Is there a frequency-based fee, as with the PDCF in operation between 2008 and 2010?**

No.

**How much can primary dealers borrow?**

A primary dealer will be allowed to borrow up to the margin-adjusted collateral it can deliver to the Federal Reserve’s account at the clearing bank.

**How and when are the loans and collateral settled?**

The loans will be made available to a primary dealer’s clearing bank following the acknowledgment by the clearing bank that sufficient collateral has been placed in the Federal Reserve Bank of New York’s tri-party account at the clearing bank. This will take place around 5:00 p.m. ET each day.

**If a primary dealer requests a 90-day PDCF loan for which the maturity date would fall on a weekend or holiday, what happens?**

If day ninety of a 90-day loan falls on a weekend or holiday, loans through the PDCF will mature on the next business day.

**How do the primary dealers know that their requested borrowing has been fulfilled?**

Each primary dealer should contact their clearing bank directly.

**Is this lending with recourse?**

Yes, loans to primary dealers made under the PDCF are made with recourse beyond the collateral to the primary dealer entity itself.

**How is this different from discount window lending to depository institutions?**

This facility differs from discount window lending to depository institutions in a number of ways. The PDCF is available to primary dealers while the discount window is available only to depository institutions. Also, the discount window does not accept equity securities as collateral for loans. In addition, credit under this facility is extended in the form of a repurchase agreement transaction.

**Under what legal authority are PDCF loans made?**

PDCF loans are made under Section 13(3) of the Federal Reserve Act.

**If a dealer borrows from the PDCF, when will the individual dealer’s borrowing activity be made known to the public?**

Information on PDCF loans that includes individual borrower detail will be disclosed in accordance with Section 13(3) of the Federal Reserve Act.

**How is funding provided through the PDCF treated for U.S. regulatory and supervisory purposes?**

The Liquidity Coverage Ratio (LCR) rule does not require a firm to recognize an outflow for a secured funding transaction that matures more than 30 calendar days from the calculation date. As such, primary dealers that are affiliates of entities subject to the LCR rule would not recognize an outflow for so long as the maturity of the loan is not within 30 calendar days of a firm’s calculation date. As the remaining maturity of the loan declines, the primary dealer may choose to pre-pay the loan and request a new loan up to 90 days.
How long will the PDCF be in operation?

The PDCF will remain available to primary dealers for at least six months, or longer if conditions warrant.

FAQ: April 20, 2020 »