

# The June 2025 Senior Credit Officer Opinion Survey on Dealer Financing Terms

## Summary

The June 2025 Senior Credit Officer Opinion Survey on Dealer Financing Terms (SCOOS) collected qualitative information on changes in credit terms and conditions in securities financing and over-the-counter (OTC) derivatives markets between March 2025 and May 2025.<sup>1</sup> In addition to the core questions, the survey included a set of special questions on dealers' provision of credit portfolio trading services.

## Core Questions

(Questions 1–79)<sup>2</sup>

With respect to **the credit terms applicable to, and mark and collateral disputes with, different counterparty types across the entire range of securities financing and OTC derivatives transactions**, responses to the core questions revealed the following:

- Price and nonprice terms on securities financing transactions and OTC derivatives were generally unchanged, on net, across almost all types of counterparties. However, small net fractions of dealers reported that price terms (such as financing rates) and nonprice terms (such as haircuts, covenants, or other documentation features) tightened somewhat for hedge funds (see the exhibit “Management of Concentrated Credit Exposures and Indicators of Supply of Credit”). Dealers cited deterioration in current or expected financial strength of counterparties as the most important reason for tightening. Roughly one-fifth of dealers reported that the intensity of efforts by insurance companies to negotiate more favorable price and nonprice terms increased somewhat, as did a small fraction for hedge funds.
- Approximately one-fifth of respondents indicated that resources and attention devoted to managing concentrated credit exposure to dealers and other financial intermediaries (such as large banking institutions) increased somewhat. Roughly one-fifth of respondents indicated that changes in central counterparty practices, including margin requirements and haircuts, have influenced to some extent the credit terms they offer to clients on bilateral transactions that are not cleared.
- Fractions of around one-fifth of respondents indicated that the volume of mark and collateral disputes with dealers, real estate investment trusts, and insurance companies increased at least somewhat, as did a small net fraction for hedge funds.

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<sup>1</sup> The 22 institutions participating in the survey account for almost all dealer financing of dollar-denominated securities to nondealers and are the most active intermediaries in OTC derivatives markets. The survey was conducted between May 13, 2025, and May 27, 2025.

<sup>2</sup> Question 80, not discussed here, was optional and allowed respondents to provide additional comments.

With respect to clients' **use of financial leverage**, roughly one-fourth of dealers, on net, reported that the use of leverage by hedge funds decreased somewhat over the period. Dealers reported that the use of leverage remained basically unchanged, on net, for other client types (see the exhibit "Use of Financial Leverage").

In the **OTC derivatives markets**, between approximately one-fifth and one-third of dealers reported increases in the volume of mark and collateral disputes relating to contracts referencing foreign exchange, interest rates, and equity. Nearly one-fourth of dealers indicated that the posting of nonstandard collateral increased at least somewhat. Nonprice terms in master agreements, initial margin requirements, and the duration and persistence of mark and collateral disputes were all reported as largely unchanged.

With respect to **securities financing transactions**, respondents indicated the following:

- One-fifth of dealers indicated easing of financing spreads on equity collateral for average clients, and a small fraction of dealers indicated easing for most-favored clients.
- Other terms on securities financing for average and most-favored clients were reported as basically unchanged for most collateral types.
- Across all collateral types, the demand for funding, including term funding, remained basically unchanged (see the exhibit "Measures of Demand for Funding and Market Functioning").
- For all asset classes included in the survey, liquidity and market functioning remained basically unchanged.
- The volume, duration, and persistence of mark and collateral disputes remained basically unchanged over the period across all collateral types.

### **Special Questions on Portfolio Trading in Corporate Credit Markets**

(Questions 81–92)

Portfolio trading in corporate credit has reportedly experienced considerable growth over the past few years. In this quarter's special questions, dealers were asked about their provision of credit portfolio trading services. Nearly two-thirds of dealers indicated that their institution is engaged in credit portfolio trading (henceforth referred to as "active dealers").

- Four-fifths of the active dealers reported increases in their firm's provision of credit portfolio trading services to clients (as a share of the firm's total secondary-market transactions in corporate credit) since January 2023.
- Almost all of these dealers indicated that increased demand from clients for portfolio trading and technology advancements that allow for greater efficiency in the pricing and trading of large portfolios were very important factors supporting the increase. Growth of corporate credit exchange-traded funds (ETFs), which make it easier to hedge and offload portfolio trades, better pricing data and improvements in price transparency, and more aggressive competition from other institutions were cited as at least somewhat important factors by a great majority of these dealers.

- About three-fifths of the active dealers indicated that insurance companies, as well as pension funds and endowments, were frequent users of portfolio trading. More than four-fifths pointed to ETF managers and mutual funds, and about three-fourths pointed to hedge funds, as being either occasional or frequent users.
- All of the active dealers reported that high-grade corporate bonds are frequently included in credit portfolio trades, as did three-fifths of them for high-yield corporate bonds. About one-third of the active dealers indicated that municipal bonds and structured financial products are included in at least a few situations, and one-fifth indicated the same for leveraged loans.

When asked about their practices for managing positions acquired through portfolio trades, dealers reported the following:

- Among factors considered in deciding whether to take on a portfolio trade, the composition of bonds in the basket was identified as very important by four-fifths of the active dealers. Market conditions were rated as a very important factor by two-thirds of the active dealers, and the relationship with the client and balance sheet availability were each cited by about one-half as very important. In most cases, the dealers who did not rate these factors as very important categorized them as somewhat important.
- Roughly four-fifths of the active dealers referenced trading in individual portfolio constituents (via trading protocols other than portfolio trading or ETF creation and redemption) as a very important method for managing the inventory acquired through portfolio trades. ETF creation and redemption, as well as offsetting portfolio trades, were cited as at least somewhat important methods by about three-fourths and one-half of the active dealers, respectively.
- In response to a question on how their firm's willingness to engage in portfolio trades is affected by their ability to create or redeem baskets as an authorized participant in credit ETFs, roughly three-fourths of the active dealers indicated that they at least sometimes trade portfolios with a significant fraction of constituent credits not found in ETF creation or redemption baskets.
- Three-fifths of the active dealers indicated that they frequently hedge credit portfolio trades with credit ETFs when their firm engages in portfolio trading in credit instruments that are not included in ETF creation or redemption baskets. About one-half of the active dealers reported that they use credit default swaps in hedging in at least a few situations.
- On net, one-fifth of the active dealers indicated that their firm's willingness and ability to engage in portfolio trading (relative to willingness to make markets for individual credit instruments) decreased somewhat during the period of market volatility in April 2025.

Dealers were also asked about the implications of portfolio trading for credit market liquidity and functioning, as well as their expectations on how their involvement in credit portfolio trading will evolve in the future.

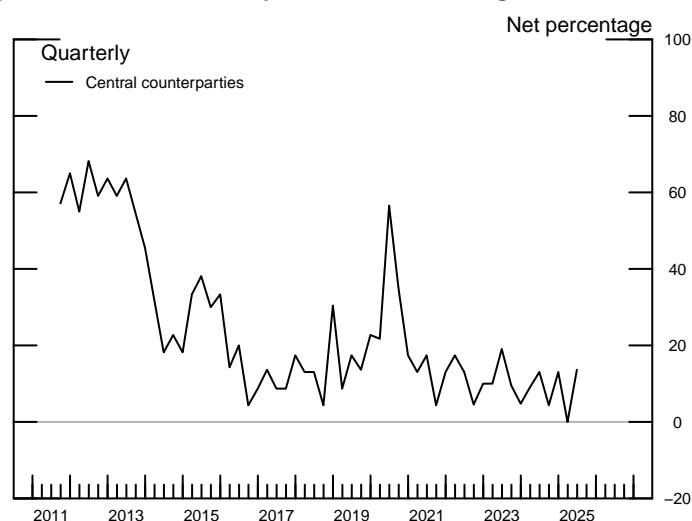
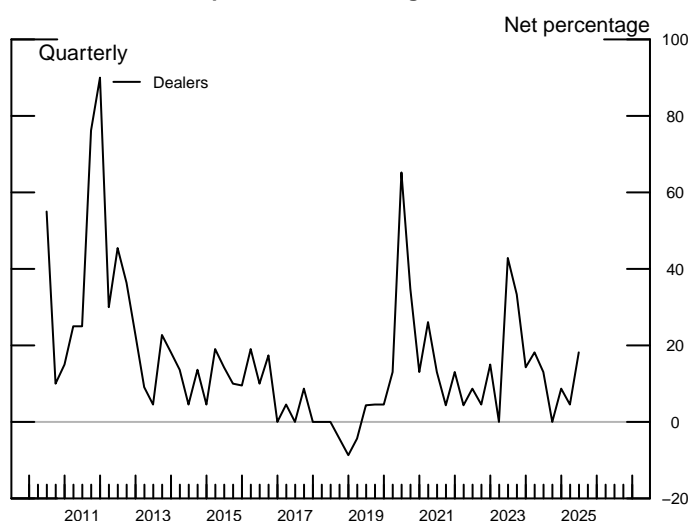
- On net, about two-thirds of the full sample of respondents, including both active and other dealers, indicated that portfolio trading led to at least some improvements in credit market liquidity and functioning since January 2023.

- Looking ahead, approximately four-fifths of respondents indicated that they anticipate that their involvement in credit portfolio trading services will increase at least somewhat over the next 12 months.

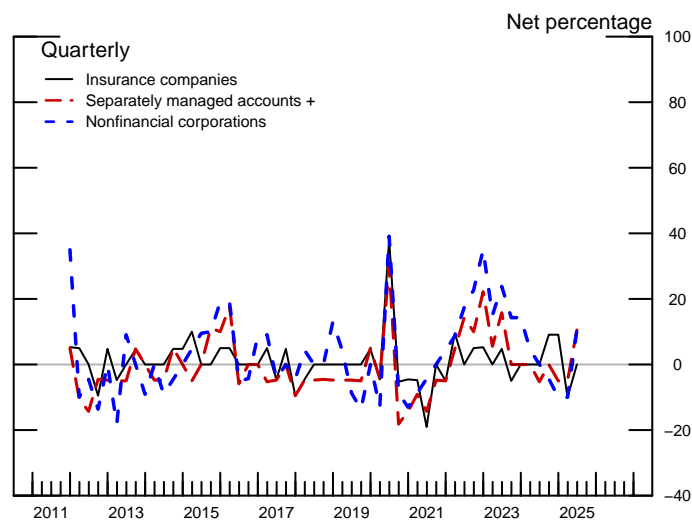
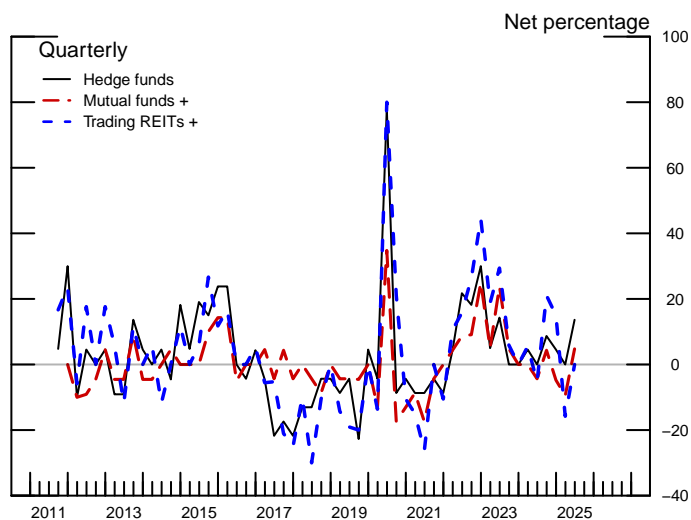
*This document was prepared by Yuriy Kitsul, Division of Monetary Affairs, Board of Governors of the Federal Reserve System. Assistance in developing and administering the survey was provided by staff members in the Capital Markets Function, the Statistics Function, and the Markets Group at the Federal Reserve Bank of New York.*

# Management of Concentrated Credit Exposures and Indicators of Supply of Credit

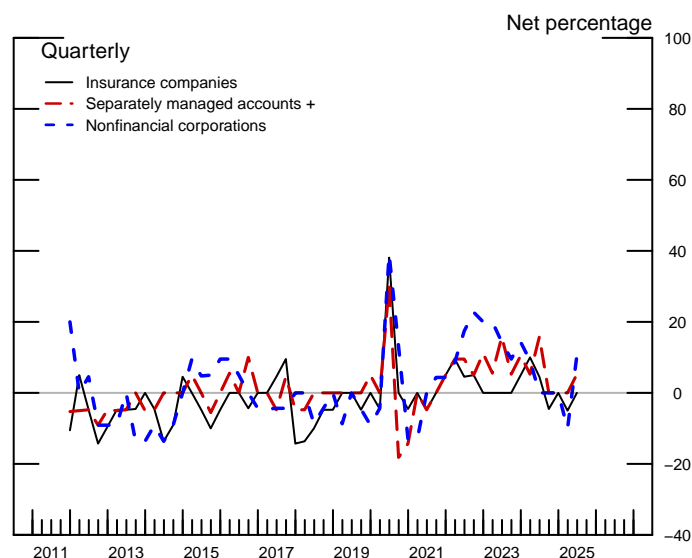
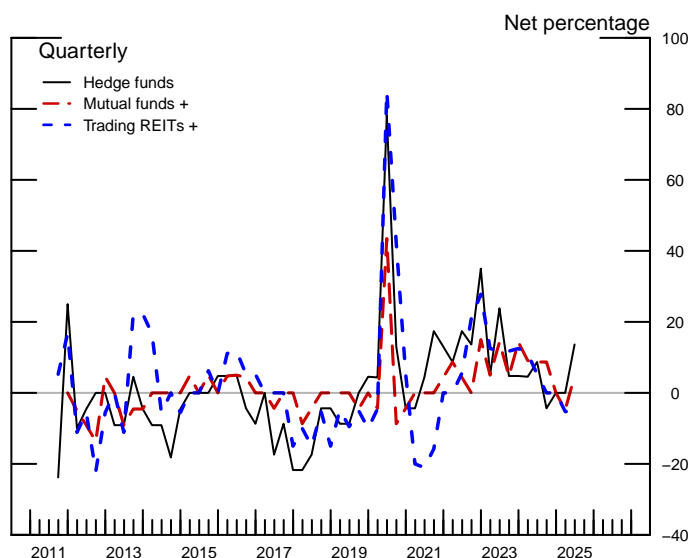
Respondents increasing resources and attention to management of concentrated exposures to the following:



Respondents tightening price terms to the following:



Respondents tightening nonprice terms to the following:



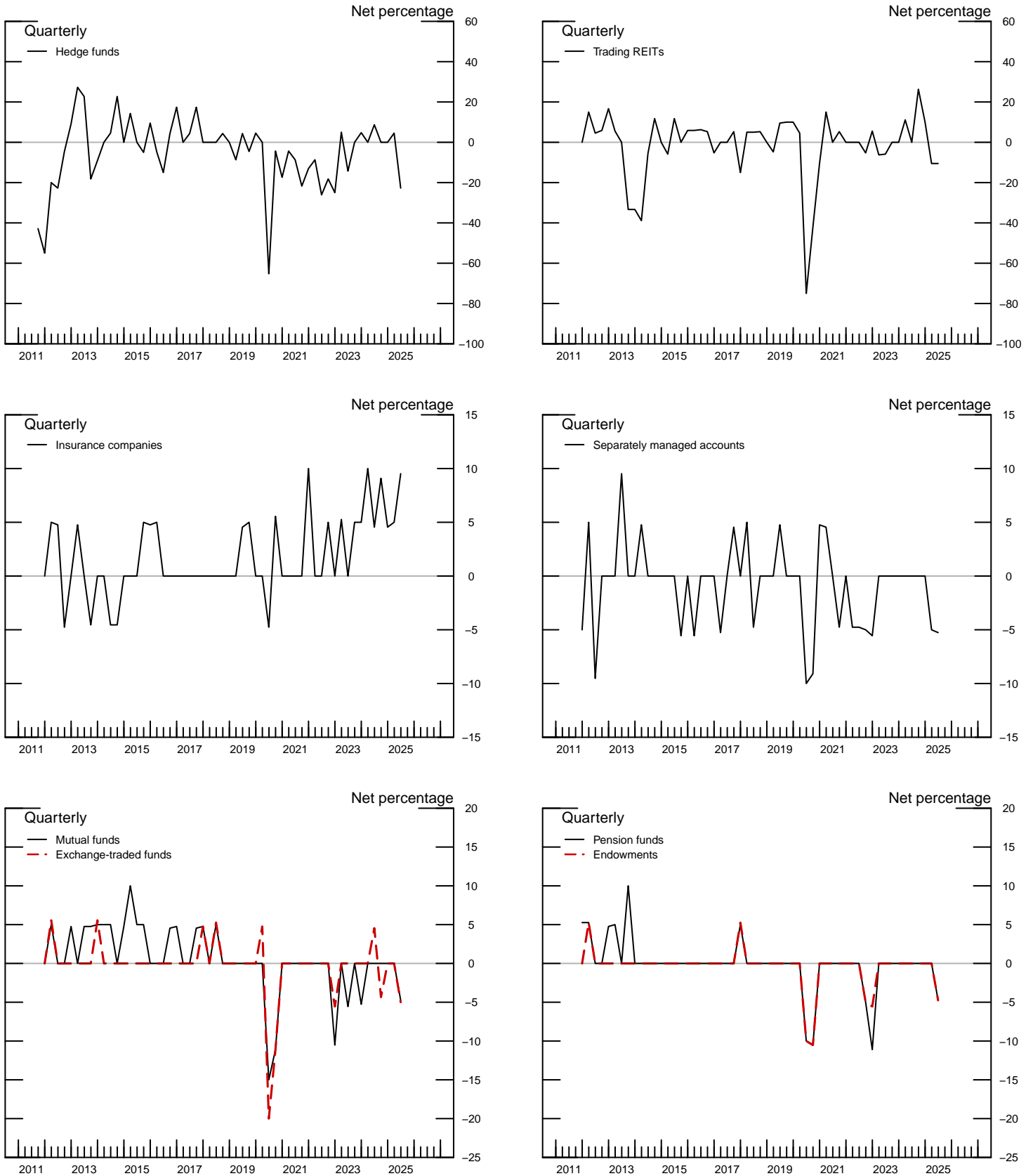
Note: REIT is real estate investment trust.

+ The question was added to the survey in September 2011.

Source: Federal Reserve Board, Senior Credit Officer Opinion Survey on Dealer Financing Terms.

# Use of Financial Leverage

Respondents reporting increased use of leverage by the following:

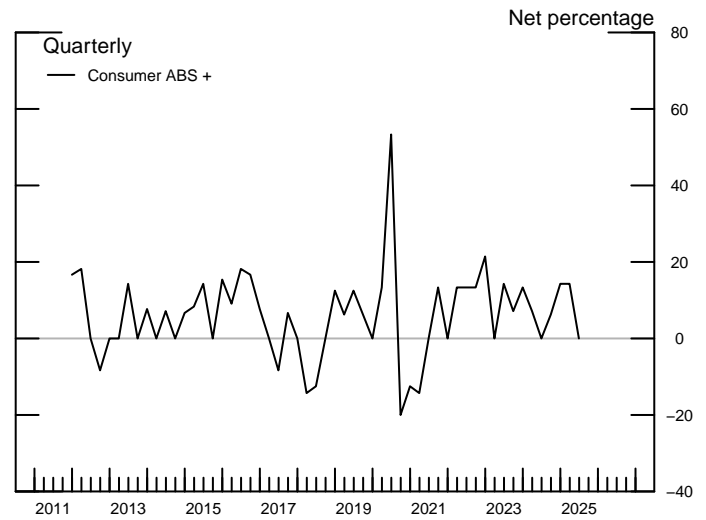
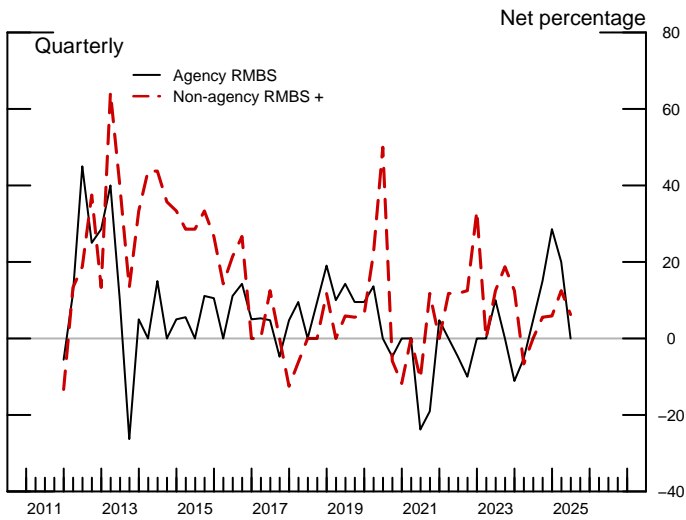
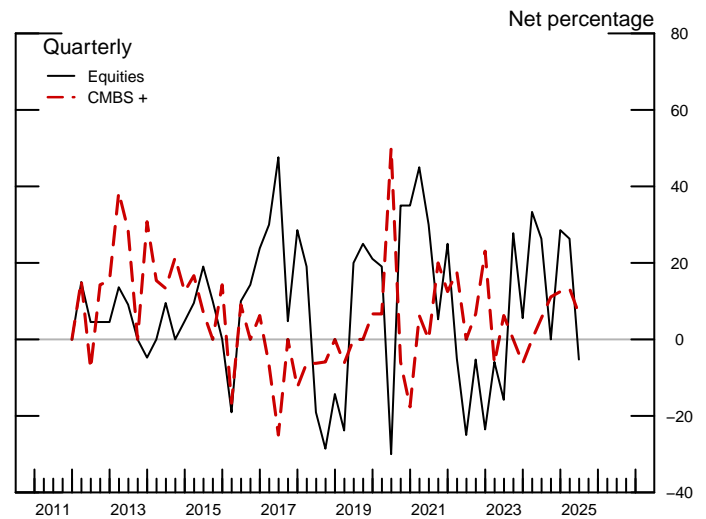
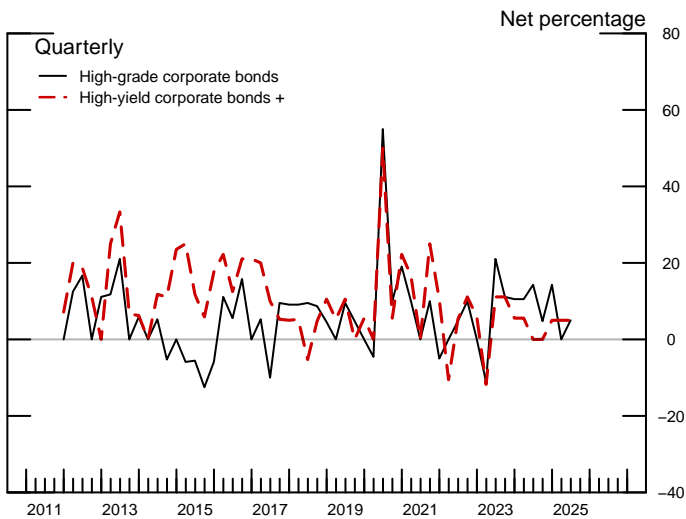


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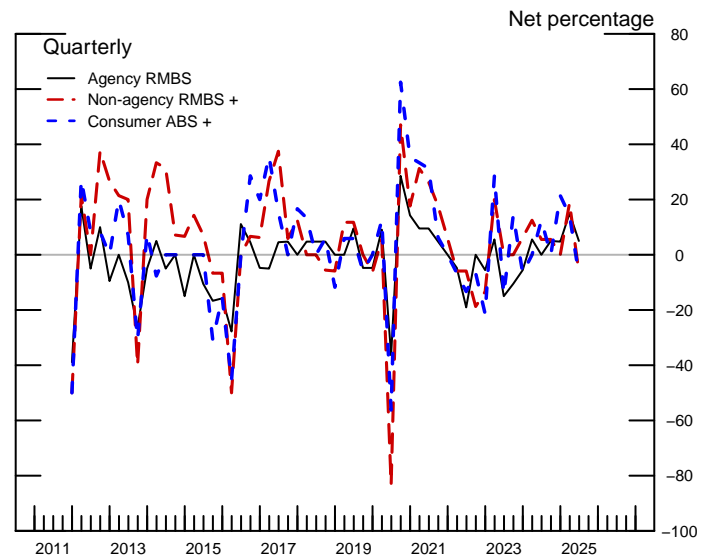
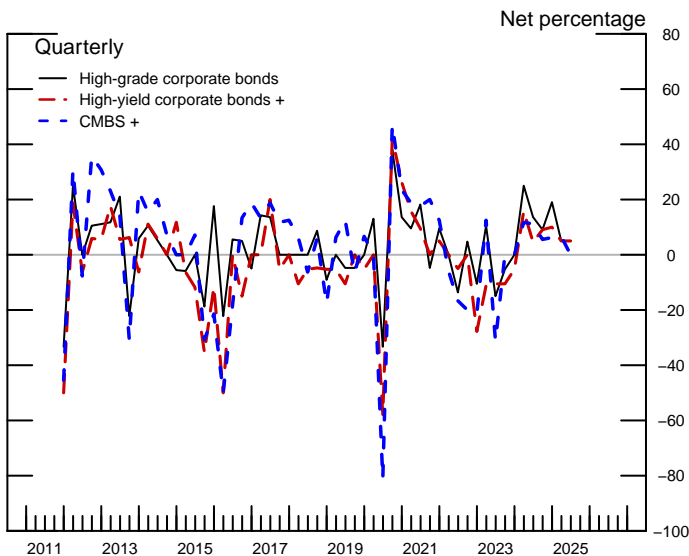
Source: Federal Reserve Board, Senior Credit Officer Opinion Survey on Dealer Financing Terms.

# Measures of Demand for Funding and Market Functioning

Respondents reporting increased demand for funding of the following:



Respondents reporting an improvement in liquidity and functioning in the underlying markets for the following:



Note: CMBS is commercial mortgage-backed securities; RMBS is residential mortgage-backed securities; ABS is asset-backed securities.

+ The question was added to the survey in September 2011.

Source: Federal Reserve Board, Senior Credit Officer Opinion Survey on Dealer Financing Terms.