INVESTMENT COMPANY INSTITUTE

MEMO# 11015

May 27, 1999

FEDERAL RESERVE BANK PROPOSES SPECIAL Y2K LENDING PROGRAM

1 Regulation A defines a “depository institution” as including, among other things, an insured bank, a savings bank or mutual savings bank, or a savings association, each as defined in Section 3 of the Federal Deposit Insurance Act, or an insured credit union, as defined in Section 101 of the Federal Credit Union Act. 2 Extensions of Credit by Federal Reserve Banks, Federal Reserve System, 12 C.F.R. Part 201 (May 21, 1999). [11015] May 27, 1999 TO: ACCOUNTING/TREASURERS COMMITTEE No. 17-99 MONEY MARKET FUNDS ADVISORY COMMITTEE No. 7-99 SEC RULES COMMITTEE No. 42-99 RE: FEDERAL RESERVE BANK PROPOSES SPECIAL Y2K LENDING PROGRAM ____ The Board of Governors of the Federal Reserve System recently proposed amendments to its Regulation A to establish a special lending program under which Federal Reserve Banks may extend credit to depository institutions1 to ease liquidity pressures during the century date change period. Under the proposed Special Liquidity Facility, Federal Reserve Bank credit would be more freely available to eligible institutions, albeit at an interest rate somewhat above depository institutions’ normal cost of funds (i.e., 1.5 percent over the Federal Open Market Committee’s targeted federal funds rate). Special Liquidity Facility loans would be available from November 1, 1999 to April 7, 2000. The Board’s proposal is attached and it is summarized below.2 Comments on the Board’s proposal are due by July 2, 1999. If there are issues you would like the Institute to consider addressing in a possible comment letter, please contact Barry E. Simmons at (202) 326-5923 (phone), (202) 326-5839 (fax), or simmonbe@ici.org (e-mail) by Friday, June 11, 1999. The proposed amendments to Regulation A would make it relatively easy for eligible institutions to borrow funds during the specified time period by not imposing most of the conditions applicable to other discount window loans, as follows. First, depository institutions would not be required to exhaust alternative liquidity resources before obtaining a Special Liquidity Facility loan. Second, there would be no usage restrictions imposed; thus, depository institutions could use a Facility loan not only to meet funding shortfalls but also to make loans or investments. Third, depository institutions would not be required to repay a Facility loan promptly. In fact, a Facility loan may be outstanding for a considerable period – that is, until the program expires. The proposal also notes that the collateral requirements for Special Liquidity Facility credit would be identical to those for other discount window loans, all of which must be fully collateralized to the satisfaction of the Reserve Bank. Finally, credit under the Special Liquidity Facility is discretionary and would be available only to depository institutions in sound financial condition, and thus would not be available, for example, to depository institutions that are undercapitalized. Barry E. Simmons Assistant Counsel Attachment