Interactions between the Discount Window and FHLB Contingent Lending

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- Review of the current arrangements
- Implications of the arrangement
- New facts about borrowing patterns
- Some questions

*Based on work in progress with Antonis Kotidis (FRB) and Alex Vardoulakis (FRB).

Views are those of the authors and do not necessarily represent those of Federal Reserve Board of Governors, or anyone in the Federal Reserve System.

Lending Facilities Around the World

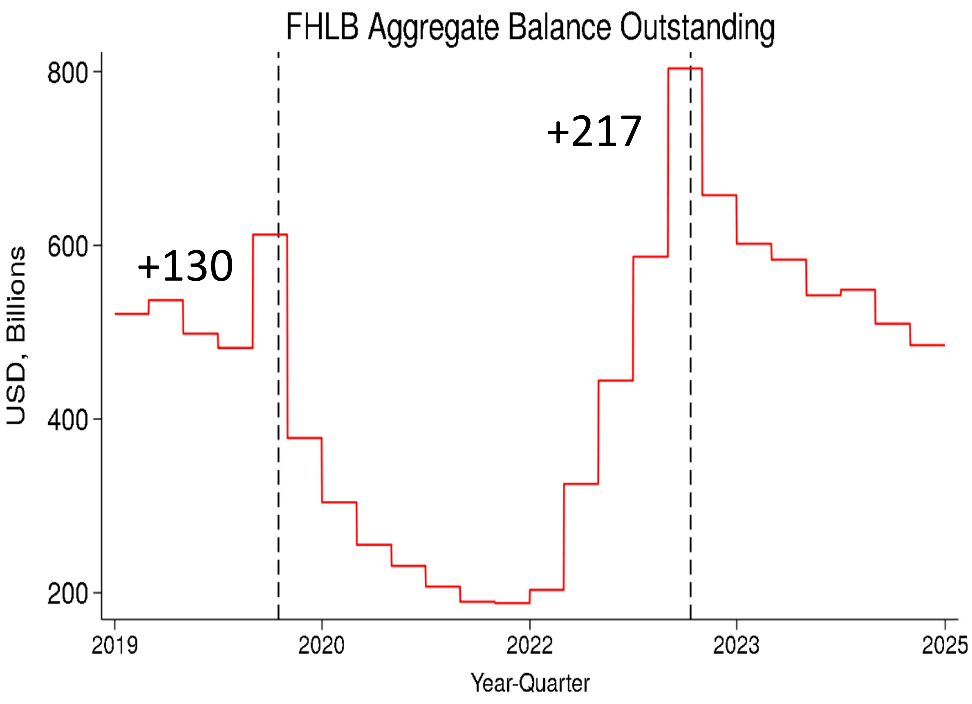
Jurisdiction	Number & purpose of facilities	Collateral type	Penalty Pricing
Bank of Canada	Standing Liquidity Facility *Business-as-Usual Liquidity*	Broad range of securities and loans but no mortgages	Target rate+25 bps
	Standing Term Liquidity Facility *Stress-related Liquidity*	Even broader range including mortgages	OIS+35 bps for securities OIS+75 bps for loans
Bank of England	Operating Standing Lending Facility *Business-as-Usual Liquidity*	High quality, highly liquid sovereign debt (Level A)	Target rate + 25 bps
	Discount Window Facility *Stress-related Liquidity*	Investment-grade securities and loans (Levels A, B, C)	Rate varies
ECB	Marginal Lending Facility *Both Business-as-Usual and Mild Stress-related Liquidity*	Securities and loans	MRO rate + 25bps
	Emergency Lending Assistance *Extreme Stress-related Liquidity*	National Central Bank has wide discretion	Marginal Lending Facility rate plus at least 100 bps
Federal Reserve	Discount Window Primary Credit *Both Business-as-Usual and Stress-related Liquidity*	Securities and loans	Top of the target range

Source: Arseneau, David, Mark Carlson, Kathryn Chen, Matt Darst, Dylan Kirkeeng, Elizabeth Klee, Matt Malloy, Benjamin Malin, Emilie O'Malley, Friederike Niepmann, Mary-Frances Styczynski, Melissa Vanouse, and Alexandros P. Vardoulakis (2025). "Central bank liquidity facilities around the world," FEDS Notes. Washington: Board of Governors of the Federal Reserve System, February 26, 2025

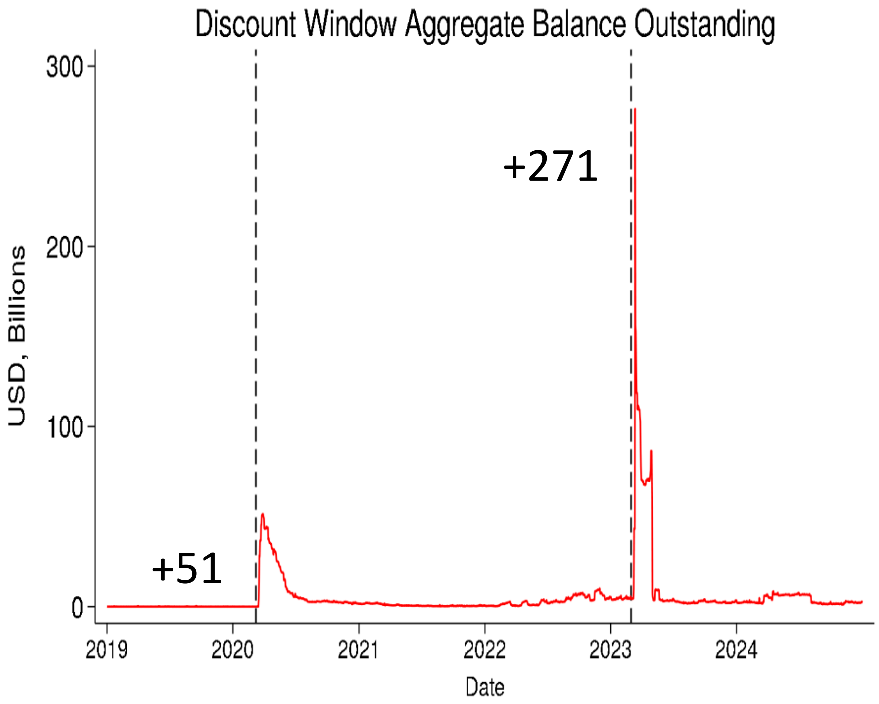
The US is different…

- Banks can seek secured borrowing against similar collateral from either the Fed (DW) or FHLBs
- Loan terms differ in haircuts and interest rates
- FHLB haircuts are typically higher, but interest rates tend to be lower.

FHLB is used for Business-as-Usual funding, but both are used in times of stress



Source: Call reports, quarter ends



Source: DW confidential data daily (disclosed)

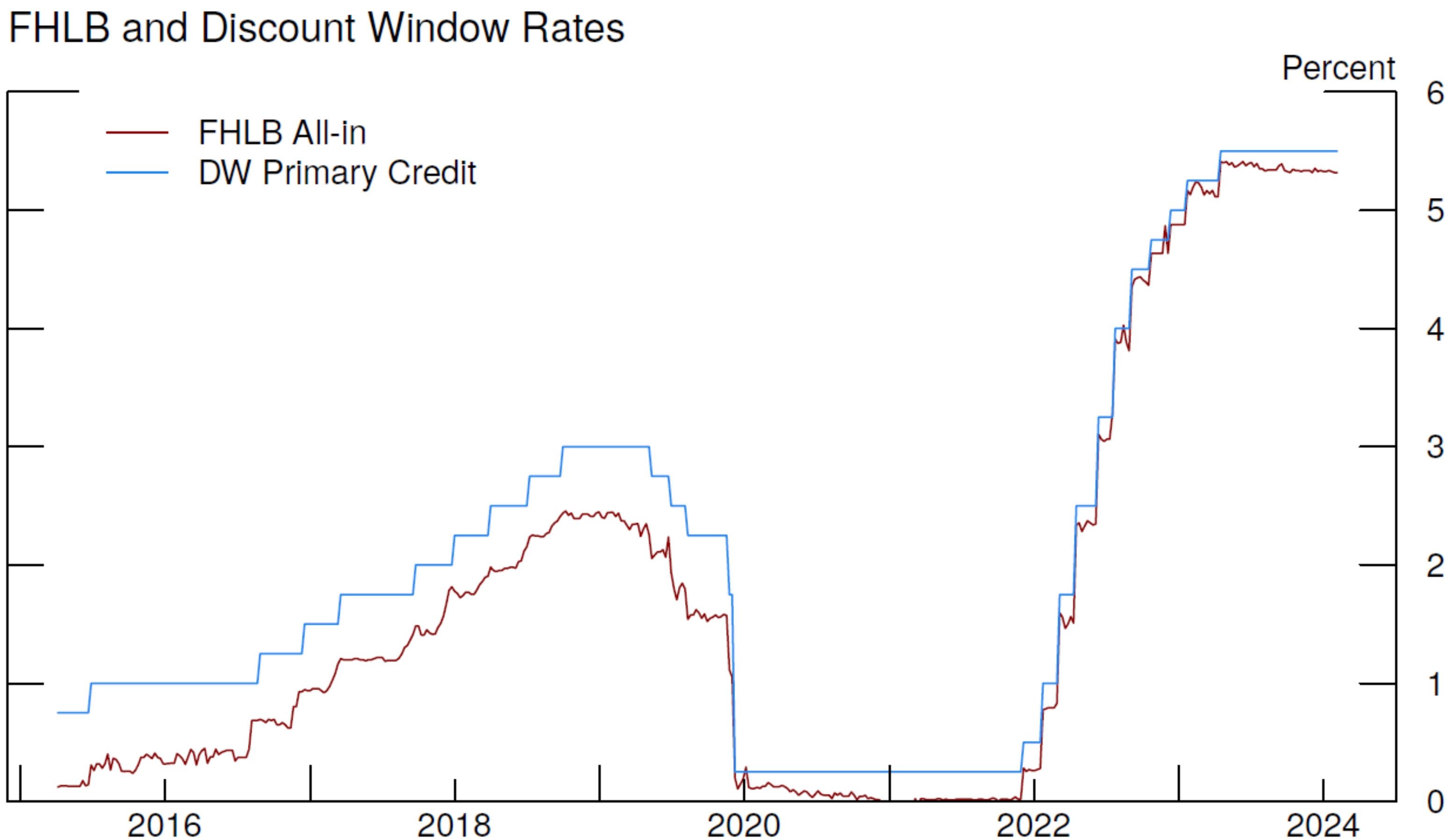
FHLB funding spikes as a leading indicator?

Cecchetti, Schoenholtz and White 2023

Figure 3: SVB, Signature Bank, and First Republic Bank–Advances from the FHLB System (Billions of U.S. Dollars)

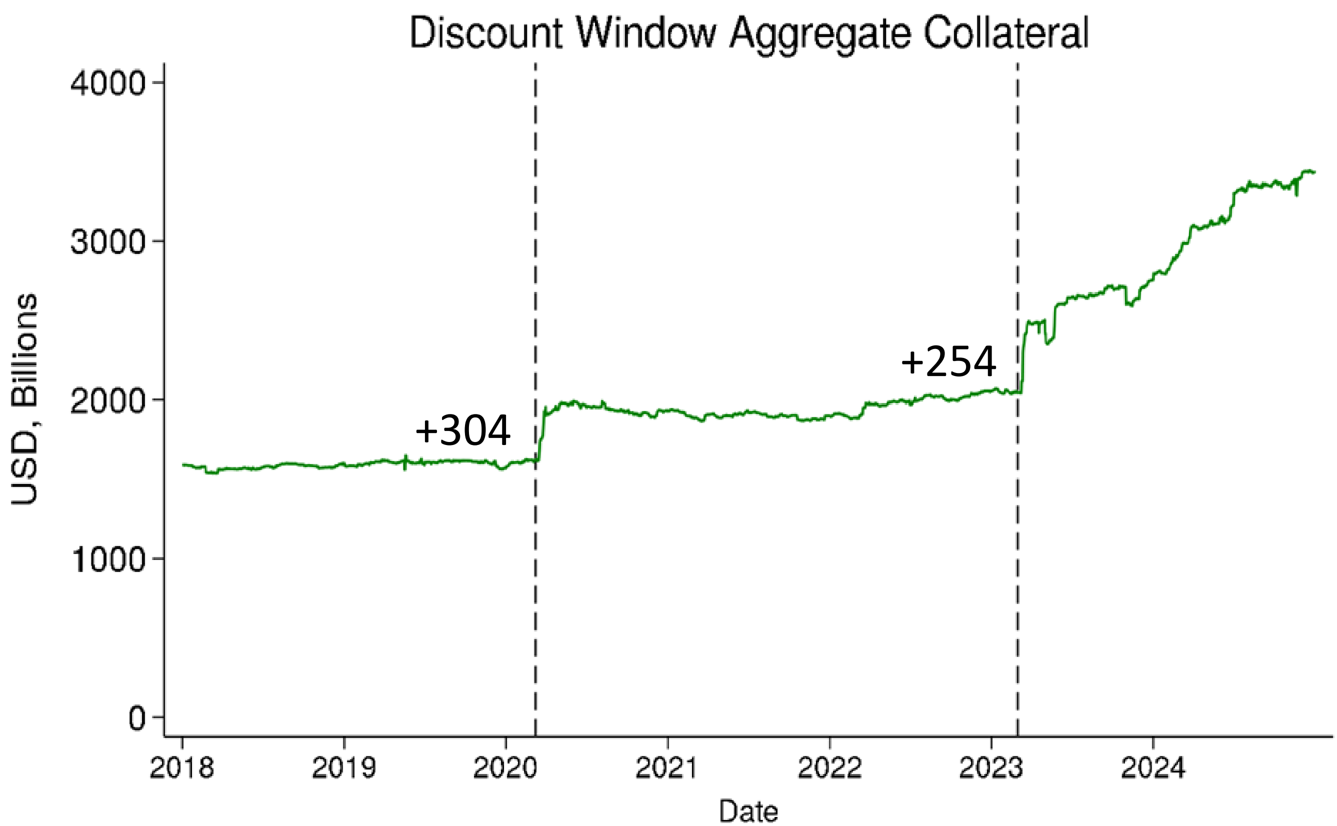
Bank	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
SVB	0	NA	NA	$13.5	$15.0	*
Signature Bank	NA	NA	NA	NA	$11.3	*
First Republic Bank	$3.7	$3.7	$11.0	$11.0	$14.0	$28.1

* The bank was put into receivership.
NA Not [available/applicable].
Sources: FHLB System quarterly and annual financial reports; SVB, Signature Bank, and First Republic Bank annual financial reports. We note that the banks' quarterly reports do not reveal their FHLB advances; and SVB's 2021 annual report could not be readily accessed.



Better Haircut	Loan Types (indicative and non-exhaustive)
FHLB	1-4 Family Mortgages (1st lien, 2nd, HELOC), Land Loans
DW	C&I Loans, Credit Card Receivables, Agency and Non-Agency MBS

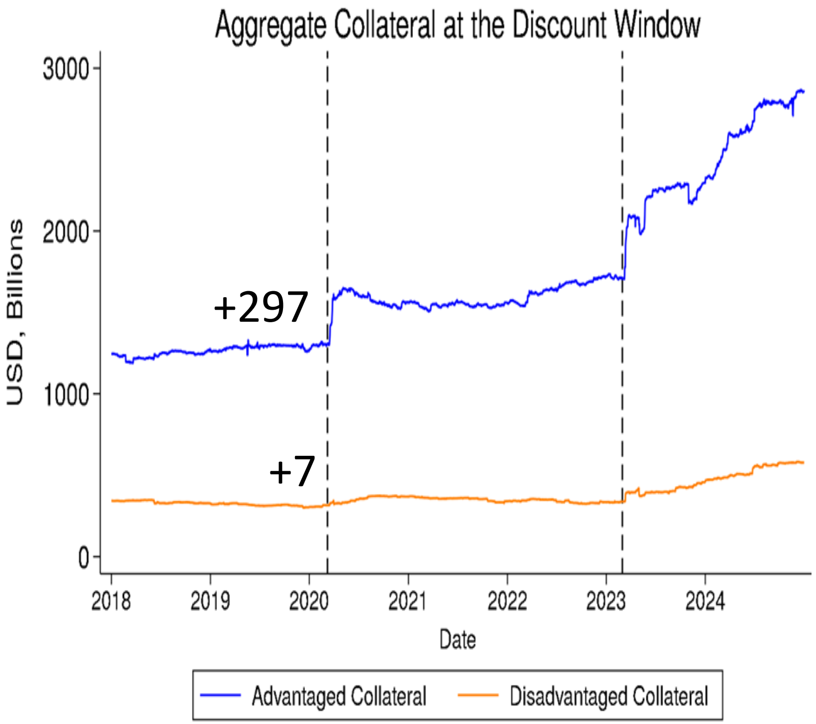
Collateral pledged at DW spikes in stress

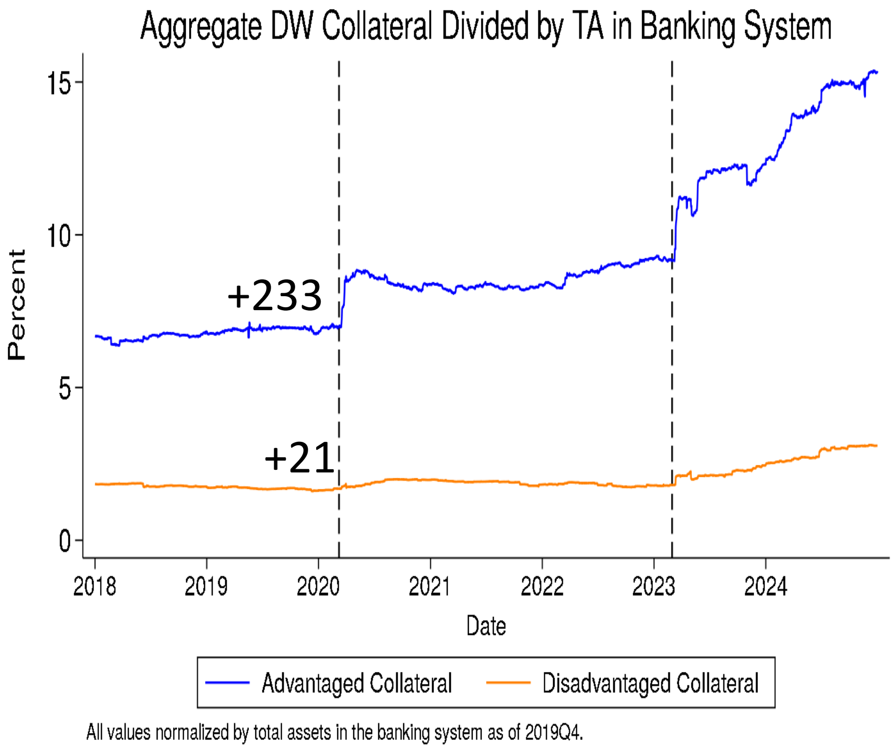


Haircuts vs Interest Rates

- If a bank is definitely solvent and has enough pledgeable assets ➔ interest rate drives the lender choice
- If a bank has limited pledgeable assets, then the haircut can become paramount (even if interest rate is high).
- Suggests that in stress, FHLB vs DW borrowing may appeal to different types of banks based on their collateral

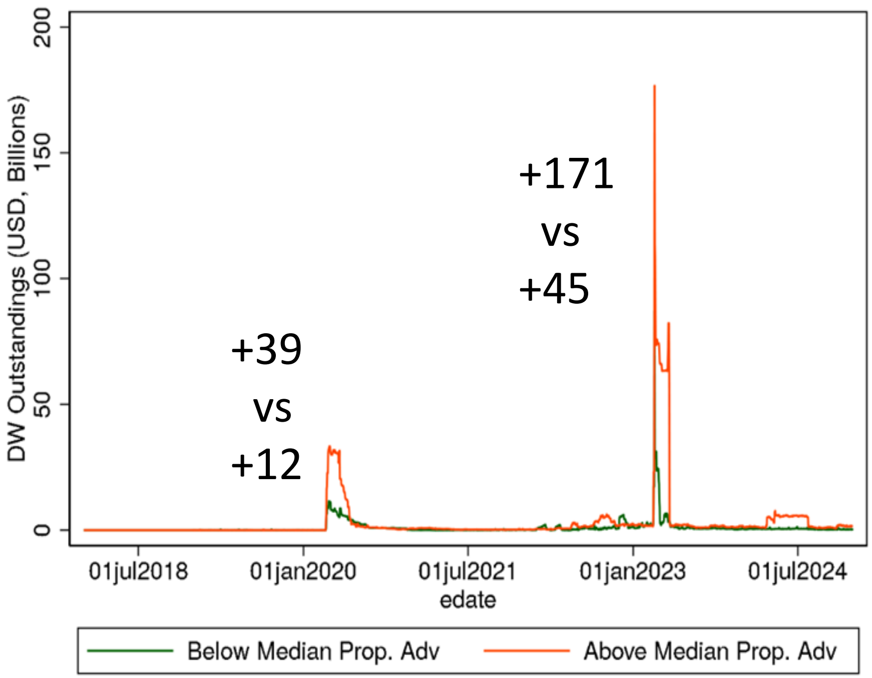
What is pledged at the DW?

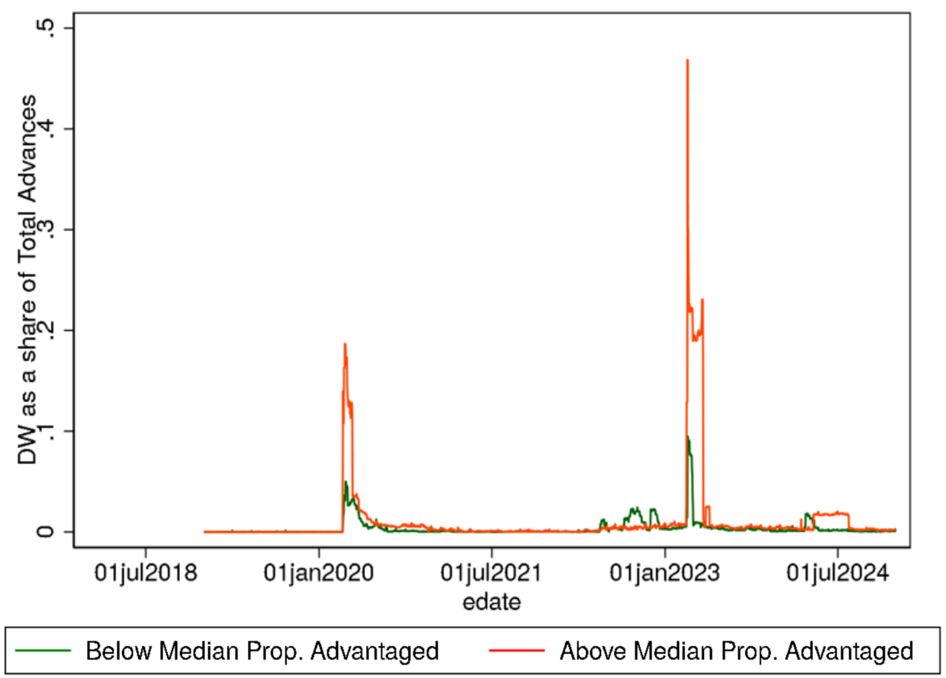




Advantaged collateral consist of asset classes with lower haircuts at the DW

Who borrows from the DW?





Banks with relatively more advantaged collateral borrow more from the DW in times of stress

Banks with relatively more advantaged collateral also borrow relatively more from the DW than FHLBs in times of stress

~Total advances=DW borrowing + FHLB advances

Questions

Having both a low haircut, high interest rate facility and a high haircut, low interest rate facility solves different problems

1. Should the Fed just offer both? (Other countries often do.)

2. Is the segmentation about which collateral works at each institution desirable?

3. What principles should govern pricing?

4. Is the super seniority of the FHLB loans desirable?

5. How should DW design interact with other regulations?