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December 9, 2024

Ms. Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Request for Information and Comment on Operational Aspects of Federal Reserve Bank Extensions of Discount Window and Intraday Credit

Dear Sir or Madam:

The Independent Community Bankers of America (“ICBA”)¹ appreciates the opportunity to respond and comment on the “Request for Information and Comment on Operational Aspects of Federal Reserve Bank Extensions of Discount Window and Intraday Credit (the “Request for Information”) published by the Board of Governors of the Federal Reserve System (“Board”). ICBA believes that the Request for Information is timely considering recent calls for community banks to make Federal Reserve discount window availability a central part of their liquidity and contingent liquidity plans.

ICBA supports efforts by the Board to improve transparency and to create efficiencies in discount window operations through direct solicitation of participants in information requests like this. However, as community bankers, policymakers, regulators, and depositors are well aware, there has always been a negative stigma attached to using the discount window even to support contingent bank funding and liquidity. The Federal Reserve Bank is viewed as the lender of last resort and a resource that should only be accessed when a bank is close to insolvency. To improve the negative sentiment surrounding the discount window, the Board will need to make Federal Reserve borrowing through the discount window beneficial for community banks by improving its visibility and operability. Only large-scale changes in discount window operations will change deeply rooted perceptions. The Federal Reserve’s operational efficiency standards for technological innovation and customer service will also need to improve to better support community bank borrowers.

¹ *The Independent Community Bankers of America® has one mission: to create and promote an environment where community banks flourish. We power the potential of the nation’s community banks through effective advocacy, education, and innovation. As local and trusted sources of credit, America’s community banks leverage their relationship-based business model and innovative offerings to channel deposits into the neighborhoods they serve, creating jobs, fostering economic prosperity, and fueling their customers’ financial goals and dreams. For more information, visit ICBA’s website at www.icba.org.*

ICBA would like to see the Board publish additional requests for comment that include broader discount window considerations related to the types of collateral accepted, eligibility criteria, and the terms surrounding advances of credit to better understand community banks' incorporation of discount window operations in asset-liability management practices. ICBA also recommends that the Board contact community banks directly to solicit feedback on discount window successes and challenges through informal information sessions where participants can cite specific experiences surrounding discount window operational challenges. Finally, the Board must recognize the overwhelming success of community bank health in both good times and bad and the role that the Federal Home Loan Banks have played in championing a strong and vibrant banking system for generations. Regulators need to make wholesale changes to the way they manage bank relationships in order to compete with the targeted, inexpensive, accessible, and effective liquidity provided by a community bank's Federal Home Loan Bank partner.

Request for Information

The Board has published this Request for Information to gather input on the operational aspects of extending credit through the Federal Reserve discount window with a focus on the efficiency of operations. The Board seeks to better understand operational inefficiencies surrounding the submission of legal documents, the pledging of collateral, requesting advances, and receiving advance proceeds. Comments are requested on accessibility of the online portal in sourcing and maintaining advances. The Board also seeks to address challenges among borrowers that utilize advances under the Federal Home Loan Bank system by soliciting suggestions for improving the borrowing process for those banks. The Board also is requesting feedback concerning those operational frictions that create an increased burden for community banks either through cost or increased number of staff resources.

ICBA's Comments

Community bank interest and understanding of discount window operations through its Federal Reserve Bank has always been historically limited with little desire to draw on advances mainly due to the strong relationship between the community bank and its Federal Home Loan bank partner. While borrowing from the discount window may have some limited advantages like expanded cutoff times and a wider range of qualifying collateral, community banks prefer the many advantages that their Federal Home Loan Bank has to offer including greater flexibility in the types of arrangements and relationships community banks can have. Obstacles to preparing the community bank to borrow from the discount window as well as borrowing from the discount window are many with community banks unable to find a suitable place in their liquidity mix for this type of borrowing.

Asset Pledges Can Be Confusing. Many community banks have trouble assigning qualifying assets to collateralize discount window borrowings because assets may already be pledged to the Federal Home Loan Bank system. Additionally, community bankers often cite the need to contact more than one department at the Federal Reserve in order to properly pledge eligible collateral with only limited instructional documentation available on the required procedures needed to comply with proper collateralization requirements. Subordination requirements are especially challenging when a bank tries to allow for pledging agreements across both their Federal Home Loan Bank and the Federal Reserve Bank. Community banks in many cases are confused by the

document requirements and the order of events needed to properly pledge a financial instrument. Contacting the Federal Reserve Bank for help and guidance can be challenging since it is generally limited to phone correspondence and the result is usually disappointing with limited success in providing guidance and answering questions. Community banks that do pledge assets successfully with their Federal Reserve Bank generally allocate entire classes of financial assets for assignment.

Customer Service is Limited and Ineffective. Banks that have questions about discount window operations are often unable to achieve success with the first call resulting in the need to make repeated calls on the same question. Some bankers cite an inability to get assistance quickly on the Federal Reserve website or to get simple questions answered bringing them back to phone calls to their Federal Reserve Bank that slows down an already slow process. Sometimes even the phone solution is not efficient or practical. One banker explains...

“They give you a window that may be two hours long and they won’t tell you who will call and sometimes they miss the window. You have to start all over tomorrow. We really need them when volume is high, and we need a quicker answer.”

Some bankers question whether the phone customer service solution is properly staffed with enough knowledgeable representatives to quickly answer questions. Again, common questions may require multiple phone calls for common concerns. Community bankers are left wondering how difficult it will be to get resolution to questions or concerns in the event that dependencies on discount window borrowing reach elevated levels during a liquidity crisis.

Borrowing is a Slow Process. Community bankers like the fact that lines can be drawn at the Federal Reserve with a later cutoff time than is available at the Federal Home Loan Bank. This has been cited as the most beneficial aspect of the discount window and should be further studied to look for ways to utilize this advantage over competitive borrowing sources. However, drawn downs are not quick and efficient, especially when compared to other providers. For example, banks can access advances online including choosing a settlement and maturity date at the Federal Home Loan Bank without the need to place a call. The Federal Reserve process involves a phone call with no certainty that someone on the other end of the line will be available. In addition, bankers describe a number of steps needed just to reach the appropriate person to conduct transactions with the discount window. When conducting transactions with customer service representatives, bankers indicate a lack of motivation on the part of their government counterpart to quickly answer questions or transact.

Technology Solutions are Either Absent or Misunderstood. Some bankers do report success with using the Federal Reserve Discount Window Direct (“DWD”) solution for borrowing. The DWD is a Federal Reserve application that allows online electronic access to discount window transactions including requesting advances, making payments, sending messages, and reviewing borrowing information. But the number of community bankers that know this solution exists or know how to access DWD is small. It appears that the Federal Reserve Banks have not fully provided this solution to all borrowers or have not adequately informed borrowers that such a solution exists. Community bankers are also having difficulty on the Federal Reserve website when seeking solutions to common questions and concerns.

Maintenance and Flexibility are Difficult. Community bankers report confusion and uncertainty in the most basic aspects of maintaining their credit facilities including how to change authorized signors at the bank. Sometimes a phone call will resolve a concern. Other times a phone call cannot be placed without an email first delivered to a specific department to grant access. When community bankers desire to move collateral to or from the discount window for borrowing, they report having to contact at least two different departments in order to complete the transfer with the need to complete multiple forms in manual processes. When a form is completed incorrectly, little to no information is provided to the borrower on how to correct the form.

Non-Operational Aspects of the Discount Window Exacerbate an Already Difficult Borrowing Experience. While expanded borrowing cutoff times and broad types of accepted collateral may offset the stigma associated with borrowing from the lender of last resort, inflexibility in types of borrowing arrangements make usage of discount window borrowings very expensive for community banks that already have limited staff resources available to resolve simple problems. Not being able to customize borrowings to specific interest rate risks makes borrowing inefficient and problematic while introducing new risks that a bank may need to consider when drawing on lines. Borrowing from the discount window generally carries a higher interest rate than borrowing through Federal Home Loan Bank advances. The Federal Home Loan Bank advances generally also include optionality that can further reduce cost to the borrower. In addition, the commonly held view that the Federal Reserve is the lender of last resort will always result in a challenged motivation to achieve success with discount window borrowings regardless of process improvements.

ICBA recommends that the Federal Reserve fully utilize available technology resources to minimize the friction currently experienced by community bankers when they attempt to borrow from the discount window. Every bank that desires to borrow from the discount window should have dedicated resources allocated to them to ensure they are able to conduct transactions through DWD quickly without the need to call to resolve concerns. Federal Reserve officials should provide comprehensive training and support for banks that use DWD including developing relationships with community bank personnel to ensure an efficient user experience. For banks that need assistance through phone support, the Federal Reserve should staff call centers with enough personnel to handle dynamic call volumes in real time without the need for return calls and follow up.

Many community bankers that use the discount window believe the advantages of using it do not outweigh the operational disadvantages. ICBA recommends that the Board study those advantages, specifically the later cutoff times and wide array of eligible pledged financial instruments, to look for ways to better market the discount window as a viable borrowing alternative for community banks that rely so heavily on their Federal Home Loan Bank for inexpensive and efficient funding sources.

ICBA appreciates the opportunity to provide comments on this Request for Information. If you have any questions or would like additional information, please do not hesitate to contact me at james.kendrick@icba.org.

Sincerely,

/s/

James Kendrick
First Vice President, Accounting & Capital Policy