Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Office of the Comptroller of the Currency
Office of Thrift Supervision
Joint Release **National Credit Union Administration**

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Agencies Issue Guidance On Appropriate Use Of Discount Window

The federal banking, thrift, and credit union regulatory agencies today issued guidance on the appropriate use of the Federal Reserve's new primary credit discount window program in depository institutions' liquidity risk management and contingency planning.

The guidance provides background on the Federal Reserve's discount window programs, including new primary and secondary credit programs introduced in January. It also reiterates well-established supervisory policies on sound liquidity contingency planning, and discusses sound practices in using primary credit program borrowings in liquidity contingency plans.

Adequate liquidity contingency planning is critical to the ongoing maintenance of the safety and soundness of any financial institution. The guidance notes that sound liquidity contingency plans ensure adequate diversification of the potential sources of funds to be used in a contingency. By enhancing the availability of discount window credit, the Federal Reserve's new primary credit program offers depository institutions an additional source of backup funds for managing short-term liquidity risks and thus can enhance the diversification of contingency funds.

The guidance notes that appropriate use of primary credit for contingency situations requires institutions to ensure that: 1) the necessary documentation and collateral arrangements are in place; 2) primary credit lines are periodically tested; 3) viable take-out or exit strategies exist to replace primary credit borrowings; and 4) appropriate cost/benefit analyses are conducted in light of the cost of primary credit borrowings relative to other sources of short-term contingency funds.

Finally, the guidance notes that occasional use of primary credit for short-term contingency funding should be viewed as appropriate and unexceptional by both management and supervisors. At the same time, the guidance emphasizes that the primary facility is only one of
many tools institutions may use in managing their back-up liquidity needs, and that institutions should maintain access to a diversified array of funding sources. The use of primary credit, or any other potential source of contingency funding, is a management decision that must be made in the context of safe and sound management practices.

The guidance is being issued by the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Office of Thrift Supervision and National Credit Union Administration.

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Attachment

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