

Term Auction Facility Questions and Answers
Revised January 12, 2009

I. What is the Term Auction Facility (“TAF”)?

In view of the pressures evident in short-term funding markets, the Board of Governors of the Federal Reserve System (the “Board”) has approved the establishment of a temporary Term Auction Facility (“TAF”) program in which the Federal Reserve will auction term funds to depository institutions.

The TAF is a credit facility that allows a depository institution to place a bid for an advance from its local Federal Reserve Bank at an interest rate that is determined as the result of an auction. By allowing the Federal Reserve to inject term funds through a broader range of counterparties and against a broader range of collateral than open market operations, this facility could help ensure that liquidity provisions can be disseminated efficiently even when the unsecured interbank markets are under stress.

Summary of TAF Parameters

Many of the criteria and parameters for the TAF are discussed in detail below. In short, the TAF will typically auction term funds of 28-day or 84-day maturity, depending on the Auction. All depository institutions that are judged to be in generally sound financial condition by their local Reserve Bank and that are expected to remain so over the terms of TAF loans are eligible to participate in TAF auctions. All TAF credit must be fully collateralized; loans for which the remaining term to maturity is more than 28 days are subject to an additional collateralization requirement stated below. Depositories may pledge the broad range of collateral that is accepted for other Federal Reserve lending programs to secure TAF credit. The same collateral values and margins applicable for other Federal Reserve lending programs will also apply for the TAF. Other key parameters of the TAF are listed in Table 1 below.

II. Terms and Conditions for Term Auction Facility

See the Terms and Conditions for Term Auction Facility, as amended and supplemented from time to time (the “Terms and Conditions”) at www.federalreserve.gov/monetarypolicy/taf.htm .

III. Eligibility

What firms may bid for TAF Advances?

A depository institution (“DI”) or a branch or an agency of a foreign bank which, at the time the Bid is made:

- (i) has executed the Letter of Agreement to OC-10 and all other related documents in form and substance satisfactory to its Local Reserve Bank, which documents are on file with its Local Reserve Bank at the time a Bid is made;
- (ii) is eligible for Primary Credit (is in generally sound financial condition as determined by its Local Reserve Bank) and is expected to remain so during the term of the advance; and
- (iii) has pledged assets to its Local Reserve Bank to secure any Indebtedness under OC-10.

Such DI or branch or agency of a foreign bank which submits a Bid for TAF Advances is a “Participant”.

Term Auction Facility Parameters	
TAF Rate	Fixed-rate determined via centralized single-price auction.
Term	28-day or 84-day term as specified in the Announcement; may differ slightly to reflect holiday scheduling issues..
Collateral	Any collateral eligible to secure discount window loans. Reserve Banks’ standard valuation and haircut procedures apply.
Auction Cycle	<p>Standard Auction Schedule*</p> <p>Auction Announcement: Monday, 10:00 a.m. ET Bid Submission: Monday, 11:00 a.m. to 12:30 p.m. ET Announcement of Results: Tuesday, 10:00 a.m. ET Notification of winning bidders: Tuesday after Announcement of Results Settlement Date: Thursday</p> <p>*Note: Some variation may be necessary to accommodate holidays.</p>
Minimum Bid Amount; Bid Increment	\$5 million; additional Bid increment is \$100,000.
Minimum award increment	\$10,000
Maximum Number of Bids per Participant	Two
Maximum Bid Amount Aggregated Across All Bids for a Participant	Total propositions for up to two Bids should not exceed a specified percent of announced Offering Amount for the Auction.
Maximum TAF Available to Any Single Participant, based on Margined Collateral Value	A Participant may not submit an aggregate Bid amount in an Auction which, if such aggregate Bid amount were accepted in full, would cause it to fail to comply with the collateralization requirement set forth below.
Collateralization Requirement for an Advance of More Than 28 Days	<p>The aggregate sum of all Advances outstanding with a term to maturity of more than 28 days shall not exceed 75% of the Collateral Value of the Collateral available to secure such Advances. A Participant may not request any Advance of more than 28 days which, if extended by a Reserve Bank, would cause it to fail to comply with the foregoing collateralization requirement.</p> <p>If, as a result of other Advances, the foregoing collateralization requirement is not met, the Participant is required to pledge additional Collateral within two (2) Business Days to cover the shortfall, failing which the Reserve Bank may exercise its remedial rights under OC-10.</p> <p>Notwithstanding the foregoing, this collateralization requirement does not apply to (i) any Advances made before July 30, 2008, (ii) any Seasonal Credit, (iii) an Advance with a remaining term to maturity of 28 days or less, or (iv) an Advance with a remaining term to maturity of 29 days, the 28th day of which is not a Business Day.</p>
Eligible Depositories	Those eligible for primary credit—that is, those that (i) are in generally sound financial condition and expected to remain so during the term of the advance as determined by the respective Local Reserve Bank; (ii) have executed OC-10 and related documents; and (iii) have pledged assets to the Local Reserve Bank to secure OC-10 Indebtedness.

Prepayment	Not permitted
Acceleration of TAF Advances	If a Participant ceases to qualify for primary credit while any TAF Advance is outstanding, the lending Reserve Bank may, in its sole discretion, accelerate the repayment of such Advance, which Advance is then immediately due and payable.
Minimum Bid Rate	Set at a level equal to the rate of interest that banks earn on excess reserve balances.
Auction Amount	Announced quantity determined by the Chairman of the Board of Governors, upon recommendation of the SOMA Manager.
Foreign Branches	Branches and agencies of foreign banks bid through their local Reserve Banks. With respect to a foreign bank with multiple branches and/or agencies which qualify to participate in an Auction, the following terms apply: (i) each such branch or agency may submit a maximum of two Bids; (ii) the collateralization requirement set forth above applies to each branch or agency; and (iii) a foreign bank, as a whole, may not submit more than two interest rates and the aggregate amount of all Bids submitted by all branches and agencies of a foreign bank may not exceed the Maximum Bid Amount.

How much TAF credit may Participants bid for at auction?

See Sections I.b. and I.d. in the Terms and Conditions. For foreign banks with multiple U.S. branches and/or agencies, see Section I.e. in the Terms and Conditions.

The Offering Amount and the Maximum Bid Amount are specified in the Announcement for each Auction. At present, the Maximum Bid Amount that may be submitted by a Participant shall not exceed 10% of the Offering Amount.

Will each branch or agency of a foreign bank be treated as a separate Participant?

Each U.S. branch or agency of a foreign bank that is eligible to participate in the Auction can submit Bids as a separate Participant to its Local Reserve Bank. However, a foreign bank that has multiple branches and/or agencies is subject to the single bidder rules set forth in Section I.e. in the Terms and Conditions. Awards are booked by the Local Reserve Banks to the branches or agencies in their respective districts.

IV. Bidding Process

How does a Participant submit a Bid to the TAF?

A Participant that wishes to submit a Bid at TAF Auctions should call its Local Reserve Bank’s normal toll-free discount window telephone hotline during the period between the Opening Time and Closing Time on the Bid Submission Date as stated in the Announcement for each Auction. The caller should be prepared to specify the following:

- the Participant's name and ABA number
- Authorized Submitter(s)¹ Name(s) and contact number(s)
- the requested amount of each Bid

¹ As defined in the Terms and Conditions, an “Authorized Submitter” is one or more individuals at a Participant authorized under OC-10 to make a borrowing request on behalf of and commit the Participant to the terms of an Advance under OC-10 with its Local Reserve Bank.

- the interest rate (expressed as an annual rate to three decimal points for each Bid)

If a Participant wishes to submit two Bids, it must identify and submit both Bids on the same phone call to the Local Reserve Bank.

The Reserve Banks' toll-free discount window telephone hotline numbers can be found on <http://www.frbdiscountwindow.org/map.cfm?hdrID=23&dtlID>

To be considered submitted, all Bids should meet all of the terms in the Announcement as well as the Terms and Conditions.

Does the person who submits a Bid on behalf of a Participant need to be authorized to borrow on behalf of the Participant?

Yes. The individual who submits a Bid on behalf of a Participant should be the one authorized to make a borrowing request on behalf of and commit the Participant to the terms of an Advance under OC-10 with its Local Reserve Bank (the "Authorized Submitter"). Those Participants that require two members of their own staff to request an Advance under OC-10 would be expected to observe the same standard for submissions of Bids in the TAF.

During what hours can Participants bid?

Bidding times and the Bid Submission Date will be specified in the Announcement for each Auction. Participants are advised to submit their Bids as early in the bidding window as is possible, to ensure that they get through to their Local Reserve Bank's discount window telephone hotline between the Opening Time and Closing Time.

The Opening Time and Closing Time during which a Participant may submit Bids will generally be between 11:00 a.m. and 12:30 p.m. Eastern time ("ET"), respectively.

What should an Authorized Submitter do if he/she cannot get through the discount window hotline before the Closing Time for submission of Bids?

If phone lines are congested as the Closing Time for Bid submission approaches, an Authorized Submitter can leave a message on the Reserve Bank's discount window telephone hotline voicemail identifying clearly his/her name, the name of the institution on whose behalf (s)he is calling, a contact phone number and the complete Bid information. After leaving such voice message, the Authorized Submitter should continue calling the discount window telephone hotline until successfully reaching a Local Reserve Bank's discount window staff. Note that the burden is on the Participant to try to reach and submit a Bid in a live phone call with a Local Reserve Bank discount window staff, and that those Participants that require two members of their own staff to request an Advance under OC-10 would be expected to observe the same standard for submissions of Bids in the TAF. Bids left on a voice mail will not be deemed submitted unless

confirmed in a telephone call with a Reserve Bank discount window staff member. The voicemail with complete and accurate Bid information will be used by the discount window staff as evidence that a Participant made a good faith effort in trying to submit a Bid by telephone before the Closing Time.

Will Bids be accepted by email or voice mail?

Other than as set forth above, Bids left on any voicemail will not be deemed submitted and no Bids sent by email will be processed.

Can a Participant call to change or cancel a Bid before the Closing Time? Or at any time before the Auction results are determined?

Once submitted, Participants may not cancel Bids.

As Reserve Bank discount window staff records a Bid, the staff member will validate the Bid information on the phone call on a recorded phone line with the Participant. Where Participants require two Authorized Submitters to request a discount window loan under OC-10, the Reserve Bank discount window staff will need to speak with two Authorized Submitters to complete the Bid submission/verification process.

V. Auction Process

When will Auctions be announced on the Auction Announcement Date?

The Board will generally announce an Auction and issue the respective Announcement at approximately 10:00 a.m. ET on the Auction Announcement Date.

How will the TAF Auctions be conducted?

In an Announcement of an Auction, the Federal Reserve will announce, among other things: the Offering Amount of TAF Advances to be auctioned, the term of the Advance, a Minimum Bid Rate, Minimum Bid Amount, Maximum Bid Amount (per institution), and other Auction parameters. The Announcement also may specify other information regarding the Auction cycle, including the Bid Submission Date and time period (Opening Time and Closing Time) when Bids may be submitted.

Each Participant will be able to submit no more than two Bids to its Local Reserve Bank.

After the Closing Time, the Federal Reserve will allocate TAF Advances using a single-price auction format. Federal Reserve staff will order Bids from the highest to lowest rate. Bids will be accepted starting with the highest rate submitted, down to successively lower rates, until the Offering Amount of TAF Advance for the Auction has been allocated or until the Minimum Bid Rate is reached (whichever occurs first). The lowest accepted interest rate is the “stop-out rate.” Bids at interest rates above the stop-out rate

will be allocated the full amount of TAF Advance bid for. Bids at the stop-out rate may be prorated if allocating the full amount requested would cause the total amount allocated in the Auction to exceed the Offering Amount. All Participants awarded Bids will pay the stop-out rate, regardless of the interest rates at which they bid.

How will partial awards at the stop-out rate be determined?

If the aggregate Bid amount at or above the stop-out rate exceeds the Offering Amount, the following proration will be applied to Bids submitted at the stop-out rate:

1. The amount of all Bids above the stop-out rate will be subtracted from the Offering Amount to yield a “Remaining Offering Amount”. The Remaining Offering Amount will then be divided by the aggregate amount of Bids at the stop-out rate. That fraction will be rounded to two decimal places using a two-sided rounding convention (the “Proration Percentage”). (E.g. if the fraction at the stop-out rate required to “fill” the Auction is 5.177355892 percent, the Proration Percentage will be 5.18 percent.)
2. Each Bid at the stop-out rate will be multiplied by the Proration Percentage. The product will be rounded to conform with the minimum award increment as stated in the Announcement. Awards at the stop-out rate that would fall below the minimum award amount will be rounded up to that amount. Other awards will be rounded, in accordance with a two-sided rounding convention, to the nearest minimum award increment as stated in the Announcement. (E.g. If the Bid is \$10 million, the minimum award amount stated in the Announcement is \$10,000, and the Proration Percentage is 0.01%, the award will be rounded up to \$10,000 (rather than 0.01% of \$10 million which is \$1,000). If the Bid is \$103 million, the minimum award increment is \$10,000 and the Proration Percentage is 0.01%, the award will be \$10,000 (rather than 0.01% of \$103 million which is \$10,300)).

Note that this rounding process could cause the total amount awarded in an Auction to deviate from the Offering Amount.

VI. Notification and Award Process

Will Participants be notified of winning Bids, and if so, how will they be notified?

Reserve Bank discount window staff will contact Participants who have been awarded TAF Advances on the Notification Date following the announcement of Auction results by the Board. If a Participant has not been contacted by a Reserve Bank discount window staff during this interval and it feels its Bid should have resulted in an award, it should contact its Reserve Bank discount window staff immediately but before 12:30 p.m. ET on the Notification Date.

The Board will typically announce Auction results at approximately 10:00 a.m. ET on the Notification Date. The Board also will publish summary statistics of the Auction results on its website.

Will Participants be notified of losing Bids?

No. Participants with losing Bids will not be contacted by the Reserve Banks. Participants that submitted losing Bids at rates below the stop-out rate should be able to determine that they will not receive awards from the Auction award announcement which reflects a stop-out rate above the rates of their Bids.

Will the Federal Reserve release information about individual Bids or Participants?

The data on Bids of individual Participants or of Participants will not be made public, except as required by law.

What will be announced about the winning Bids? How can this inform me whether or not my Bid was accepted?

The Auction award announcement will specify the stop-out rate (i.e. the lowest rate at which Bids were submitted that was accepted and the rate at which all Advances will be made) and the Proration Percentage of Bids at the stop-out rate.

The Auction results also will report, among other things, the aggregate amount of Bids submitted, the aggregate amount of the TAF award and the number of Bids submitted.

What should a Participant do if it believes its Bid result is incorrect?

If a Participant believes its Bid result is incorrect, it should contact its local Reserve Bank discount window staff immediately but before 12:30 p.m. ET on the Notification Date.

When will the TAF Advance be posted to winning Participants' accounts?

Normally, the Advance will be posted by the close of Fedwire (usually 6:30 p.m. ET) on the Settlement Date day specified in the Announcement.

Can a winning Participant refuse to accept the award?

No, once submitted, a Bid constitutes a commitment to accept funds awarded under the TAF.

Can a Reserve Bank refuse to credit a Participant its award?

As with other extensions of credit by Reserve Banks, TAF funds must be collateralized to the satisfaction of the Reserve Bank, and a Reserve Bank will not post the award to a Participant's account if the amount of collateral pledged by the Participant is insufficient to cover its outstanding Indebtedness to the Reserve Bank under OC-10. In addition, loans with remaining maturity of over 28 days are subject to an additional collateral requirement. See Section VII (Collateral and Collateralization) below.

How will awarded TAF Advances be reported on the Reserve Banks' balance sheets?

The Federal Reserve is required by statute to publish the consolidated and individual balance sheets of the Reserve Banks. Information on TAF credit outstanding will be recorded on the Federal Reserve's H 4.1 statistical release, which is published Thursday's around 4:30 p.m. ET. A version of the release is provided below. As highlighted in yellow, TAF credit will be reported as a separate item that is distinct from other types of loans at both aggregate and district levels.

VII. Collateral and Collateralization

What kind of collateral is acceptable for the TAF?

The same collateral that is eligible to be pledged by a DI as security for discount window loans is acceptable for the TAF. Advances under the TAF to a Participant will be collateralized by the same pool of collateral as its borrowings from the discount window primary or seasonal credit programs. See Discount Window and PSR Collateral Margins Table at <http://www.frbdiscountwindow.org/discountmargins.cfm?hdrID=21&dtlID=83>.

Is there an additional collateralization requirement for longer-term TAF credit?

Yes. Additional collateral is required for loans whose remaining maturity exceeds 28 days – for these loans, borrowing only up to 75% of available collateral is permitted. While this requirement is lower than the previous requirement, it is now enforced during the term of the loan in addition to the time of the bid.

What is the reason for the additional collateralization requirement for longer-term credit?

Collateral pledged to secure TAF credit is assigned the same valuations and haircuts that apply for collateral pledged at the discount window. The requirement that institutions maintain additional collateral beyond that necessary to secure longer-term TAF and primary credit is designed in part to ensure that DIs retain some capacity to borrow under the primary credit facility to meet any unexpected short-term funding needs, and in part to protect against changes in the value of collateral and the creditworthiness of the participant over the longer term of 84-day TAF advances.

Participants that have TAF and other advances with remaining maturity of over 28 days are required to maintain additional collateral above the amount of the advances; however, at the discretion of the Reserve Bank this additional collateral can be used temporarily to secure short-term primary credit. If this additional collateral is to be used for more than two days, the participant must within two days pledge more collateral to restore the amount associated with any outstanding loans of more than 28 days remaining maturity. If the participant cannot pledge additional collateral, the Reserve Bank may require the participant to pay down some of its advances.

What happens if the Participant cannot meet a collateralization requirement?

A Participant that wins a TAF Advance is required to maintain sufficient collateral to cover the advance, as well as meet the collateralization requirement for advances with remaining term to maturity of more than 28 days. If the Participant, at any time, fails to meet any collateralization requirement, it will need to pledge additional collateral to cover the shortfall or the Reserve Bank may exercise its remedial rights under OC-10. (The same remedial actions available for other discount window loans would be applicable to a TAF Advance).

In the event the full amount of TAF Advance is not posted to a winning Participant's account because it does not satisfy a collateralization requirement, the amount by which the TAF Advance would be reduced would not be reallocated to other Participants and the affected Participant would not be eligible to receive the balance of that TAF award on a subsequent day.

VIII. Non-Collateral Terms

Can a Participant prepay the TAF Advance?

Prepayment of TAF Advances is not permitted.

Is there any restriction on use of funds a Participant obtains from the TAF?

No.

Does a DI need to submit any additional agreements or forms (in addition to OC-10 and related documents) to participate in the TAF program?

No. A DI must have executed and delivered to its Local Reserve Bank OC-10 and related documents. By submitting a Bid, a DI agrees to be bound by the terms and conditions of the Auction Announcement, Regulation A, the Terms and Conditions and OC-10. No additional agreements or forms are necessary.

IX. Miscellaneous

Where on the Call Report would a DI report TAF funds?

TAF Advances are loans from Federal Reserve Banks, and are reported with other such liabilities—for example, on FFIEC 031 (September 2007), TAF loans would be included in Schedule RC, item 16, “Other borrowed money,” and in Schedule RC-M, item 5.b, “Other borrowings.”