The Primary Dealer Credit Facility

In response to the COVID-19 pandemic, the Federal Reserve Board (Fed), under their authority granted by section 13(3) of the Federal Reserve Act, established the Primary Dealer Credit Facility (PDCF). The PDCF provides credit to primary dealers in exchange for a broad range of collateral for term funding with maturities of up to 90 days with the goal of providing liquidity to a wide range of market participants and to support a broad range of asset classes.

KEY TAKEAWAYS

- **Primary dealers serve as the trading counterparties for the Federal Reserve's open market operations and play a key role in supporting the implementation of U.S. monetary policy and providing liquidity in the market for U.S. Treasury securities.**
- **PDCF is a loan facility that will provide credit to primary dealers in exchange for a broad range of collateral for term funding with maturities up to 90 days.**

The Role of Primary Dealers

Primary dealers are Federal Reserve approved broker-dealers, banks, or other financial institutions that serve as the trading counterparties for the Fed's open market operations and have a key role in providing liquidity in the market for U.S. Treasury securities. As trading counterparties, primary dealers support the implementation of U.S. monetary policy. Further, these firms are expected to bid, consistent with their pro rata share of the market, in all Treasury auctions at "reasonably competitive prices." They also serve other important functions such as participating in the NY Fed's securities lending program, thereby helping dealers make markets in Treasury Securities, as well as providing the NY Fed insight into market developments and ongoing market trends, which the NY Fed uses to support the formulation and implementation of monetary policy.

At its height, the number of primary dealers was greater than 40. The number reached its lowest level with 17 firms in 2008. Today, there are 24 firms listed as primary dealers for the NY Fed.

History of the Primary Dealer Credit Facility

The PDCF was first established over a decade ago in response to the severe strains in the wholesale funding markets including the triparty repurchase agreement market. The triparty repurchase agreement market is a critical, short-term funding market. According to the NY Fed, the PDCF's role in the "injection and availability of liquidity helped arrest the downward spiral in prices and the increases in haircuts"[1] during the 2007–2008 financial crisis.

COVID-19 Impact on Primary Dealers

The PDCF closely resembles prior facilities in terms of structure, however the Fed is now offering term funding for up to 90 days instead of only offering overnight loans as was the case previously. The loans will be extended at a primary credit rate or discount rate. PDCF loans can be secured by certain collateral, including collateral eligible for pledge in open market operations, investment-grade corporate debt securities, international agency securities, commercial paper, municipal securities, mortgage-backed securities, asset-based securities, and equity securities. This is designed to assist primary dealers in supporting smooth market functioning and the flow of credit to American businesses and households. The PDCF is expected to be available for at least six months and the Fed may extend the facility if needed.

Additional Resources: Federal Reserve Bank of New York Primary Dealer Credit Facility Program Page

1 https://www.newyorkfed.org/medialibrary/media/research/current_issues/ci15-4.pdf

Jennifer Bang | jbang@sifma.org • Coryann Stefansson | cstefasson@sifma.org