

## Term Securities Lending Facility: Program Terms and Conditions

The System Open Market Account (SOMA) Term Securities Lending Facility (TSLF) offers U.S. Treasury securities from the SOMA portfolio for loan in accordance with the program terms and conditions. All terms and conditions are subject to change.

Effective December 2, 2008

### CURRENT TERMS AND CONDITIONS

#### TSLF Auctions

Loans will be awarded to primary dealers based on competitive bidding, subject to a minimum fee requirement. The Open Market Trading Desk of the Federal Reserve Bank of New York will auction general Treasury collateral (Treasury bills, notes, bonds and inflation-indexed securities) held by SOMA for loan against all collateral currently eligible for tri-party repurchase agreements arranged by the Open Market Trading Desk (Schedule 1) and, separately, against Schedule 1 collateral and investment grade corporate securities, municipal securities, mortgage-backed securities, and asset-backed securities (Schedule 2).

The TSLF is a single-price auction, where accepted dealer bids will be awarded at the same fee rate, which shall be the lowest fee rate at which any bid was accepted. Dealers may submit two bids for the basket of eligible general Treasury collateral at each auction. The New York Fed reserves the right to reject or declare ineligible any bid, entirely at its own discretion. At the TSLF auction, each dealer aggregate award is limited to no more than 20 percent of the offering amount.

#### 28-day Term Lending Settling T+1

The term of the loans will be 28 days unless otherwise stated in the announcement. Auctions will settle one business day following the auction day.

#### Treasury General Collateral Allocation

The New York Fed will announce the specific breakdown of general Treasury collateral to be allocated in a TSLF auction. The allocation of these general Treasury securities will be done on a pro rata basis.

#### Eligible Collateral

In order to prevent securities lending from affecting overnight bank reserves, loans will be collateralized with eligible collateral rather than cash. Eligible collateral will be determined by the New York Fed and includes:

#### SCHEDULE 1

All collateral eligible for tri-party repurchase agreements arranged by the Open Market Trading Desk

#### SCHEDULE 2

All Schedule 1 collateral

Investment grade corporate securities

Investment grade municipal securities

Investment grade mortgage-backed securities

Investment grade asset-backed securities

#### Custody Rules and Arrangement

Dealers receiving awards at auction are required to pledge auction-eligible collateral from their clearing bank custodial accounts. All transfers of securities will be made through the borrower's clearing bank account. General Treasury collateral lent by SOMA cannot be transferred out of a dealer's clearing bank, but may be used to settle GCF Repo and tri-party repo contracts. On the loan settlement date, a basket of general collateral Treasury securities totaling the par amount awarded at auction will be transferred from the New York Fed's agent account in exchange for an equivalent amount of eligible collateral, adjusted for margin and market value. Each morning thereafter, the borrower's collateral will be returned to the borrower and the general collateral Treasury securities will be returned to the New York Fed's account. At the end of the day, the Treasury securities will go back to the borrower against the receipt of the borrower's collateral. Collateral will be valued daily

by the clearing bank and adjustments to collateral levels may be required to maintain the designated margin amounts. Upon maturity of the loan, the clearing bank will transfer general collateral Treasury securities from the New York Fed's account at the clearing bank to the New York Fed.

#### **Margin**

Margin requirements will be determined by the New York Fed.

#### **Substitution**

The New York Fed holds the right to substitute assigned Treasury collateral with other Treasury collateral held by SOMA and requires collateral substitution if dealer-pledged collateral becomes ineligible. Dealers will also have the right to substitute eligible collateral.

#### **Announcement of TSLF Auctions**

The New York Fed will issue an announcement one day before the auction specifying the par value of Treasury securities being offered (offering amount) at auction and the schedule of eligible collateral to be pledged. The announcement will also specify the minimum bid rate, auction start and close times, settlement date and loan maturity date. A list of Treasury securities included in the pool of general Treasury collateral to be lent will also be specified.

#### **Auction Date and Time**

The start time of the auctions will be 2:00 p.m. ET, unless otherwise stated in the auction announcement. In general, Schedule 2 auctions will be held each Wednesday and Schedule 1 auctions will be held every other Thursday. A close time will be announced as well and bids will not be considered outside of this auction time.

#### **Number of Dealer Propositions Per Auction**

Dealers are allowed to submit two propositions in each term general collateral auction. Each bid may not exceed 20 percent of the offering amount.

#### **Minimum Bid Rates**

The minimum fee rate will be 10 basis points for Schedule 1 collateral and 25 basis points for Schedule 2 collateral. Bidding will be accepted in increments of 1/100th of a basis point. The lending fee can be thought of as approximately equivalent to the spread between the Treasury general collateral rate and the general collateral rate for the pledged collateral over the term of the loan.

#### **Dealer Award Limits**

Dealer awards will be limited to no more than 20 percent of the amount of SOMA collateral offered during each auction. The New York Fed reserves the right to further restrict dealer bids at its sole discretion.

#### **Minimum Bids and Bid Increments**

Dealers will be allowed to bid for a minimum of \$10 million in par value and in increments of \$10 million in par value to the maximum allowed per dealer according to program limits.

#### **Determination of Awards**

The New York Fed will review and accept bids at the highest rate through successively lower rates. All accepted bids will be awarded at the same fee rate, which shall be the lowest rate at which any bid was accepted. The aggregate amount of all accepted bids shall not exceed the lesser of (i) the offering amount, and (ii) the aggregate amount of all bids submitted at or above the minimum bid rate. When necessary, bids at the lowest accepted interest rate will be prorated. Auction awards will be rounded to the nearest million.

#### **Lending Fees**

On auction date, the New York Fed will determine the total lending fee owed, in dollars, at the end of the loan. Dealers' clearing bank accounts will be charged for the fees due on the maturity date.

The lending fee will be calculated\* by multiplying: a) the total quoted price of the borrowed securities excluding accrued interest (i.e. the "clean" price) as of the close of business on the day before the auction, by b) the stop-out fee rate, by c) the term of the loan, in days, divided by 360.

\* This calculation does not depend on the accrued interest on the securities lent by the New York Fed, or on whether and when coupon payments are required to be remitted back to the New York Fed. Changes to the invoice price of the borrowed securities resulting from changes to the quoted price, accrual of interest and/or coupon payments will affect the value of the collateral required to be pledged, but will not change the total lending fee owed.

#### **Announcement of Auction Results**

The total par amount lent and award rate for each auction will be released in a timely manner to each dealer after the auction is complete. The aggregate results including the stop-out award rate, total propositions submitted and accepted, as well as the bid-to-cover ratio will be on the New York Fed website.

#### **Program Termination**

The TSLF will remain available to primary dealers until April 30, 2009 or longer if conditions warrant.

Program Terms and Conditions: September 15, 2008 >>