

MEMORANDUM

To: Members of the Committee on Financial Services
From: Financial Services Republican Staff
Date: February 12, 2024
Re: February 15, 2024, Financial Institutions and Monetary Policy Subcommittee Hearing:
“Lender of Last Resort: Issues with the Fed Discount Window and Emergency Lending.”

On Thursday, February 15, 2024, at 10:00 a.m. in Room 2128 of the Rayburn House Office Building, the Committee on Financial Services will hold a hearing titled “Lender of Last Resort: Issues with the Fed Discount Window and Emergency Lending.”

Witnesses:

- Hal Scott, Nomura Professor of International Financial Systems, Emeritus, Harvard University
- William Nelson, Executive Vice President and Chief Economist, Bank Policy Institute
- Professor Simon Johnson, Ronald A. Kurtz (1954) Professor of Entrepreneurship, MIT Sloan School of Management

Background: Central banks have long been instructed to act as a lender of last resort providing liquidity freely during financial panics and periods of financial stress. Central banks lend to solvent firms on good collateral at penalty rates, when otherwise solvent banks come under pressure to quickly liquidate collateral.

There are two main ways in which the Federal Reserve (Fed) provides lender of last resort credit to stressed firms. The first is through the “discount window” to specific banks. The second is through emergency lending using authority provided in Section 13(3) of the Federal Reserve Act to provide credit in “unusual and exigent circumstances” when stresses are felt by many firms during periods of broad-based liquidity strains (including periods of “crisis” or “panics”).

Since the financial crisis in 2008, the Fed has established a large number of emergency lending facilities and programs, including many in response to the economic shutdowns that occurred during the COVID-19 pandemic. Most recently, the Fed established the Bank Term Funding Program in the wake of the March 2023 bank failures.

Issues to be explored in the hearing include:

- The Fed’s lender of last resort function, including discount window lending policies and procedures, emergency lending facilities, and related regulatory liquidity requirements;
- Recent steps taken by the Fed to ensure that banks have “prepositioned” collateral;
- Issues of “stigma” associated with banks’ accessing the discount window;
- Increased reliance on the Fed’s emergency lending powers over time and debates about whether the Fed should limit or expand its lender of last resort activities; and

- Interplay between the Fed's discount window lending and Federal Home Loan Bank credit, including experiences during the March 2023 bank failures.