



Member driven.
Community focused.

Interaction between Discount Window and FHLBs

October 2025

Building a Better Liquidity Eco System

1

**FHLB & Federal
Reserve Workstreams**

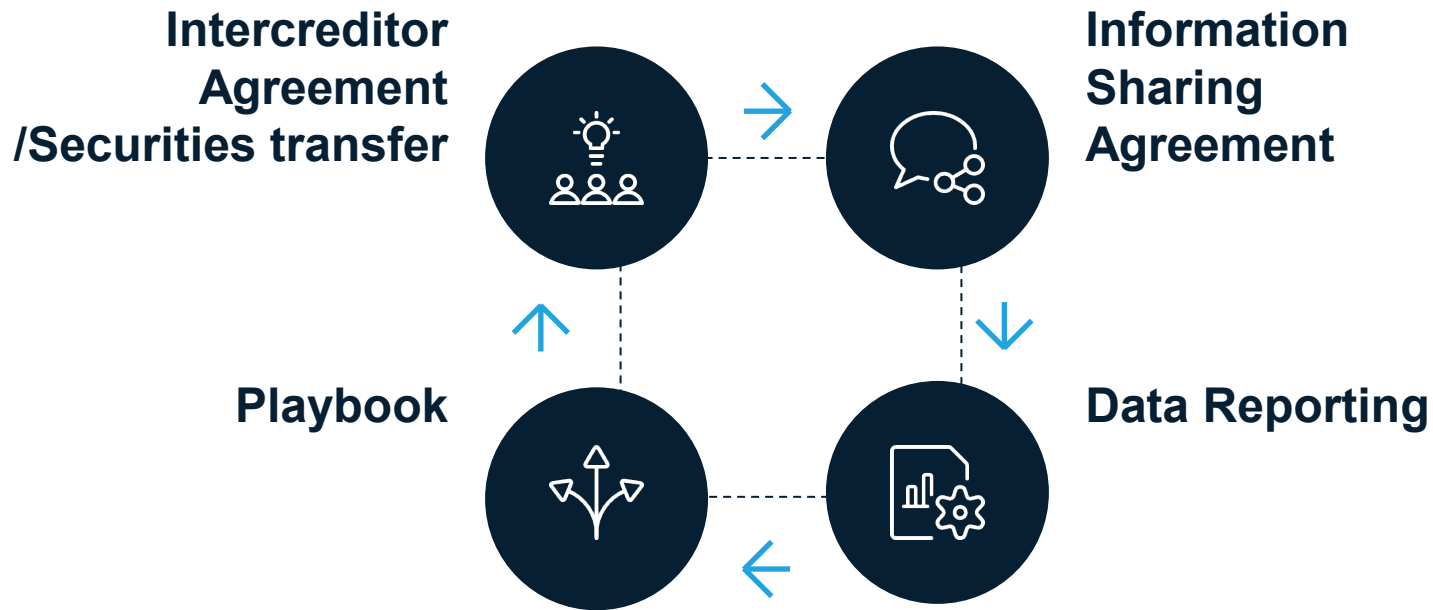
2

**Banking Sector &
FHLB**

3

**Considerations to
Enhance Liquidity
Framework**

FHLB & Federal Reserve Work Streams – Addressing Issues from March 2023



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**FHLB & Federal
Reserve Workstreams**

2

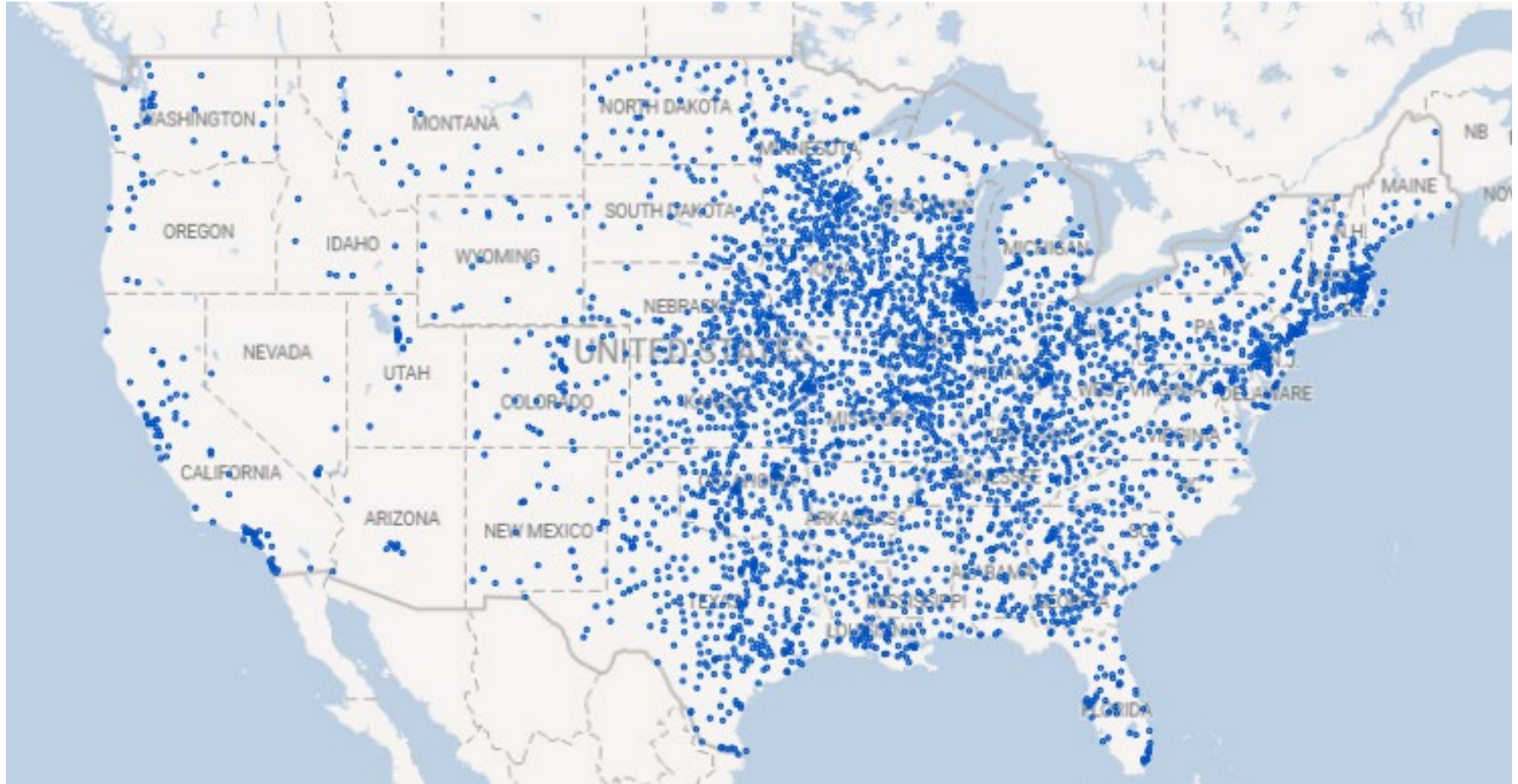
**Banking Sector &
FHLB**

3

**Considerations to
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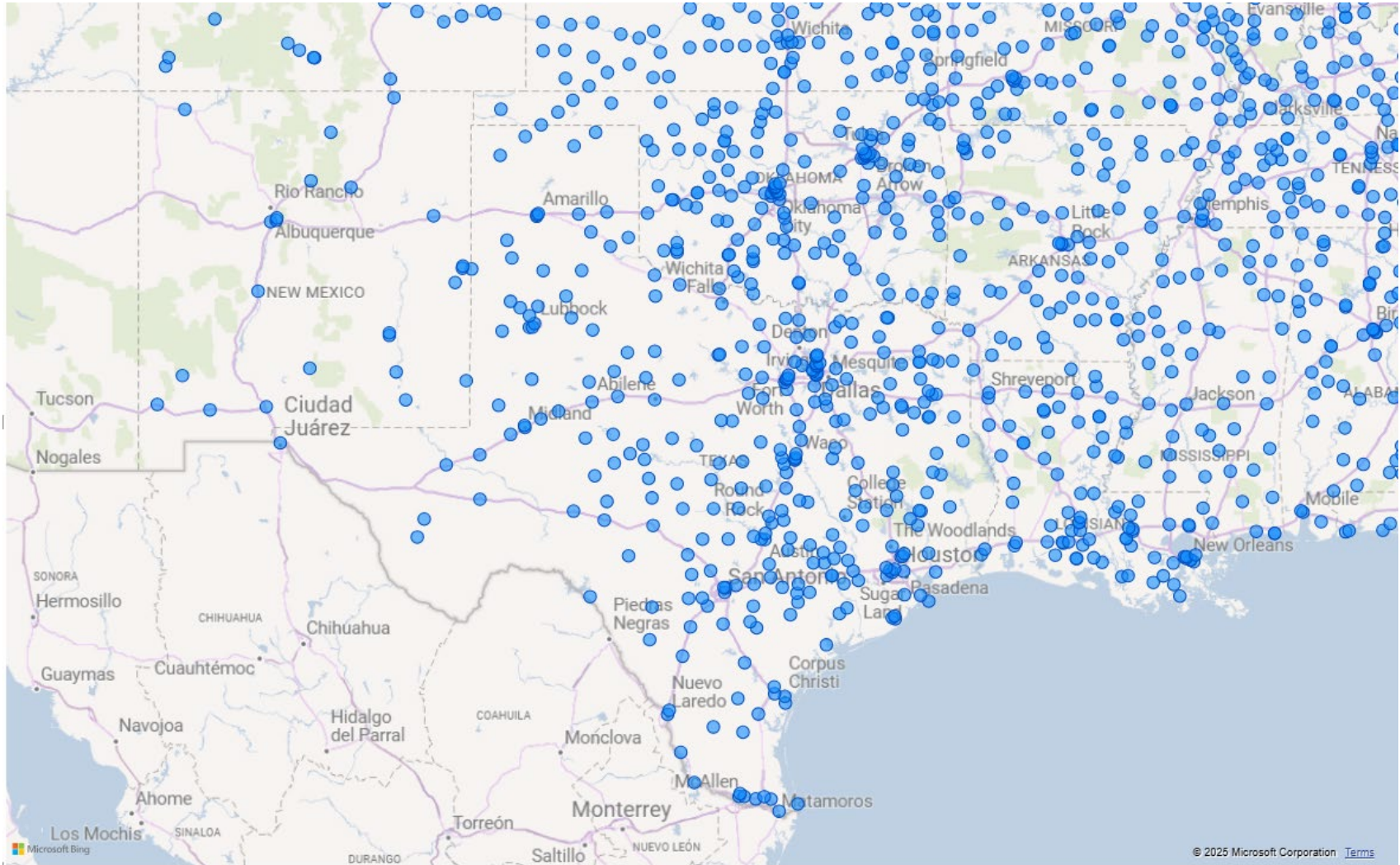
US Community Banks

Headquarters only



FHLB Dallas District -Community Banks

Headquarters only



FHLB Product Array

Rate VIEW	FLOATING RATE ADVANCES with Embedded Options	FIXED RATE ADVANCES with Embedded Options	NON-OPTIONED ADVANCES	OPTIONED ADVANCES
Rates Increase Rates Decrease Rates Change	Member is net long cap	Member is net long cap	Member locks in a fixed rate on the forward curve. There is no option.	
	Member is long cap plus short another cap		Member is locking in rates on the forward curve. There is no option.	Member owns option to increase borrowing at same coupon
	Member is net long floor	Member is net long floor		Member is long option to redeem funding before maturity
	Member is long cap plus short floor	Member is long cap and floor	No options. Fixed Rate.	Point in the rate cycle where it is ideal to borrow

In addition to advances, FHLBs also provide Letters of Credit to collateralize public unit deposits to their communities

Myth about Super Lien

1) The drivers behind Statutory Lien provisions in the 1987 Competitive Equality Banking Act (CEBA).

- At the time, only method to perfect security interest in instruments was possession.
- The “CEBA lien” gave FHLBs priority over an unperfected security interest of other creditors *only if* no other secured creditor had possession of collateral.

2) Revisions to Uniform Commercial Code (“UCC”) in 2001.

- Created ability to perfect security interest by filing a financing statement in addition to possession of collateral.
- UCC now provides for possession, then “first to file” for priority.
- Since 2001, CEBA lien just fills the gap where: (i) no secured creditor has possession of collateral; and (ii) no other secured creditor has filed a valid financing statement.
- Except this narrow situation, FHLB lien rights are no different than other secured creditors.

3) Current FHLB collateral practices.

- Since 2001 UCC revisions, FHLBs perfect their security interest in collateral by filing financing statements and/or by possession (or control) of collateral.

Liquidity is a public good. A diverse array of reliable sources of liquidity enhances overall economic strength and resiliency

Building a Better Liquidity Eco System

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**Considerations to
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What is most likely true in the future?

**Faster payments,
extended settlement hours
& faster deposit run off**

**Impact on the need for
liquidity**

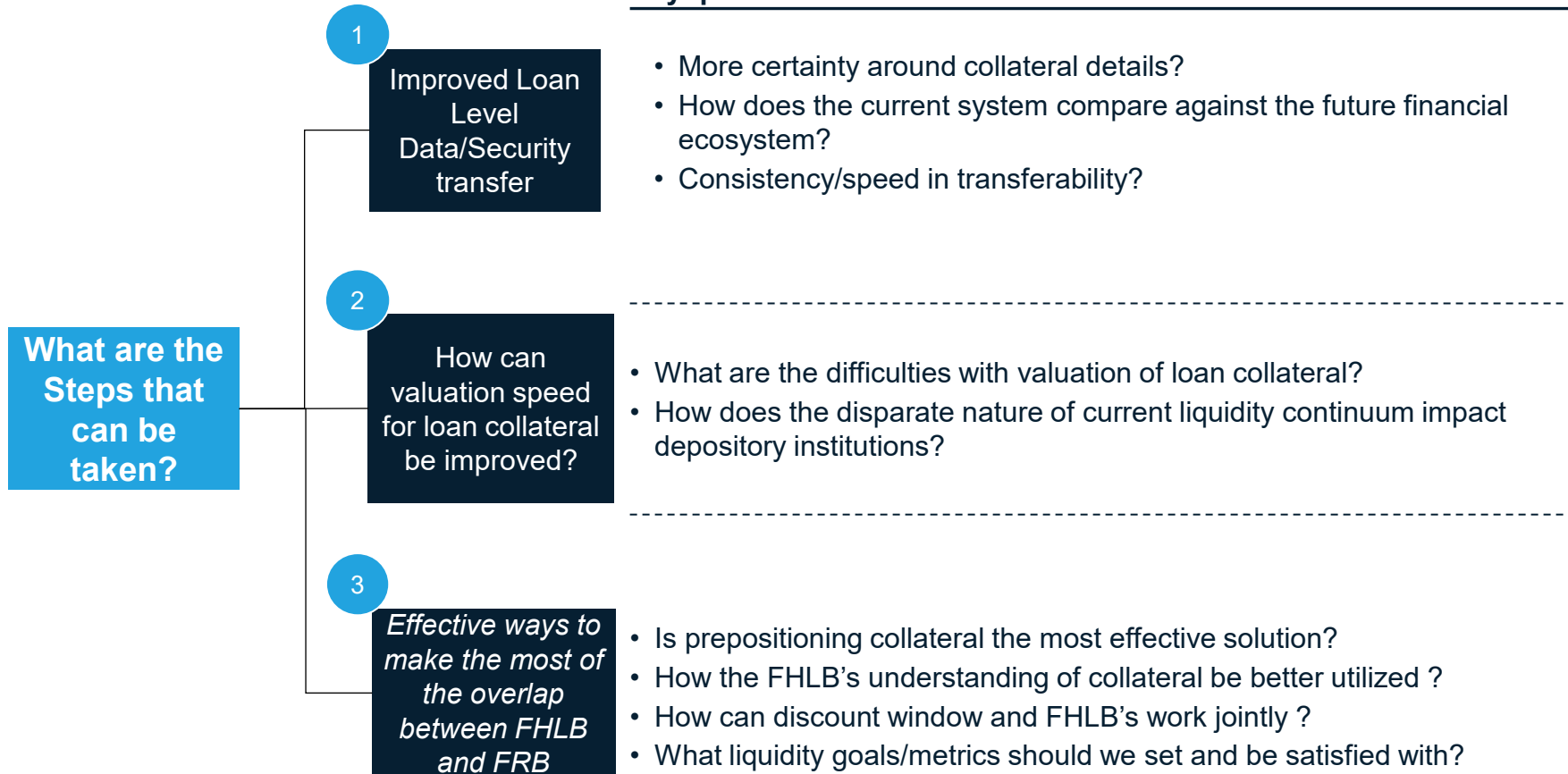
Unclear/likely higher

**Where the current
system is likely to
break?**

**Not designed as a
continuum, requires
prepositioning to have
instant availability**

Improving the Liquidity Continuum

Key questions



1

Improving Loan Level Data/Valuation Process

Objective

- More certainty around availability of Liquidity

Key Benefits

Certainty on liquidity leads to better utilization of capital and planning for stress liquidity needs.
Better information on collateral leads to more certainty of liquidity availability

Key Actions that can be taken

- ☐ Transition from paper notes to E-notes for all collateral types
- ☐ Agree on standard data tape for each collateral type
- ☐ Require Core Service providers to include standardized data tapes as part of their system offering
- ☐ Support tokenization of Title
- ☐ National Valuation Database
- ☐ Address issues related to after hours security value transfer

Intercreditor Collateral-Holding Arrangement

For institutions that need to release and pledge securities collateral to and from FRBs and FHLBs, outside of central securities depository operating hours.

Proposed Collateral Agent or Security Agent Arrangement

Description: FHLBs act as collateral agents and hold the collateral in trust or as agent for the FRBs until such time as the securities can be moved in due course.

Use Case: The FHLB as agent holds securities collateral for itself and FRB based on collateral schedules.

Key Document: Subordination Agreement with Agency Provisions. Ex: FHLB acts as collateral agent for both itself and FRB under a shared security package.

Improving Valuation Speed/Availability of Liquidity

Objective

- Close the time gap involved in the completion of loan collateral perfection and valuation at the Discount Window by accepting a short-term letter of credit (secured by member collateral) from the Federal Home Loan Banks (FHLBs).

Key Benefits

Immediate value ensures liquidity continuum as collateral moves from FHLBs to the Discount window. Emphasis on availability of liquidity and not where collateral is posted

Key Actions / Regulatory Basis

- ❑ Clarify FHLB letter of credit as an acceptable instrument for collateralization. FHLB bonds and notes are acceptable collateral

❑ Basis

§ 201.108 Obligations eligible as collateral for advances.

Section 3(a) of Pub. L. 90-505, approved September 21, 1968, amended the eighth paragraph of section 13 of the Federal Reserve Act (12 U.S.C. 347) to authorize advances thereunder to member banks "secured by such obligations as are eligible for purchase under section 14(b) of this Act." The relevant part of such paragraph had previously referred only to "notes * * * eligible * * * for purchase", which the Board had construed as not including obligations generally regarded as securities. (See 1962 Federal Reserve Bulletin 690, § 201.103(d).)

(b) Under section 14(b) direct obligations of, and obligations fully guaranteed as to principal and interest by, the United States are eligible for purchase by Reserve Banks. Such obligations include certificates issued by the trustees of Penn Central Transportation Co. that are fully guaranteed by the Secretary of Transportation. Under section 14(b) direct obligations of, and obligations fully guaranteed as to principal and interest by, any agency of the United States are also eligible for purchase by Reserve Banks. Following

are the principal agency obligations eligible as collateral for advances:

- (1) Federal Intermediate Credit Bank debentures;
- (2) Federal Home Loan Bank notes and bonds;
- (3) Federal Land Bank bonds;

...

(20) Obligations guaranteed by the Overseas Private Investment Corp., pursuant to the provisions of the Foreign Assistance Act of 1961, as amended

Improving Collateral Transferability

Objective

- The existing process necessitates the transfer of physical collateral from the FHLBs to the Discount Window. Enhanced efficiencies could be realized if the FHLBs were permitted to serve as custodians for the Federal Reserve, thereby removing the need for physical transfers.

Key Benefits

Enhanced availability and Improved speed at which liquidity is available

Key Actions that can be taken/ Regulatory Basis

☐ Basis

Looking at **Operating Circular 10**

BIC-held Collateral means Collateral that is in the possession or control of the Borrower or stored or maintained with a third-party custodian pursuant to an authorized BIC Arrangement.

7.7 With respect to any item of Collateral not delivered or transferred to the Bank or its custodian, including BIC-held Collateral, the Borrower shall hold such item of Collateral in trust for the Bank until the Collateral is delivered or transferred in accordance with the Bank's instructions. The Borrower bears the risk of loss for any Collateral held in the Borrower's possession or control, at any custodian, maintained in an account at a securities intermediary other than a Reserve Bank, or in transit to or from the Bank. The Borrower also bears the risk of any accidental

2 If Collateral is maintained by a third party (including an affiliate of the Borrower), the Borrower must comply with (or compel such third party's compliance with) the provisions in this Operating Circular pertaining to BIC-held Collateral. In addition, such third party must execute an Agreement for Third-Party Custodian to Hold Collateral, the form of which is in Appendix 5. Finally, the Bank may require the third party to complete Collateral Schedules and participate or comply with inspection and certification requirements related to the BIC-held Collateral. For purposes of this Operating Circular, "affiliate" means a parent, direct or indirect subsidiary of the Borrower or any entity having the same parent or ultimate parent as the Borrower

Every 10-15 years, the financial system experiences what is referred to as a "100-year flood." It's crucial to discuss and build the liquidity system in a way that it can manage the next occurrence.