Seasonal Credit for Community Banks

Federal Reserve Bank of St. Louis
The Federal Reserve’s seasonal credit program provides depository institutions that lack access to national money markets with a reliable source of credit to meet their communities’ peak seasonal funding requirements. Small institutions that experience fluctuations in deposits and loans—caused by construction, college, farming, resort, municipal financing and other seasonal business—frequently qualify for the program.

For institutions of under $500 million in deposits with limited access to national markets, the seasonal credit program provides a reliable source of credit for periods of up to nine months. Without funds from national money markets, institutions tend to accumulate large positions in short-term liquid assets, which they roll off during the peak seasonal period. Ready access to borrowed funds enables these institutions to carry fewer liquid assets during the off-season. This access releases more funds for lending in the local market during the year and often allows higher rates on longer-term investments to be locked in.

**No Fees or Stock Purchases Required**

Under the seasonal credit program, there are no commitment fees, stock purchase requirements or other expenses or penalties involved in setting up and maintaining a seasonal credit line. Credit may be drawn down incrementally as needed, and partial and full prepayments are allowed without penalty. Frequently, institutions use the program only as a contingency line or backstop credit. If the line is unused during the year, there is absolutely no cost involved.

**How to Qualify**

To qualify under the program, an institution must be in satisfactory financial condition, and the request must meet all of the following conditions:

- The Federal Reserve must be satisfied that the need is seasonal.
- The need must persist for at least four consecutive weeks.
- The institution must take care of a portion of its seasonal funding from its own liquidity resources.

Occasionally, institutions may experience unusual seasonal requirements during periods of general liquidity strain that are not adequately identified by the normal seasonal calculations. Discount officers have discretionary authority to accommodate such unusual needs.

To ensure that an institution is taking care of a portion of its needs from its own resources, an amount based on the institution’s deposits is deducted from the estimated requirements before arriving at the seasonal qualification. This deductible is equal to 2 percent of the first $100 million average deposits in the preceding calendar year, 6 percent of the next $100 million and 10 percent of the excess above $200 million. Because of the larger deductible, institutions with more than $500 million in deposits are normally unable to qualify for seasonal credit. Presumably, such institutions have access to alternative sources of funding, including national money markets.
A Flexible, Market-Based Rate

A flexible, market-based interest rate is applied on all seasonal credit. This flexible rate is computed using the previous two-week average federal funds rate and secondary market rate on 90-day large CDs, rounded to the nearest five basis points. The rate is set biweekly and applies to all outstanding seasonal loans on the first day of the reserve maintenance period. The seasonal credit rate is updated on the System’s web site at www.frbdiscountwindow.org.

Completing the Application

When completing the application, please include a brief description of the seasonal factors and the expected amount and duration of credit. Be specific about the industry and related factors that cause seasonal fluctuations in deposits and/or loans. For example, agricultural credit requests should state the crop or agricultural product and the typical growing or production period, including the peak season.

A minimum of three years of consistent deposit and loan data is required to adequately analyze seasonal swings. Monthly deposit and loan data can be on a daily average basis, as of a specific day each month or at month end. An application form that provides for this data is available on request.

In certain cases, adjustments to loans and deposits may be appropriate to obtain a more accurate approximation of actual seasonal need. For example, loans and participations in loans purchased from outside the institution’s trade area should be deducted from loan totals. Local tax warrants, however, may be added to loans, even though these are normally reported as securities in conventional financial reports. Local seasonal and over-line loans, sold to correspondents, should be included in loan totals for computing seasonal eligibility.

Establishing a Line of Credit

Usually within a few days after receiving the application, Credit staff will advise you by phone, with a letter to follow, of the amount and duration of the approved seasonal line. Normally, credit lines do not exceed eight or nine months and are usually for shorter periods. Although the approved line is considered firm, flexibility exists to renegotiate the line or grant an extension when seasonal conditions do not materialize as expected.

Advances under the seasonal line are usually available on a weekly schedule or up to 30-day maturity.

Shorter-term advances and other maturity schedules are available if a legitimate reason can be shown. All seasonal loans are subject to renewal upon request. Partial and full prepayments on outstanding loans are allowed, at any time, without penalty.

Setting the Securities and Fed Funds Positions

Institutions will not be permitted to use the program to increase sales of federal funds or to purchase other liquid assets. However, net sales of federal funds and holdings of other liquid assets are appropriate, as long as they are consistent with the institution’s normal operating pattern. This Securities Position and Fed Funds Positions will be negotiated when establishing the seasonal line of credit. The Federal Reserve will monitor the agreed-upon position using data collected from the borrowing institution.
**Pledging Collateral**

All loans from the Federal Reserve Bank must be secured to our satisfaction. Acceptable collateral includes U.S. government and agency obligations, municipals and various structured securities and instruments. Certain types of collateral, including commercial, consumer and residential loans, may be held by qualifying institutions in their own vaults or by an acceptable third-party custodian. A more detailed list and description of acceptable collateral and custody arrangements is available on request.

**Restrictions**

Seasonal credit is intended to assist institutions with the credit needs of their local community. Therefore, it is inappropriate to use the program to make loans outside of the normal trade area or to purchase out-of-territory loans or loan participations from another institution.

So as to comply with provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), an approved seasonal line may be significantly reduced or revoked should an institution, at any time, be classified as a problem institution by a federal banking agency or if the institution becomes undercapitalized.

**Information or Questions**

For additional information or questions on this or any other credit program, please contact the Credit office at the Federal Reserve Bank of St. Louis toll-free at 1-866-666-8316 or via e-mail at creditoffice@stls.frb.org.