backup liquidity needs of depository institutions that do not qualify for primary credit.

2. What are the key features of primary credit and secondary credit?

Feature	Primary Credit	Secondary Credit
Rate	Above the FOMC's target for the federal funds rate (except during a financial emergency, when the primary credit rate may be lowered to the FOMC's target for the federal funds rate).	Primary credit rate plus 50 basis points.
Term	Up to 90 days.	Short-term, usually overnight. Can be extended for a longer term if such credit would facilitate a timely return to reliance on market funding or an orderly resolution of a failing institution, subject to statutory requirements (FDICIA restrictions).
Eligibility	Depository institutions in generally sound financial condition; essentially the same as eligibility for daylight credit.	Depository institutions that do not qualify for primary credit.
Use	No restrictions. May be used to fund sales of federal funds.	As a backup source of funding on a very short-term basis, or to facilitate an orderly resolution of serious financial difficulties.
Administration	Ordinarily no questions asked.	Reserve Banks will collect information necessary to confirm that borrowing is consistent with the objectives of the program.

3. How do Reserve Banks administer the primary and secondary credit Discount Window programs?

Primary credit is extended to generally sound depository institutions at a rate above the FOMC's target rate with minimal administrative burden on the borrower. Unless the nature of the borrowing request strongly suggests that the credit extension is not for short-term funds or does not appear consistent with the backup nature of the facility, depository institutions seeking primary credit will be asked only for the minimum information necessary to process the loan; normally they will not be asked why they are borrowing. Depository institutions are not required to seek funds elsewhere before requesting a Discount Window loan.

Unlike primary credit, the secondary credit program is not a "minimal administration" facility. Reserve Banks will obtain sufficient information about a borrower's financial situation and reasons for borrowing to ensure that an extension of credit complies with the conditions of the program.

4. Is a depository institution that is eligible for primary credit allowed to use the Federal Reserve as a regular source of funds?

Please Note: On March 17, 2008, the primary credit program was temporarily changed to allow primary credit loans for terms of up to 90 days. Also, the spread of the primary credit rate over the FOMC's target federal funds rate has been reduced to 25 basis points. These changes will remain until the Federal Reserve determines that market liquidity has improved.

The Federal Reserve expects that, given the pricing of primary credit, institutions will not rely on the Discount Window as a regular source of funding. Though institutions are not required to seek funding elsewhere before requesting primary credit, primary credit is intended to be used mainly on a very short-term basis, usually overnight, as a backup source of funding. Primary credit is available for a period of up to approximately one month to generally sound depository institutions that cannot obtain funding in the market on reasonable terms. Ordinarily, this will be relevant only for very small institutions.

5. Are there any restrictions on the use of funds a depository institution borrows from the Federal Reserve under the primary credit program? Under the secondary credit program?

There are no restrictions on the use of primary credit. In particular, borrowers are not prohibited from using primary credit to finance sales of federal funds.

Secondary credit is available to meet backup liquidity needs when its use is consistent with a timely return to a reliance on market sources of funding or the orderly resolution of a troubled institution. Secondary credit may not be used to fund an expansion of the borrower's assets.

6. How do Reserve Banks determine which financial institutions are eligible for primary credit? For secondary

credit? How often is eligibility reassessed? When are institutions notified about their eligibility?

Eligibility for primary credit is limited to depository institutions that are in generally sound financial condition. Reserve Banks determine eligibility on an ongoing basis using supervisory ratings and capitalization data; supplementary information, when available, may also be used. Essentially the same criteria that are used to determine eligibility for daylight credit are used to determine eligibility for primary credit. Institutions that do not qualify for primary credit are eligible for secondary credit. Institutions' eligibility is reassessed as new information about their condition becomes available.

- Depository institutions assigned a composite CAMELS or CAMEL rating of 1, 2, or 3 (or SOSA 1 or 2 and ROCA 1, 2, or 3) that are at least adequately capitalized are eligible for primary credit unless supplementary information indicates that the institution is not generally sound.
- Depository institutions assigned a composite CAMELS or CAMEL rating of 4 (or SOSA 1 or 2 and ROCA 4 or 5) are not eligible for primary credit unless an ongoing examination indicates that the institution is at least adequately capitalized and that its condition has improved sufficiently to be deemed generally sound.
- Depository institutions assigned a composite CAMELS or CAMEL rating of 5 (or SOSA 3, regardless of ROCA) or that are undercapitalized are not eligible for primary credit.

Institutions that had executed borrowing agreements before 2003 were notified of their eligibility for primary or secondary credit at the onset of those programs in January of 2003. Other institutions are notified of their eligibility for primary or secondary credit once they execute a borrowing agreement and submit the agreement to their Reserve Bank. Institutions that have executed and submitted a borrowing agreement will be notified promptly if their eligibility changes.

7. How is the primary credit rate set?

On March 17, 2008, the primary credit rate was reduced to 25 basis points above the FOMC's target for the federal funds rate. This spread will remain in place until the Federal Reserve determines that market liquidity has improved.

The Federal Reserve Act requires Reserve Banks' boards of directors to establish the discount rate, subject to review and determination by the Board of Governors, at least every two weeks. Reserve Banks' boards of directors establish the level of the primary credit rate, not a spread relative to another rate. Though the spread between the primary credit rate and the FOMC's target for the federal funds rate has been 100 basis points, the spread could vary. Policymakers sought a rate spread that would give most depository institutions the incentive to obtain regular funding from market sources rather than from the Discount Window. Experience with the above-market-rate Y2K Special Liquidity Facility, information about the pricing of correspondent lines of credit, and information from other central banks that have above-market-rate lending facilities indicated that a spread of 100 basis points is appropriate to accomplish this goal.

8. How do bank supervisors/examiners view an institution's use of primary credit?

The *Interagency Advisory on the Use of the Federal Reserve's Primary Credit Program in Effective Liquidity Management* (July 23, 2003) encourages depository institutions to consider the discount window as part of their backup liquidity arrangements. As is true of any backup liquidity facility, being prepared to borrow primary credit enhances an institution's liquidity. The *Advisory* states that "bank supervisors and examiners should view the occasional use of primary credit as appropriate and unexceptional." Of course, excessive reliance on expensive funding, including heavy use of primary credit, may spark some questions by examiners.

9. Does the Federal Reserve share the list of depository institutions eligible for primary and secondary credit with bank regulators? Does the Federal Reserve share information about institutions' use of the discount window with bank regulators?

As noted above, the *Interagency Advisory on the Use of the Federal Reserve's Primary Credit Program in Effective Liquidity Management* (July 23, 2003) encourages depository institutions to consider the discount window as part of their backup liquidity arrangements. The Federal Reserve will provide each federal regulator, at its request, a list showing which of the depository institutions supervised by that regulator have filed borrowing agreements and pledged collateral and thus are prepared to use the