FAQs – Temporary Actions to Support the Flow of Credit to Households and Businesses by Encouraging Use of Intraday Credit

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Intraday Credit Administration General

1) **What is the Payment System Risk Policy?**
The Federal Reserve Policy on Payment System Risk (PSR policy) addresses the risks that payment, clearing, settlement, and recording activities present to the financial system and to the Federal Reserve Banks (Reserve Banks). Part I sets forth the Board's views and related standards regarding the management of risks in Financial Market Infrastructures (FMIs), including those operated by the Reserve Banks. Part II of the PSR policy governs the provision of intraday credit (or daylight overdrafts) in accounts at the Reserve Banks.

   The Board announced temporary changes to Part II of the policy on April 23, 2020. See more below.

2) **What is the effective date of the temporary changes to the PSR policy?**
The Federal Reserve will apply the temporary actions immediately with the publication in the Federal Register, starting with the two-week maintenance period that began on April 23, 2020. The *Federal Register* notice was published on Tuesday, April 28.

3) **What is a daylight overdraft?**
A daylight overdraft occurs when an institution's Federal Reserve account has a negative balance at any point during the Fedwire operating day. Daylight overdrafts are also referred to as intraday credit.

4) **What is the role of intraday credit in the Federal Reserve System?**
Reserve Banks provide intraday balances by way of supplying temporary, intraday credit to healthy depository institutions. The PSR policy recognizes that the Federal Reserve has an important role in providing intraday balances and credit to foster the smooth functioning of the overall payment system. Daylight overdrafts enable an institution to send payments more freely throughout the day than if it were limited strictly by its available intraday funds balance, increasing efficiency and reducing payment system risk.

5) **How are daylight overdrafts monitored?**
The Federal Reserve measures an institution’s daylight overdraft activity, monitors its compliance with the PSR policy, and calculates daylight overdraft charges on an ex-post basis over a two-week maintenance period. The Federal Reserve uses a schedule of posting rules, identified in the PSR policy, to determine whether a daylight overdraft has occurred in an institution’s account.

6) **May all institutions that have a Federal Reserve account incur daylight overdrafts?**
Depository institutions with regular access to the discount window may incur daylight overdrafts. Institutions that have a Federal Reserve account but do not have regular access to the discount window are not permitted to incur daylight overdrafts. The Reserve Banks may

also limit access to intraday credit for other institutions that present increased risks, such as institutions in weak financial condition or institutions incurring overdrafts in violation of the PSR policy.

7) **Are there limits to the daylight overdrafts an institution can incur in its Federal Reserve account?**
Each institution that maintains a Federal Reserve account is assigned or may establish a "net debit cap," which is the limit on the amount of daylight overdrafts that the institution may incur in its Federal Reserve account. An institution's cap category and its capital measure determine the dollar amount of its net debit cap.

The temporary changes announced April 23 suspend net debit caps for institutions that are eligible for the discount window primary credit program. See more below.

8) **What is a "max cap"?**
Maximum daylight overdraft capacity, or a "max cap," is an institution's net debit cap plus additional collateralized capacity approved by the institution's administrative Reserve Bank. Generally, the max cap program is limited to institutions with self-assessed net debit caps. Typically, an institution is required to provide a business case for establishing a max cap.

The temporary changes announced April 23 expand max cap eligibility to include institutions that are eligible for the discount window secondary credit program. See more below.

9) **What is a cap breach?**
A cap breach is a negative end-of-minute balance in an institution's Federal Reserve account that exceeds the institution's net debit cap or its max cap. Following a cap breach, a Reserve Bank initiates a series of counseling actions aimed at deterring an institution from exceeding its allowed capacity for intraday credit.

The temporary changes announced April 23 suspend cap breaches and counseling for institutions that are eligible for the discount window primary credit program. See more below.

Temporary Actions to Encourage Use of Intraday Credit

10) **What temporary actions is the Federal Reserve undertaking?**
The Federal Reserve Board on Thursday, April 23, 2020, announced temporary actions aimed at increasing the availability of intraday credit extended by Federal Reserve Banks on both a collateralized and uncollateralized basis. In light of disruptions from COVID-19, depository institutions may face unanticipated intraday liquidity constraints and demands on collateral pledged to the Reserve Banks. In response, the Board is adjusting the manner in

which the Reserve Banks administer part II of the Federal Reserve Policy on Payment System Risk (PSR policy).

a. **Suspending net debit caps and waiving overdraft fees for institutions that are eligible for the discount widow primary credit program (primary credit institutions)**
   For primary credit institutions, the Board is temporarily suspending net debit caps and waiving all fees for daylight overdrafts (including uncollateralized daylight overdrafts). The Reserve Banks will also cease counseling primary credit institutions that breach their net debit caps.

b. **Adopting a streamlined process to request collateralized intraday credit for institutions that are eligible for the discount window secondary credit program (secondary credit institutions)**
   For secondary credit institutions, the Board is temporarily adopting a streamlined process to request collateralized capacity under the max cap program. Under this streamlined process, a secondary credit institution will be able to request collateralized capacity from its Reserve Bank without (i) first obtaining a self-assessed net debit cap, (ii) providing a resolution from the institution's board of directors approving the max cap, or (iii) submitting a business case justifying its request for collateralized capacity.

c. **Pausing the collection of information used to establish a net debit cap**
   The Board is suspending the collection of information under the Annual Daylight Overdraft Capital Report for U.S. Branches and Agencies of Foreign Banks (FR 2225, OMB Number 7100-0216) and the Annual Report of Net Debit Cap (FR 2226, OMB Number 7100-0217) during the period of time that the temporary actions are in effect. However, Reserve Banks will resume collecting this information once the temporary actions have ended.

11) How long will the temporary actions be in place?

The Federal Reserve will apply the temporary actions immediately with the publication in the Federal Register, starting with the two-week maintenance period that began April 23, 2020. The temporary actions will terminate on September 30, 2020, unless the Board communicates otherwise prior to that date.

12) Are these temporary actions available for foreign institutions?

Yes. U.S. branches and agencies of foreign banking organizations (FBOs) are eligible for these temporary actions.

13) **What are the Federal Reserve's expectations regarding account management during these temporary actions?**
Primary credit institutions can manage intraday activity in their Federal Reserve accounts as necessary to meet the needs of their customers, without the constraint of their net debit caps.[1] However, the Federal Reserve will continue to expect that primary credit institutions will extinguish any daylight overdrafts prior to the close of the Fedwire operating day. Overnight overdrafts are strongly discouraged and subject to an overnight overdraft penalty fee.

Like primary credit institutions, secondary credit institutions are expected to extinguish any daylight overdrafts prior to the close of the Fedwire operating day in order to avoid incurring an overnight overdraft. In addition, secondary credit institutions will be expected to avoid daylight overdrafts in excess of their max caps.

14) **Do the temporary actions apply to institutions that are not eligible for regular access to the discount window?**
No. Institutions without regular access to the discount window do not qualify for the temporary actions. Such institutions will continue to be charged a penalty fee for any daylight overdrafts they do incur.

15) **Does a primary credit institution need to request that the Reserve Bank suspend its net debit cap?**
No. Reserve Banks will automatically suspend net debit caps for primary credit institutions. Although Federal Reserve applications such as the Account Balance System (ABS) and the Account Managing Information (AMI) application will continue to show net debit cap information, Federal Reserve Banks will waive all calculated net debit cap breaches and will not counsel institutions that incur daylight overdrafts.

16) **Does a primary credit institution need to request that the Reserve Bank waive fees on uncollateralized daylight overdrafts?**
No. Reserve Banks will automatically waive fees on uncollateralized daylight overdrafts for primary credit institutions during the period.

17) **Are institutions required to renew their net debt caps if their net debit caps will expire during the period of time that the temporary actions are in effect?**
Normally, net debit caps must be renewed at least once every 12 months. Since net debit caps will be suspended under the temporary actions, institutions will not be required to renew their net debit caps and will not be required to submit information for the FR 2225 and FR 2226 reports if their net debit caps are expiring during the period of time that the temporary actions

[1] Reserve Banks will continue to monitor an institution's eligibility for primary credit using financial and supervisory information in order to manage the risk exposure to Reserve Banks.

are in effect. Institutions should be prepared, however, to renew their net debit caps once the temporary actions expire.

18) **How can a secondary credit institution request a max cap under the streamlined process?**
A secondary credit institution should contact the credit risk management staff at its local Reserve Bank to request a max cap and discuss related collateral arrangements. Secondary credit institutions **will not** be required to (i) first obtain a self-assessed net debit cap, (ii) provide a resolution from the institution's board of directors approving the max cap, or (iii) submit a business case justifying its request for collateralized capacity.

19) **What type of collateral is acceptable to secure a max cap?**
Any collateral eligible to be pledged at the discount window is eligible for PSR purposes and the max cap as well. A listing of the most commonly pledged asset types can be found by clicking on the Collateral Margins Table on this site. Additionally, in-transit collateral may be pledged for PSR purposes at Reserve Bank discretion. All collateral must be acceptable to an institution's local Reserve Bank.

20) **How can an institution transfer collateral to its Reserve Bank?**
For detailed information on procedures for transferring collateral, please refer to The Federal Reserve Collateral Guidelines. Staff at your local Reserve Bank can offer guidance about the pledging process.