

The March 2019 Senior Credit Officer Opinion Survey on Dealer Financing Terms

Summary

The March 2019 Senior Credit Officer Opinion Survey on Dealer Financing Terms collected qualitative information on changes over the previous three months in credit terms and conditions in securities financing and over-the-counter (OTC) derivatives markets. In addition to the core questions, the survey included a set of special questions about the year-end dynamics in the short-term securities financing market for U.S. Treasury securities and the short-term global dollar funding market. The 23 institutions participating in the survey account for almost all dealer financing of dollar-denominated securities to nondealers and are the most active intermediaries in OTC derivatives markets. The survey was conducted during the period between February 12, 2019, and February 25, 2019. The core questions asked about changes between December 2018 and February 2019.¹

Core Questions (Questions 1–79)²

Responses to the core questions in the March survey offered a few insights into recent developments in dealer-intermediated markets. With regard to the **credit terms applicable to, and mark and collateral disputes with, different counterparty types across the entire range of securities financing and OTC derivatives transactions**, responses to the core questions showed the following:

- Dealers reported that price and nonprice terms were unchanged for most classes of counterparties (see the exhibit “Management of Concentrated Credit Exposures and Indicators of Supply of Credit”). A small fraction of respondents noted an easing in price terms to their trading real estate investment trust clients.

¹ For questions that ask about credit terms, net percentages equal the percentage of institutions that reported tightening terms (“tightened considerably” or “tightened somewhat”) minus the percentage of institutions that reported easing terms (“eased considerably” or “eased somewhat”). For questions that ask about demand, net fractions equal the percentage of institutions that reported increased demand (“increased considerably” or “increased somewhat”) minus the percentage of institutions that reported decreased demand (“decreased considerably” or “decreased somewhat”).

² Question 80, not discussed here, was optional and allowed respondents to provide additional comments.

- One-fifth of respondents indicated that efforts to negotiate more-favorable price and nonprice terms have increased for hedge funds and nonfinancial corporations over the past three months.
- In contrast to the previous quarter, small net fractions of dealers responded that the duration of mark and collateral disputes had decreased somewhat over the past three months across the range of counterparties.

With respect to clients' **use of financial leverage**, on net, dealers indicated little change over the past three months (see the exhibit "Use of Financial Leverage") for all classes of counterparties.

With regard to **OTC derivatives markets**, responses showed the following:

- Initial margin requirements on OTC derivatives were basically unchanged, on net, for average and most-favored clients.
- On net, dealers reported that the volume and duration of mark and collateral disputes have not changed across most OTC derivatives, although one-sixth of respondents indicated an increase in the volume of mark and collateral disputes for foreign exchange (FX) swaps.

With respect to **securities financing transactions**, respondents indicated the following:

- Similar to the trend in the past three quarters, one-fourth of dealers, on net, indicated a decrease in funding demand for equities (see the exhibit "Measures of Demand for Funding and Market Functioning"). Funding demand remained unchanged across all other asset classes.
- Demand for term funding with a maturity greater than 30 days was reported to be little changed across all asset classes.³
- One-fourth of dealers, on net, reported an easing in effective financing rates (spreads over relevant benchmark) for non-agency residential mortgage-backed securities (RMBS), commercial mortgage-backed securities, and consumer asset-backed securities. One-fifth of dealers also reported an increase in the maximum maturity for non-agency RMBS, indicating an easing of terms. Funding terms were little changed across other asset classes queried in the survey.
- Dealers, on net, reported no material change in the liquidity and functioning of the market for underlying collateral across all asset classes in the past three months.⁴

³ This question is not asked with respect to equities in the core questions.

⁴ Note that survey respondents were instructed to report changes in liquidity and functioning in the market for the underlying collateral to be funded through repurchase agreements and similar secured financing transactions, not changes in the funding markets themselves. This question was not asked with respect to equity markets in the core questions.

Special Questions on Year-End Dynamics in the Short-Term Funding Markets (Questions 81–92)

Short-term U.S. Treasury repurchase agreement (repo) markets and short-term global dollar funding markets have sometimes exhibited distinct dynamics at the end of the calendar year. In the U.S. Treasury interdealer repo market, the overnight general collateral rates increased sharply at the end of 2018, whereas the rate movement was much smaller at the end of 2017. In contrast, at the end of 2017, FX swap bases against both the Japanese yen and the euro increased dramatically, indicating higher costs for borrowing U.S. dollars, while at the end of 2018 increases in the FX swap bases were more muted. In the March 2019 SCOOS, dealers were asked about changes in the quantities and price terms they provided to their clients in securities financing transactions for U.S. Treasury securities and in dollar funding through FX swaps at the end of 2018 compared with earlier in December 2018 and with the end of 2017.

With respect to **one-week or shorter securities financing of U.S. Treasury securities (lending collateralized by U.S. Treasury securities, for example, through reverse repurchase agreements)**:

- On net, dealers reported no change in their net supply of securities financing of U.S. Treasury securities in 2018 year-end relative to early December 2018. Compared with 2017 year-end, more than one-fourth reported an increase in the net supply.
- Nearly three-fifths of respondents answered that the price terms (repo rates over the relevant benchmark, such as the interest rate on excess reserves) tightened in 2018 year-end compared with early December 2018. Increases in demand for securities financing from other dealers and buy-side clients were the two most cited reasons, followed by less-aggressive competition from other institutions at the year-end and increases in Treasury issuance.
- More than one-half of respondents indicated a tightening of price terms in 2018 year-end relative to 2017 year-end. Increases in demand for securities financing from buy-side clients and increases in Treasury issuance were the most cited reasons, followed by increases in demand from other dealers. A few respondents also pointed to less-aggressive competition from other institutions.

With respect to the **dollar funding that dealers provided in the one-week or shorter EUR/USD and USD/JPY FX swaps**:

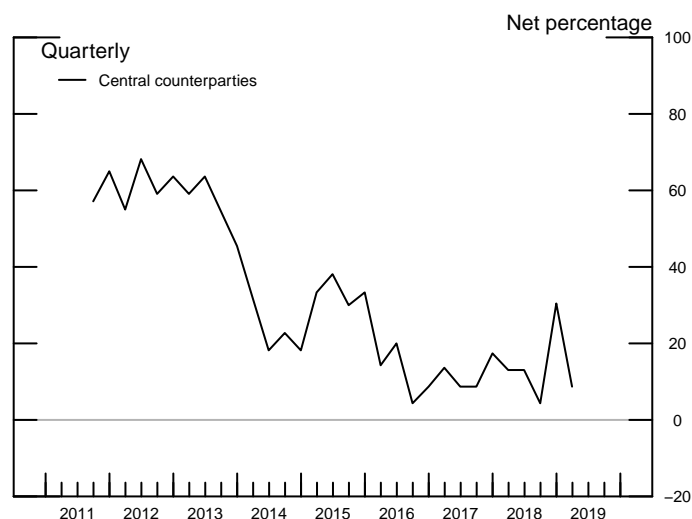
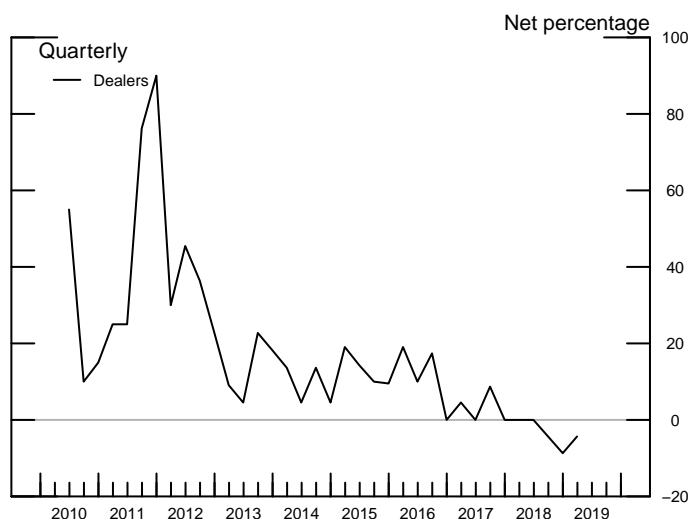
- On net, dealers responded that the net supply of dollar funding they provide to their clients did not change in 2018 year-end compared with both early December 2018 and 2017 year-end.

- More than two-fifths and two-thirds of respondents answered that the price terms (FX swap basis) that they provided to their clients in 2018 year-end eased compared with early December 2018 and 2017 year-end, respectively. Of the dealers that reported easing terms, almost all of them pointed to the decrease in demand for short-term dollar funding in the year-end due to high amounts of prefunding by their counterparties as either the most important or the second most important reason. The next most cited reason was a decrease in demand for dollar funding, unrelated to prefunding, by other dealers and buy-side clients.

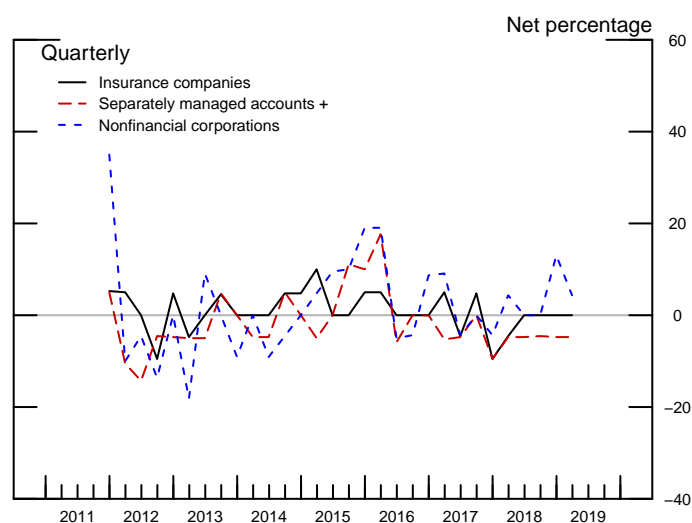
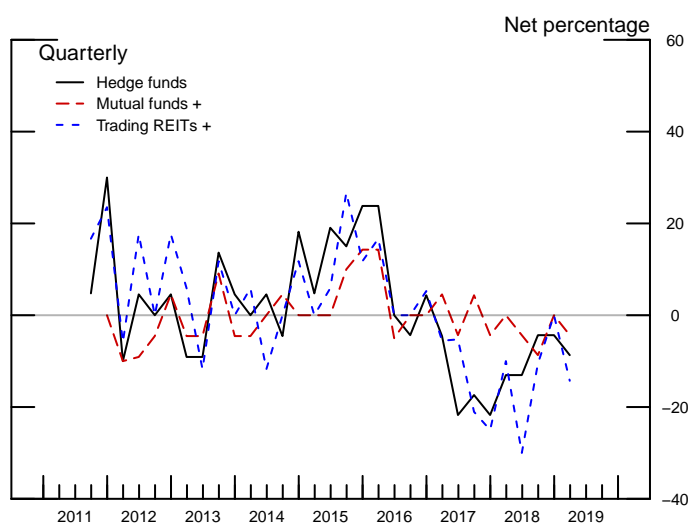
This document was prepared by Yesol Huh, Division of Research and Statistics, Board of Governors of the Federal Reserve System. Assistance in developing and administering the survey was provided by staff members in the Capital Markets Function, the Statistics Function, and the Markets Group at the Federal Reserve Bank of New York.

Management of Concentrated Credit Exposures and Indicators of Supply of Credit

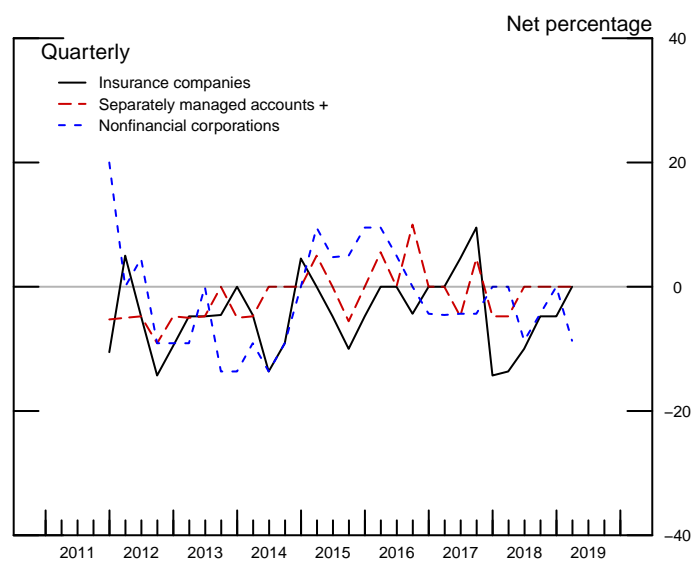
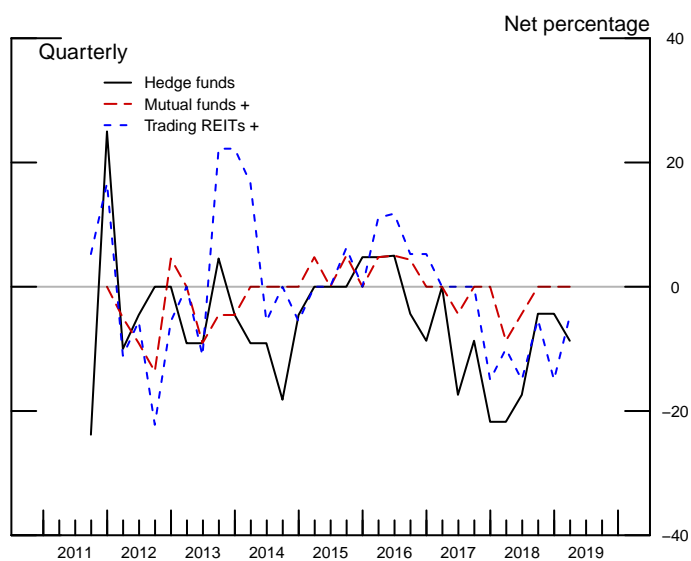
Respondents increasing resources and attention to management of concentrated exposures to the following:



Respondents tightening price terms to the following:



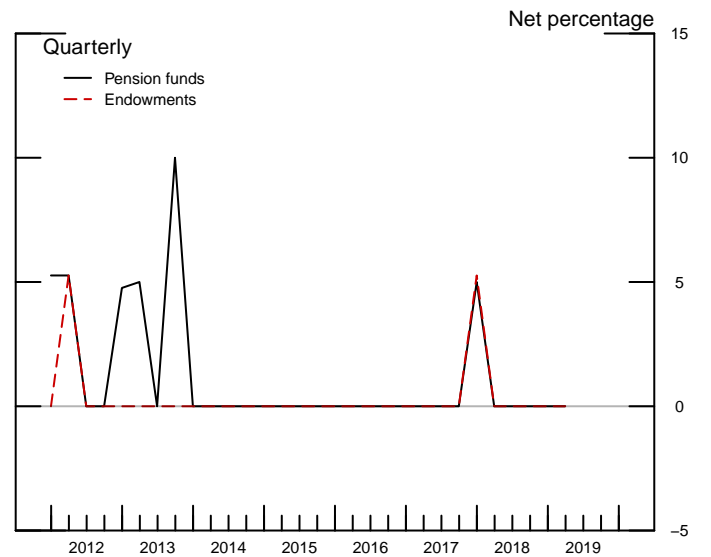
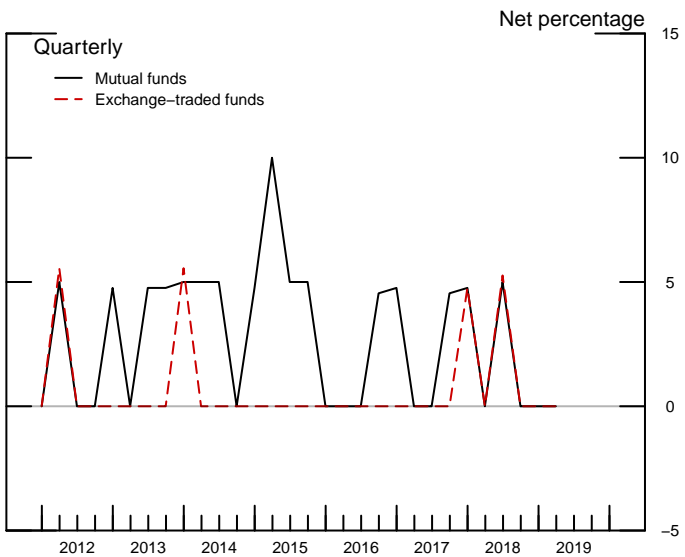
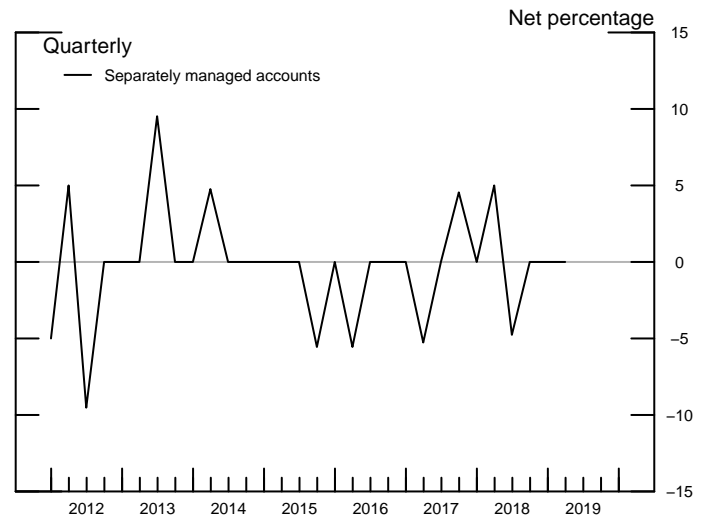
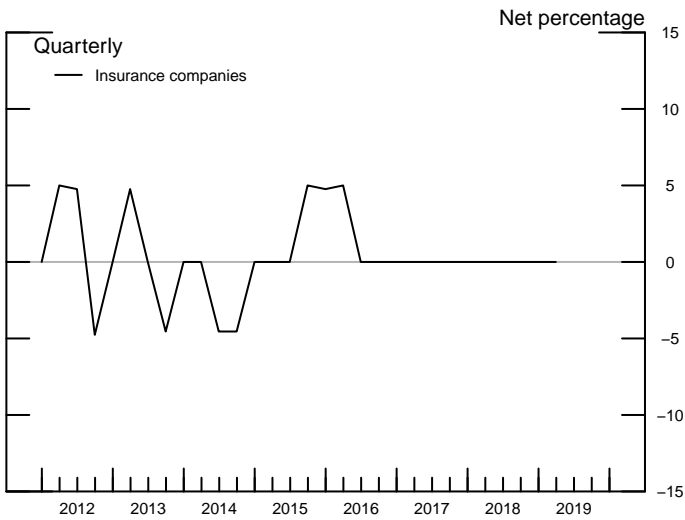
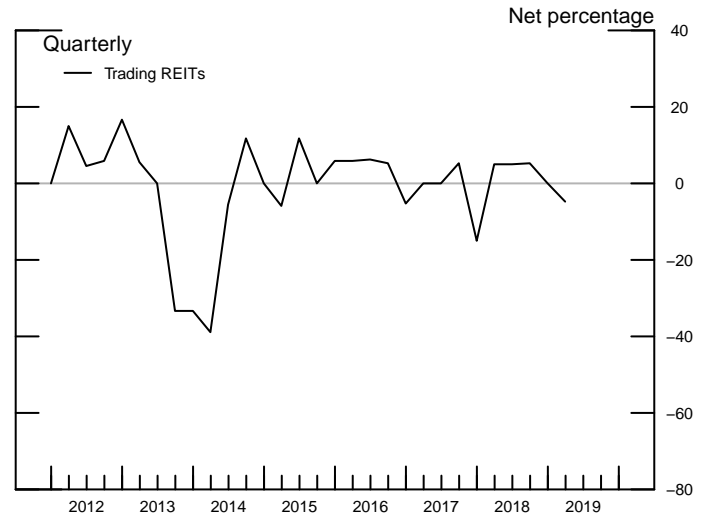
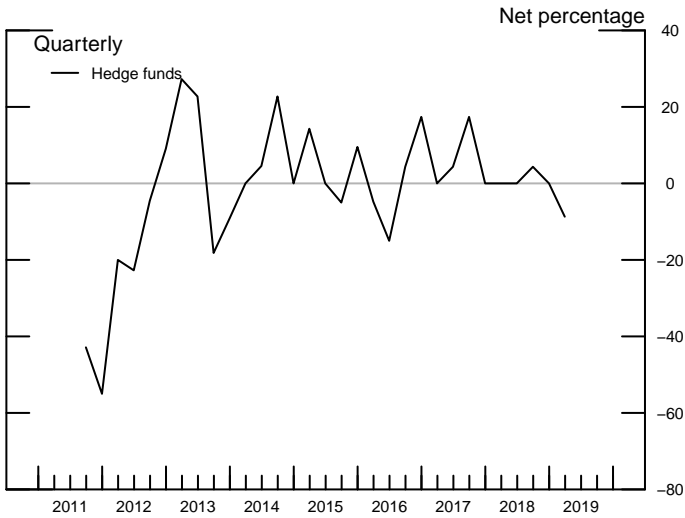
Respondents tightening nonprice terms to the following:



'+' indicates the question was added to the survey in September 2011.

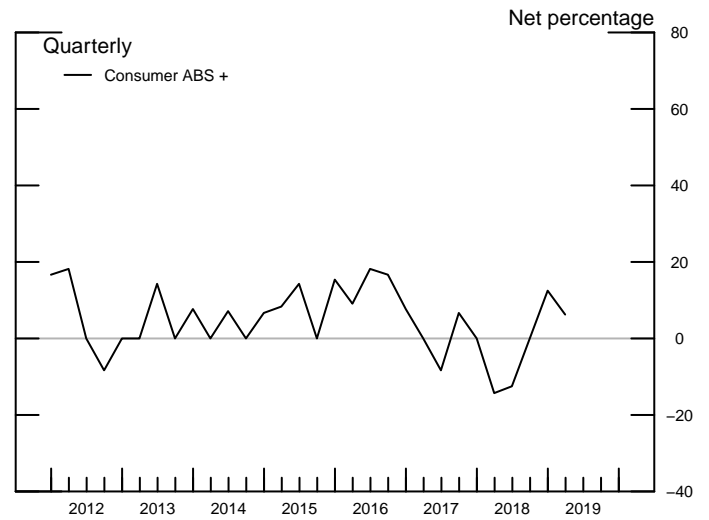
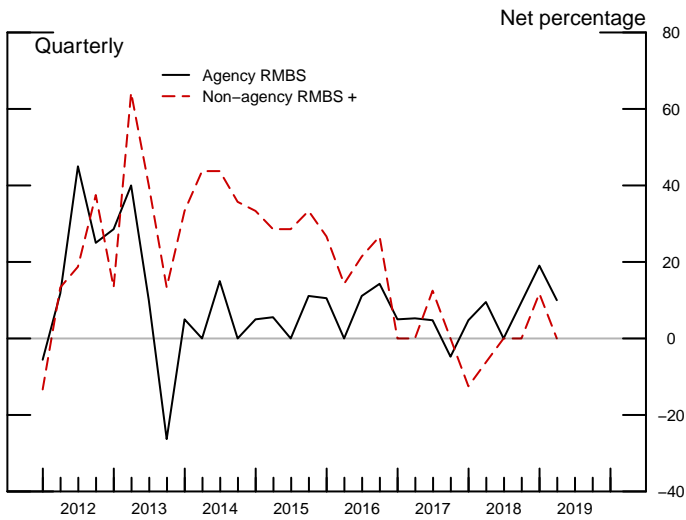
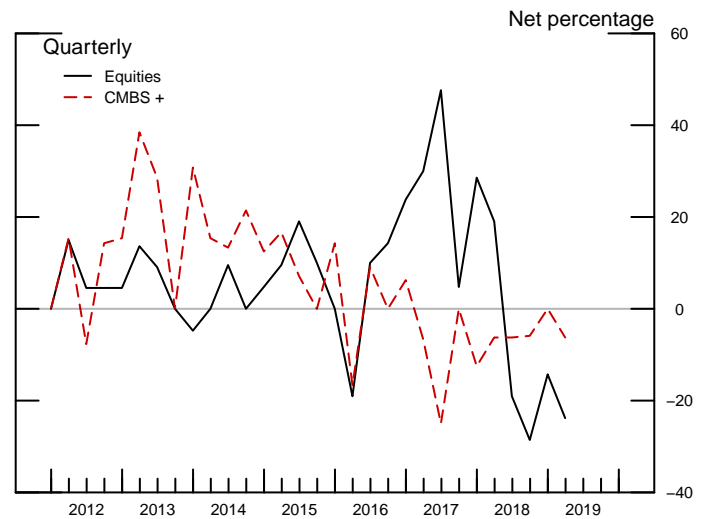
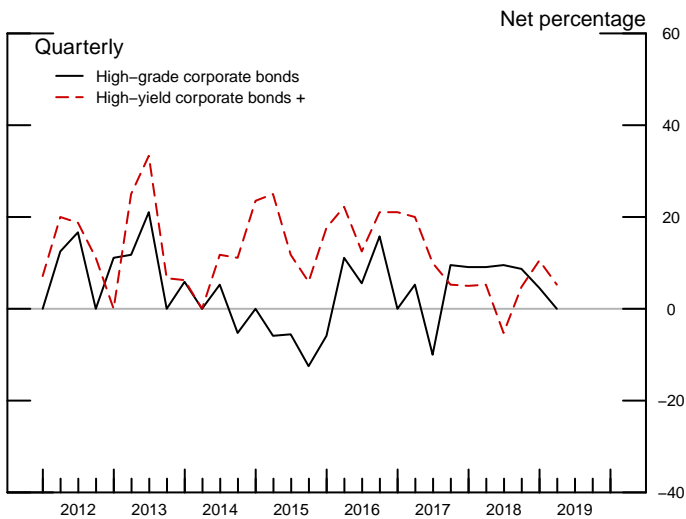
Use of Financial Leverage

Respondents reporting increased use of leverage by the following:

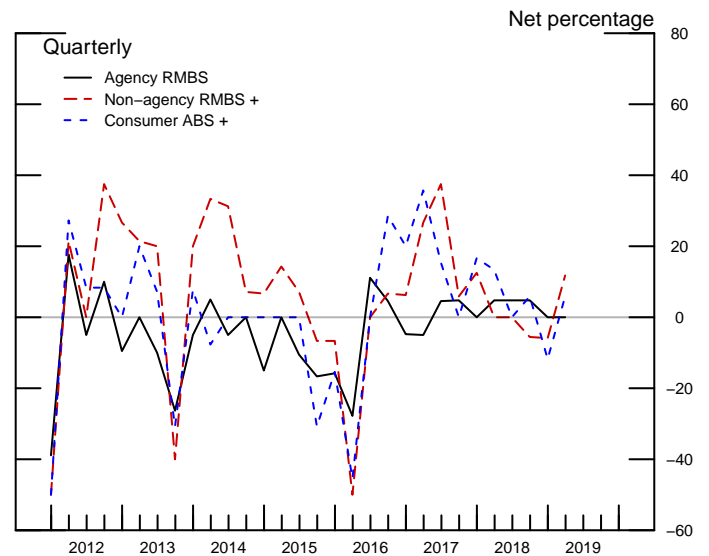
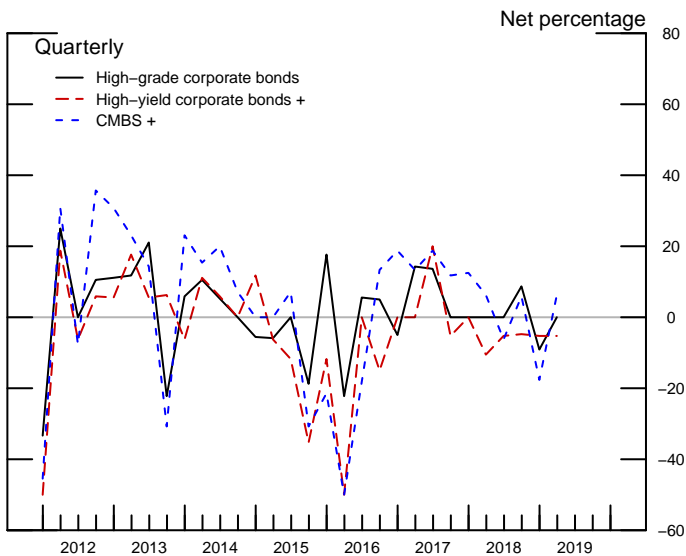


Measures of Demand for Funding and Market Functioning

Respondents reporting increased demand for funding of the following:



Respondents reporting an improvement in liquidity and functioning in the underlying markets for the following:



'+' indicates the question was added to the survey in September 2011.