Primary Dealer Credit Facility: Frequently Asked Questions

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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 an overnight loan facility that will provide funding to primary dealers in exchange for a specified range of eligible collateral and is intended to foster the functioning of financial markets more generally.

Who can participate?

Eligible participants include all the primary dealers. They will participate through their clearing banks.

What are the terms of the loan?

Loans will settle on the same business day and will mature the following business day. The rate paid on the loan will be the same as the primary credit rate at the New York Fed. Currently, this rate is equal to the primary credit rate. In addition, primary dealers will be subject to a frequency-based fee after they exceed 30 days of use within the first 120 business days of the program. The frequency-based fee will be based on an escalating scale and communicated to the primary dealers in advance.

What is the rate of the loan?

The rate of the loan is the primary credit rate at the New York Fed, currently 25 basis points above the target federal funds rate.

What is the frequency-based fee and how is it determined?

The frequency-based fee is a fee schedule that will specify additional fees to be charged to dealers who access the facility on more than 30 business days out of 120 business days of the facility. Access to the facility on the 31st and subsequent days will result in additional fees to be paid by the dealer. The exact frequency-based fee schedule will be determined in consultation with the primary dealers and will be announced within 10 days.

What collateral is eligible for pledging?

Eligible collateral will include all collateral eligible for tri-party repurchase agreements arranged by the Federal Reserve Open Market Trading Desk (Desk), as well as all investment-grade corporate securities, municipal securities, mortgage-backed securities and asset-backed securities for which a price is available.

How will collateral be valued?

The collateral will be valued by the clearing banks based on a range of pricing services.

How do primary dealers initiate the loans?

Primary dealers should contact their clearing bank to request PDCF funds no later than 5:00 p.m. ET on business days.

How much can primary dealers borrow?

A primary dealer will be allowed to borrow up to the margin-adjusted collateral they can deliver to the Federal Reserve's account at the clearing banks.

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 New York Fed's tri-party account at the clearing bank. This will take place around 5:00 p.m. each day.

What is the duration of the loans made under the PDCF?

All loans are made for a duration of one day. New loans can be taken out each 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.

What are the differences between this and other recent initiatives?

The Term Auction Facility program offers term funding to depository institutions via a bi-weekly auction, for fixed amounts of credit. The Term Securities Lending Facility will be an auction for a fixed amount of lending of Treasury general collateral in exchange for OMO-eligible and AAA/Aaa rated private-label residential mortgage-backed securities. The Primary Dealer Credit Facility now allows eligible primary dealers to borrow at the existing Discount Rate for up to 120 days.

Will the PDCF operations have a reserve impact?

Yes, the credit advanced to the primary dealers under the PDCF will increase the amount of bank reserves.

How will we offset the reserve impact of PDCF loans?

PDCF loans made to primary dealers increase the total supply of reserves in the banking system, in much the same way that Discount Window loans do. To offset this increase, the Desk will utilize a number of tools, including, but not necessarily limited to, outright sales of Treasury securities, reverse repurchase agreements, redemptions of Treasury securities and changes in the sizes of conventional RP transactions.

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

This differs from discount window lending to depository institutions in a number of ways. Currently, the primary credit facility offers overnight as well as term funding for up to 90 calendar days at the primary credit rate secured by discount window collateral to eligible depository institutions. The PDCF, by contrast, is an overnight facility that will be available to primary dealers (rather than depository institutions) for a period of 120 business days. The PDCF is subject to a frequency-of-usage fee, and the loans will be secured by a different basket of securities than those eligible for pledging at the discount window; in particular, only priced securities will be accepted in the PDCF.

What information regarding PDCF loans will be released to the public and how frequently?

Similar to loans made to depository institutions via the Discount Window, information on PDCF borrowing will be made available each Thursday, generally at 4:30 p.m., on Federal Reserve Statistical Release H.4.1 - Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks. The H.4.1 release will contain the total amount of PDCF credit outstanding as of the close of business on the prior business day and the average daily amounts for each week.

Under what legal authority are PDCF loans made?

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

How long will the PDCF be in operation? The PDCF will remain in operation as long as is needed to provide funding to primary dealers in exchange for program eligible collateral and to foster the functioning of financial markets.