

**MEMO# 11181**

August 13, 1999

## **FEDERAL RESERVE BANK ESTABLISHES SPECIAL Y2K LENDING PROGRAM**

1 Extensions of Credit by Federal Reserve Banks, Federal Reserve System, 12 C.F.R. Part 201 (August 2, 1999). 2 See Memorandum to Accounting/Treasurers Committee No. 17-99, Money Market Funds Advisory Committee No. 7-99, and SEC Rules Committee No. 42-99, dated May 27, 1999. 3 This is in contrast to the Board's original proposal which would have made the credit available from November 1st. 4 In the final rule, the Board deleted the proposed capital requirements from the definition of "eligible institution." 5 The adopting release notes that timely access to credit could become delayed if institutions fail to make collateral arrangements ahead of time, but that nevertheless, Federal Reserve staff will "strive to accommodate the needs of depository institutions seeking access to discount window credit," and "will work aggressively to expand the range of acceptable collateral and to make collateral procedures more expeditious and flexible." [11181] August 13, 1999  
TO: ACCOUNTING/TREASURERS COMMITTEE No. 27-99 MONEY MARKET FUNDS ADVISORY COMMITTEE No. 10-99 SEC RULES COMMITTEE No. 62-99 RE: FEDERAL RESERVE BANK ESTABLISHES SPECIAL Y2K LENDING PROGRAM

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The Board of Governors of the Federal Reserve System recently adopted amendments to its Regulation A to establish a special Y2K lending program under which Federal Reserve Banks may extend credit to depository institutions to ease liquidity pressures during the century date change period.<sup>1</sup> The amendments were adopted largely as proposed.<sup>2</sup> Under the Special Liquidity Facility, Federal Reserve Banks will extend credit to eligible institutions at a rate 150 basis points above the Federal Open Market Committee's targeted federal funds rate. The revised version of Regulation A is attached. As adopted, Special Liquidity Facility loans will be available from October 1, 1999 to April 7, 2000, or such later date as determined by the Board of Governors.<sup>3</sup> To be eligible for the credit, a borrower must be a depository institution, which includes a credit union, that is in sound financial condition as determined by the lending Federal Reserve Bank.<sup>4</sup> Amended Regulation A also provides that the collateral requirements for Special Liquidity Facility credit will be identical to those for other discount window loans.<sup>5</sup> In addition, borrowers will not be required to exhaust alternative liquidity sources, nor will the use of the funds be limited in the same way as funds from adjustment credit. Moreover, there will be no requirement that credit be repaid expeditiously; credit can remain outstanding until the program expires. Barry E. Simmons  
Assistant Counsel Attachment

should not be considered a substitute for, legal advice.