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Discount Window Modernization and Treasury Market Functioning

Remarks by

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Thank you for the opportunity to speak at the Treasury Market Conference. Today I will discuss modernization of the Federal Reserve's discount window and some implications of that modernization for Treasury market functioning.[1]

As this group knows well, the Federal Reserve's discount window lending program provides liquidity to banks.[2] Banks access discount window liquidity overwhelmingly through primary credit borrowing, which is offered on a "no questions asked" basis. The discount window is as old as the Federal Reserve itself, which will be 113 years old in December.[3] Over its long history, the Federal Reserve has used the discount window to support the liquidity and stability of the banking system and to implement monetary policy. For the discount window to continue to do so, it is important that the discount window evolves with the banking and financial system. That is why the staff at the Board of Governors and at each Federal Reserve Bank have worked diligently over the past several years to enhance discount window operations. The continuing efforts to modernize the discount window ensure a more efficient, accessible source of liquidity that banks can access quickly and without hesitation when needed.

Of course, the Treasury market arguably is as old as our *country* itself, with the origins of federal debt dating back to the Revolutionary War.[4] That said, the beginnings

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[1] The views expressed here are my own and are not necessarily those of my colleagues on the Board of Governors of the Federal Reserve System or the Federal Open Market Committee.
[2] See Philip N. Jefferson (2024), "A History of the Fed's Discount Window: 1913–2000," speech delivered at Davidson College, Davidson, N.C., October 8,https://www.federalreserve.gov/newsevents/speech/jefferson20241008a.htm.
[3] See Federal Reserve Act, Pub. L. No. 63-43, 38 Stat. 251 (December 23, 1913).
[4] See Richard Sylla and David J. Cowen (2018), *Alexander Hamilton on Finance, Credit, and Debt* (New York: Columbia University Press).

of the modern Treasury market are more directly traced to World War I.[5] Over the past century, the Treasury market has evolved into one of the deepest and most liquid markets in the world.

In the Federal Reserve System, there is an array of responsibilities among Reserve Banks and the Board regarding the discount window. The Reserve Banks operate the discount window in their Districts, and the Board provides oversight and establishes policy through regulations and guidance to Reserve Banks. Because policy and operations are closely intertwined, the Board coordinates extensively with Reserve Bank leadership and staff on discount window matters. I have the privilege of serving as the Oversight Governor for the Division of Monetary Affairs. In that capacity, I oversee the Board's work on discount window policy.

Today I will discuss the progress we have made in recent years to further modernize the discount window. Then, I will speak briefly about the role of Treasury securities as collateral for discount window loans. But, first, I cannot overemphasize that modernizing discount window operations is a true Systemwide effort and that teamwork is key. While notable strides have been made, there is still important work to do. I look forward to seeing continued improvements in discount window operations in the coming years.

Three Dimensions of Discount Window Modernization

Now, I will move on to what we are doing at the Federal Reserve to modernize the discount window to meet 21st-century banking needs.[6] Over the past few years, the

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[5] See Kenneth D. Garbade (2012), *Birth of a Market: The U.S. Treasury Securities Market from the Great War to the Great Depression* (Cambridge: MIT Press).
[6] See Federal Reserve Discount Window (2026), "Discount Window Modernization," webpage, https://www.frbdiscountwindow.org/pages/general-information/dw_modernization.

System has conducted extensive outreach to banks and other stakeholders to understand better their experiences with the discount window, including the Board's issuance of a request for information (RFI) on discount window operations in 2024. This RFI complemented the ongoing conversations with the public that occur at all levels and in multiple corners of the Federal Reserve System, such as Ask the Fed® sessions and Reserve Bank outreach events. We have made progress in addressing feedback received through these various channels as part of our modernization efforts and are implementing improvements so banks can benefit as quickly as possible.

I think of the System's work on discount window modernization along three dimensions: business process improvements, automation enhancements, and coordination with the Federal Home Loan Banks (FHLBs).

First, ongoing business process improvements have been supporting better efficiency and standardization. Reserve Banks have focused on providing banks with more efficient access to the discount window. In terms of standardization, all Districts work within the same collateral framework, use common loan valuation models and processing technology, and accept electronic signatures. Earlier this month, the Reserve Banks took an important step to further simplify and streamline how banks pledge loans as collateral.[7] These changes allow eligible institutions to pledge several different loan types to maximize liquidity while maintaining possession of the collateral. The recently enacted changes include simplified forms, faster enrollment, automated pledged loan lists, and centralized resources so that institutions can easily find the information they

[7] See Federal Reserve Discount Window (2026), "The Federal Reserve Implements Improvements and Streamlines the Borrower-in-Custody Program," webpage, September 8, https://www.frbdiscountwindow.org/articles/2026/09/04/18/05/bic_standards_announcement_20260908.

need. These process improvements further enhance consistency in collateral administration across the 12 Reserve Banks while still maintaining robust risk-management practices.

Second, we have enhanced the discount window user experience. In 2024, the System launched Discount Window Direct (DWD), a self-service online portal that allows banks to request loans, make payments, view loan and collateral information, and submit loan collateral files electronically. Since the portal's launch, users have reported that it is now faster, easier, and more efficient to borrow from the discount window. Today, over 60 percent of discount window loan requests are submitted through DWD. The portal also includes a messaging feature that allows banks to directly message their local Reserve Bank in lieu of a phone call. Faster, more efficient discount window access gives banks greater certainty as they manage fast-moving liquidity needs. As adoption grows and new features are added, this technology will continue improving the discount window experience.

Third, and very important, is our collaboration with the FHLBs. As many of you may know, the FHLBs are important liquidity providers to banking organizations, and both the Federal Reserve and FHLB Systems share the goal of supporting the stability and resilience of the U.S. banking system. Given the increased speed with which liquidity can now move, a key focus of ours has been reducing the time it takes to re-allocate collateral by enhancing interoperability between Reserve Banks and FHLBs.

Efforts to date have focused on improving preparedness through measures that support coordination and collaboration between Reserve Banks and FHLBs—this initiative includes reinforcing relationships, establishing back-end operational arrangements and documentation, and developing processes that enable Reserve Banks and FHLBs to work together more effectively. We and our FHLB partners believe our ongoing efforts and continued commitment to this coordination put us in a much better position than three years ago by meaningfully improving our processes and strengthening relationships and engagement between the two Systems.

On a personal note, I have had an opportunity to engage with the FHLB presidents and other leaders in the FHLB System, and I appreciate greatly their ongoing collaboration and support as we continue to work together on interoperability. This engagement is not just about crisis preparedness—it is also about building lasting, more effective institutional partnerships.

Of course, the Federal Reserve's work on enhancements to the discount window is a continuous process. In over a century, the discount window has evolved from a physical teller window at a Reserve Bank that a bank representative had to visit to an online portal that permits a bank to request a loan with a few clicks. We are living through an era of rapid economic and technological transformation, and it will be crucial that the discount window continues to evolve and respond to our ever-changing environment. The modernization efforts I have described make discount window borrowing faster and less operationally burdensome. These improvements, I believe, help reduce the frictions that may make banks hesitant to use the window when they are healthy and reinforce overall confidence in the banking system. Our work is not done, but I remain committed to working with my colleagues throughout the Federal Reserve System to do just that.

Treasury Securities as Discount Window Collateral

This commitment brings me to an increasingly important dimension of discount window operations. A well-functioning Treasury market is essential to the stability and the efficiency of the financial system and the economy more broadly. The U.S. Treasury market serves as the foundation for pricing risk across all asset classes, facilitating the efficient allocation of capital throughout our economy. In this context, the discount window supports Treasury market resilience in important ways. By providing banks with a reliable source of liquidity, the discount window serves as a shock absorber during periods of market stress by reducing the risk of forced sales of Treasury securities. Moreover, the discount window's stabilizing influence extends to broader money markets. By alleviating funding pressures at depository institutions, the discount window helps ensure the smooth functioning of key short-term funding markets—including the repurchase agreement (repo) market and the federal funds market. This dynamic, in turn, supports Treasury market liquidity.

Institutions holding Treasury securities in their Fedwire Securities accounts can quickly transfer them to their discount window pledge account even late in the day. For institutions that have arrangements in place, this means that pledging Treasury collateral and receiving a same-day loan are straightforward and efficient. This speed and ease of access matter for market functioning, particularly when banks active in the Treasury market need liquidity quickly. The COVID-19 crisis demonstrated this predicament clearly. In March 2020, when the Treasury market experienced severe dysfunction, we saw a sharp increase in Treasury securities pledged to the Federal Reserve to secure potential discount window loans. The Federal Reserve's ability to accept Treasury securities quickly and to provide banks with the option of obtaining reserves if they were needed proved critical.[8]

The discount window also helps respond to sudden tightening in money markets, supporting the Federal Reserve's monetary policy implementation and complementing the standing repo operations in relieving funding market pressures. When pressures emerge in money markets, banks can turn to the discount window rather than borrowing at rates above the Federal Reserve's target range. Indeed, we have recently seen more use of the discount window amid periods associated with temporary upward pressure on money market rates, such as those observed at quarter-ends.

The interaction between the Treasury market and the discount window that I have described underscores why maintaining a robust and effective discount window framework is not merely about banks, but critically important for financial stability more broadly.

Conclusion

As I mentioned at the beginning of my remarks, the Federal Reserve's ability to lend to banks through the discount window dates to the System's founding and is one of our core functions. This liquidity provision serves a variety of purposes: it facilitates the ability of banks to lend to households and businesses and supports other financial market participants during stress or volatile market conditions. It is particularly important for Treasury markets that banks can serve as a source of strength for market functioning.

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[8] For a discussion of the discount window's role in recent stress episodes, see Philip N. Jefferson (2024) "The Fed's Discount Window: 1990 to the Present," speech delivered at the Charlotte Economics Club, Charlotte, N.C., October 9, https://www.federalreserve.gov/newsevents/speech/jefferson20241009a.htm.

The discount window's acceptance of Treasury securities as collateral with same-day value helps make this stability possible.

Today the discount window remains ready to lend smoothly and effectively to banks when needed. The modernization efforts I have discussed will ensure that the discount window supports individual banking institutions and broader market resilience well into the future. To be sure, we cannot be complacent when it comes to the discount window. Ultimately, I believe that the continued success of the discount window, as with many endeavors, lies with the ongoing partnership and dedication of various stakeholders within the Federal Reserve System and those external to it, including many of you here today. Working together, we will continue to fulfill the fundamental purpose of the discount window as established over a century ago—and thereby achieve the best outcomes for the American people.

Thank you.