

Bill Summary: Discount Window Enhancement Act of 2024

Background:

Banks make long-term loans to households and businesses (the bank's assets), but fund those loans with deposits (the bank's liabilities) that can be withdrawn suddenly. Even a bank with assets that are worth more than its liabilities can have trouble meeting depositors' demands in a panic—a bank run—because a bank often can't readily sell its loans for cash.

The Federal Reserve ("the Fed") and its 'Discount Window' (DW) were created in 1913 as a policy response to help avoid bank runs. The Fed's DW fulfills this role by making short-term loans to depository institutions, such as commercial and community banks.

Under most circumstances, banks can meet their liquidity needs from other sources. However, during periods of financial stress or instability, such as the 2007-2009 financial crisis and the COVID-19 pandemic, the DW can and should be a crucial source of liquidity if private sources dry up.

Unfortunately, however, borrowing at the DW has become "stigmatized" – inaccurately seen as a sign of impending failure – to the point where banks have become extremely reluctant to use it. Indeed, the instability related to bank failures in 2023 showed that many banks are no longer even *able* to use it.

The Discount Window Enhancement Act of 2024:

The *Discount Window Enhancement Act of 2024* seeks to tackle the stigma that has grown over decades, modernize this important liquidity tool, and return the DW to its intended role.

The bill:

1. **Mandates Testing of the Discount Window:** Mandates that eligible depository institutions operating in the United States engage in test borrowing at the Federal Reserve's Discount Window:
 - I. Large Institutions (> \$100 Billion): Quarterly.
 - II. Smaller and Larger Institutions (\$10 Billion – \$100 Billion): Semi-annual.
 - III. Small Institutions (Under \$10 Billion): **Not** in scope.
2. **Requires Regulators to Reflect Banks' Ability to Use the Discount Window in Liquidity Evaluations:** Regulators must "give credit" in their evaluations of bank liquidity preparedness to depositories that can use the discount window successfully – "positive consideration" must be given to successful testing and pre-pledged collateral.

3. Requires Financial Institution Risk Committees or Equivalent to Review and Approve Liquidity Contingency Plans: Depositories' liquidity contingency plans are to include detailed policies and procedures for seeking advances and be submitted to Federal Reserve Board, Regional Federal Reserve Bank of membership, and primary supervisor.

4. Requires the Federal Reserve Board to Modernize Discount Window Operations:

The Federal Reserve Board must:

- I. Implement a secure, online platform for obtaining advances at the discount window; and
- II. Extend hours for depositories to obtaining advances at the Discount Window to 8 PM; and
- III. Standardize technical specifications and operational procedures for discount window borrowing across all Federal Reserve Banks; and
- IV. Implement simplified procedures for eligible depository institutions to pledge small business loans as collateral with emphasis on simplified documentation for smaller eligible institutions; and
- V. Create and fund an outreach program to provide information and technical assistance to smaller depository institutions with regard to accessing the discount window.

5. Requires the Federal Reserve System to Simplify and Harmonize Collateral Processes with Federal Home Loan Bank System: The Federal Reserve Board must work with the FHFA and the FHLB system to simplify and harmonize policies and procedures for pledging and transferring collateral among FHLBs and Federal Reserve Banks.

6. Review of Weekly Federal Reserve Balance Sheet Reporting: The Federal Reserve Board must comprehensively review the weekly reporting of its balance sheet activities, and consider changes to avoid market distortions that could inadvertently place individual financial institutions at a disadvantage.

7. Federal Reserve Study and Report to Congress on Discount Window Stigma: Requires the Federal Reserve Board to conduct a study and submit a report to Congress about additional measures that could be taken to reduce discount window stigma and improve the process for obtaining advances on behalf of depository institutions.