

The Federal Reserve System (FRS) periodically re-assesses the margins that are used in the valuation of collateral pledged to the U. S. Treasury and the Federal Reserve for Treasury Programs, Discount Window, and Payments System Risk purposes to ensure that the collateral margins reflect current market conditions. The new margins resulting from the recent re-evaluation will be effective May 2, 2005 and offer a new opportunity for a potential increase in collateral value for institutions that report detail on loan pledges in a designated automated format.

The FRS has introduced pledging loans through the Automated Loan Deposit (ALD) process. In general, this process allows high volume pledges through a file formatted according to the FRS's specifications. ALD pledges allow us to enter specific information on each loan into our collateral system to generate a unique price. The collateral value of ALD pledges will never be below and will frequently be above the value that would be generated under the traditional non-ALD approach. If you would like more information on the ALD process for loans, please reference the discount window website at <http://www.frbdiscountwindow.org> or contact Frank Bufo at (314) 444-8705.

For loans that are not submitted through the ALD process, the FRS will continue to utilize our usual margin methodology which is based on assumptions of the average risk characteristics of the loans pledged in each category. Moreover, effective with the implementation of the revised margins, the FRS will be updating our loan model on a monthly basis to reflect current market conditions. Consequently, we may adjust the margins on non-ALD pledges periodically for significant valuation changes. As a result, it is important to frequent the discount window and Treasury's Bureau of the Public Debt websites to keep abreast of current margins.

In this reassessment, the margins for priced and non-priced securities have not changed significantly from the current margins. Most changes can be seen in the greater than 10 duration buckets. However, for FRS programs, several new security types will be introduced with the new margins. Specifically, foreign-denominated debt issued by international agencies, government agencies, corporations, and municipalities will be acceptable effective May 2, 2005. Also please note that the time to maturity categories for valuing commercial real estate loans have been eliminated.

Please reference the [Discount Window and Payments System Risk margin table](#) at the website periodically, as it will always contain the most current information, reflecting any changes in the acceptable asset types and associated margins. The margin tables for Treasury programs can be found on the Treasury's Bureau of the Public Debt website at <http://www.publicdebt.treas.gov/gsr/gsrctl.htm>.

If your institution has questions regarding valuation or acceptability of assets as collateral for Discount Window or Payments System Risk purposes or regarding any of the information contained in this notice, please contact the Credit Office toll free at 1-866-666-8316. If your institution has questions regarding Treasury programs, please contact the TT&L NCSA at (888) 568-7343.