

SOMA SECURITIES LENDING PROGRAM
TERMS AND CONDITIONS
Attachment I

- Auction. Loans will be awarded to primary dealers based on competitive bidding in an auction held each day at noon. As with all domestic operations conducted by the FRBNY, the auctions will have a multiple price format. Dealers may submit two bids per issue on as many issues as they choose. Nonetheless, the FRBNY reserves the right to deny awards at its own discretion when allowing the loan could facilitate a dealer's ability to control a specific issue. Loans will not be granted outside of the auction process.
- Bonds-vs.-bonds lending. In order to prevent securities lending from affecting overnight bank reserves, loans will continue to be collateralized with Treasury bills, notes, and bonds rather than cash. Borrowers are required to deliver collateral in exchange for borrowed securities on the loan date, and to return borrowed securities in exchange for the re-delivery of collateral at maturity. Consistent with market practice, all transfers will be made "delivery-vs.-payment," whereby the borrower's clearing bank account is charged when the FRBNY transfers securities and is subsequently credited when the dealer deliveries are complete.
- Minimum bid of 150 basis points. A minimum bid rate of 150 basis points will be imposed to limit borrowing to securities trading on special. Because the lending fee is equivalent to the spread between the general collateral rate and the specials rate, a 150 basis point minimum bid rate removes the economic incentive to bid for securities trading near general collateral rates.
- Overnight lending. Lending will be conducted on an overnight basis. Loaned securities that are not returned the following day prior to the close of Fedwire will be considered fails.
- 25 percent limit on holdings auctioned. Twenty-five percent of each Treasury security owned by SOMA, and maturing at least two weeks from the current date, will be available for lending each day, unless fewer securities are in the SOMA custody account at the time of auction. If less than 25 percent of holdings in a particular issue are in the SOMA account at the time of auction, then the entire amount will be available at auction.
- Dealer limits of \$100 million per issue and \$500 million in total. Dealers may bid for securities each day up to these stated limits. If re-delivery of borrowed securities is not complete prior to the noon auction time, the securities will be tallied as loans outstanding for purposes of limit calculations.
- Failure to deliver collateral. If a dealer fails to deliver collateral against borrowed securities on the loan date, cash will be held overnight against the loan without interest, and a penalty fee equal to the general collateral rate will be assessed, in addition to the

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lending fee.

- Failure to re-deliver borrowed securities. If a dealer fails to re-deliver borrowed securities on the maturity date, a fee equal to the prevailing general collateral rate will be assessed in lieu of the lending rate. Loan extensions are not permitted.
- Lending and fail fees. Lending and fail rates will be applied to the market value of the security borrowed on an actual-over-360 basis. Dealers' clearing bank accounts will be charged for the fees due on the maturity date of the loan.
- Announcement of auction results. The weighted average award rate and total amount lent for each issue will be released in a timely manner after the auction is complete.