The March 2025 Senior Credit Officer Opinion Survey on Dealer Financing Terms

Summary

The March 2025 Senior Credit Officer Opinion Survey on Dealer Financing Terms (SCOOS) collected qualitative information on changes in credit terms and conditions in securities financing and over-the-counter (OTC) derivatives markets between December 2024 and February 2025.[1] In addition to the core questions, the survey included a set of special questions on dealers' and their clients' practices and activities in the repurchase agreement (repo) market for transactions collateralized by U.S. Treasury securities.

Core Questions

(Questions 1–79)[2]

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 revealed the following:

- Price and nonprice terms on securities financing transactions and OTC derivatives were generally unchanged, on net, across most classes of counterparties. For trading real estate investment trusts (REITs), a small fraction of dealers reported easing of price terms (such as financing rates) over the past three months (see the exhibit "Management of Concentrated Credit Exposures and Indicators of Supply of Credit"). Dealers cited more-aggressive competition from other institutions as the main reason for easing. Around one-fourth of dealers reported that the intensity of efforts by hedge funds and REITs to negotiate more-favorable price and nonprice terms increased somewhat, as did a small fraction of dealers for insurance companies.

- Resources and attention devoted to managing concentrated credit exposure to dealers and central counterparties remained basically unchanged. Roughly four-fifths of respondents indicated that changes in central counterparty practices, including margin requirements and haircuts, have not affected or have minimally affected the credit terms they offer to clients on bilateral transactions that are not cleared.

- The volume, duration, and persistence of mark and collateral disputes remained basically unchanged, on net, over the past three months for most counterparty types, although a small fraction of dealers indicated that the volume of such disputes with insurance companies decreased somewhat.

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[1] The 22 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 between February 11, 2025, and February 24, 2025.

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

With respect to clients' **use of financial leverage**, dealers reported that the use of leverage remained basically unchanged, on net, for all client types (see the exhibit "Use of Financial Leverage").

In the **OTC derivatives markets**, nonprice terms in master agreements, initial margin requirements, the posting of nonstandard collateral, and the volume, duration, and persistence of mark and collateral disputes were all reported as largely unchanged.

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

- A small fraction of dealers reported that haircuts tightened somewhat for both average and most-favored clients in high-grade corporate bonds. A small fraction of dealers reported that maximum amounts of funding and haircuts tightened somewhat for most-favored clients in high-yield corporate bonds. On net, one-fifth of dealers indicated easing of collateral spreads over relevant benchmarks (effective financing rates) for average clients in agency residential mortgage-backed securities (RMBS), as did a small net fraction of dealers for most-favored clients. One-fifth of dealers indicated that collateral spreads eased somewhat for both average and most-favored clients in commercial mortgage-backed securities.

- On net, about one-fourth of dealers reported increased demand for funding of equities (including through stock loans), as did one-fifth of dealers for funding of agency RMBS. Demand for funding of all other asset classes was largely unchanged (see the exhibit "Measures of Demand for Funding and Market Functioning").

- Across all collateral types, the demand for term funding remained basically unchanged.

- Nearly one-fifth of dealers reported that liquidity and functioning in the non-agency RMBS market improved somewhat over the past three months, as did a small fraction of dealers for the agency RMBS market. For all other asset classes included in the survey, liquidity and market functioning remained basically unchanged.

- The volume, duration, and persistence of mark and collateral disputes remained basically unchanged over the past three months across all collateral types.

Special Questions on U.S. Treasury Repo
(Questions 81–88)

In this quarter's special questions, dealers were asked about their and their clients' practices and activities in the repo market for transactions collateralized by U.S. Treasury securities.

Dealers were asked about their use of contract terms with clients that allow margin offsets between repo and reverse repo positions, and/or cross-margining between repo positions and

Treasury futures, other interest rate derivatives, and other products.[3] Dealers reported the following:

- Almost all dealers reported having clients that transact with them in both Treasury repo and reverse repo. Of these dealers, nearly two-thirds reported that most, nearly all, or all of their clients are under agreements that allow for margin offsets between these types of positions.

- Over one-half of dealers reported having clients that transact in both Treasury repo and Treasury futures. Of these dealers, only a small fraction reported that most, nearly all, or all of their clients are under agreements that allow for cross-margining of Treasury repo with Treasury futures.

- Nearly two-thirds of dealers reported having clients that transact in both Treasury repo and other interest rate derivatives. Of these dealers, only a small fraction reported that most, nearly all, or all of their clients are under agreements that allow for cross-margining of Treasury repo with other interest rate derivatives.

- More than one-fifth of dealers reported having clients that transact in both Treasury repo and other products. Of these dealers, two-fifths reported that nearly all or all of their clients are under agreements that allow for cross-margining of Treasury repo with other products.

- Nearly all dealers that reported having clients engaging in both Treasury repo and Treasury futures transactions also reported having clients engaging in both Treasury repo and other interest rate derivatives transactions. Overall, nearly two-thirds of dealers reported two types of combinations, more than one-half reported three types, and nearly one-fifth reported all four types.

In response to questions about Treasury repo trading strategies employed by hedge funds, about four-fifths of dealers reported that they have hedge fund clients who engage in Treasury repo transactions with them. The most popular types of trades by these clients are on-the-run versus off-the-run arbitrage, yield curve or duration trades, and cash–futures basis trades.

Dealers were asked to report on recent and expected future changes in the composition of their transactions across different repo market segments.

- More than three-fourths of dealers reported that they have conducted a material number of Treasury repo transactions in the noncentrally cleared bilateral repo (NCCBR) market since 2024:Q1.

- Of those dealers, nearly one-fourth, on net, reported that the share of their volume in NCCBR Treasury repo trades with their hedge fund clients, as a fraction of their overall Treasury repo trade volumes with them, has decreased since 2024:Q1. The NCCBR shares for other client

[3] For these product combinations, the survey questions did not distinguish between repo and reverse repo transactions.

types, including money market funds, other asset managers, broker-dealers, and others, have remained basically unchanged, on net, since 2024:Q1.

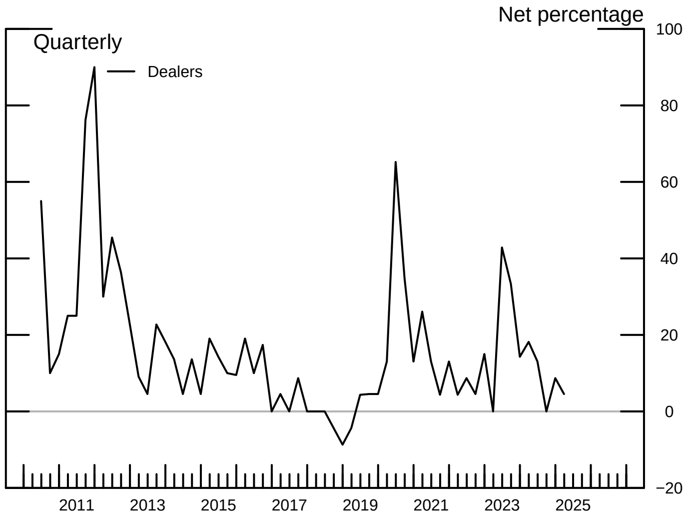
- Dealers cited netting benefits associated with central clearing transactions as the main reason for the NCCBR share decrease.

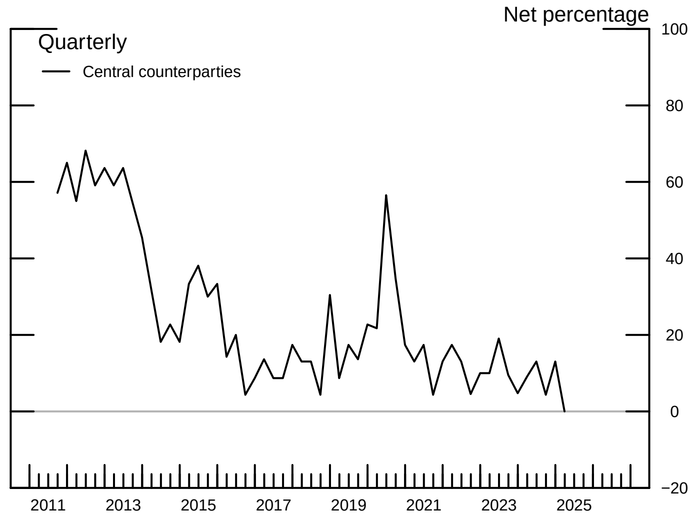
Nearly two-thirds of dealers, on net, expect the share of their volume in Treasury repo in NCCBR to decrease over the next year. Almost all dealers expect an increase in their share of centrally cleared bilateral repo. More than four-fifths of the dealers expect an increase in their share of centrally cleared triparty repo. The share of noncentrally cleared triparty repo is expected to remain basically unchanged on net.

This document was prepared by Xin Huang, 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.

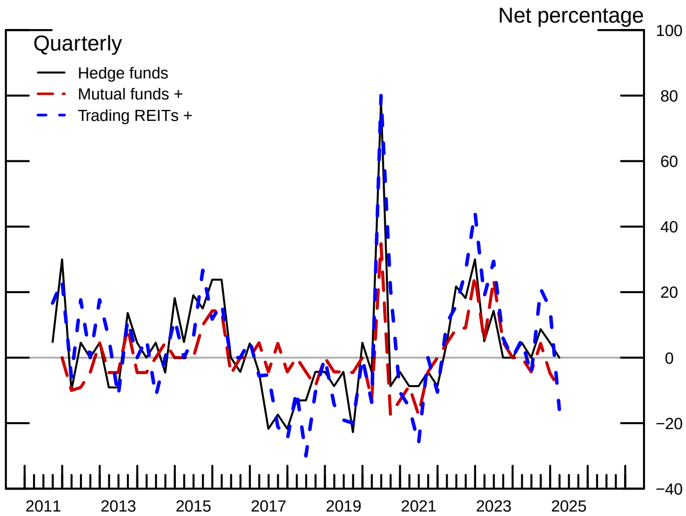
Management of Concentrated Credit Exposures and Indicators of Supply of Credit

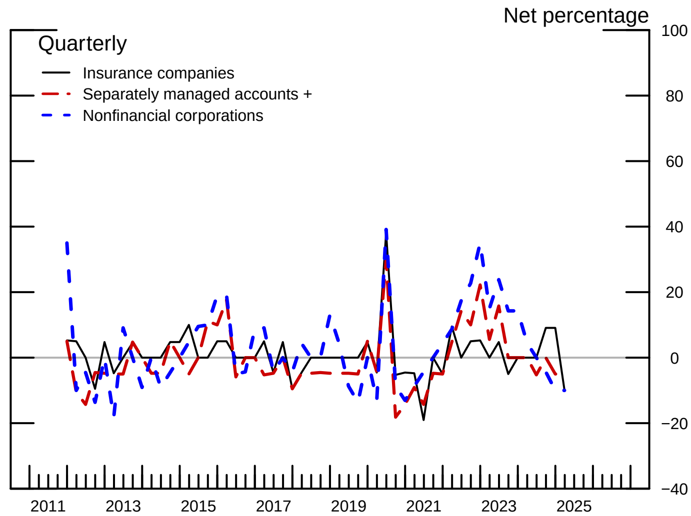
Respondents increasing resources and attention to management of concentrated exposures to the following:



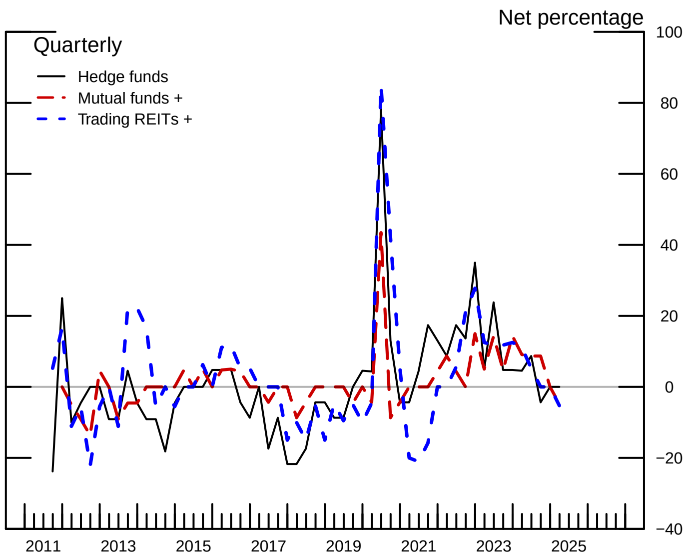


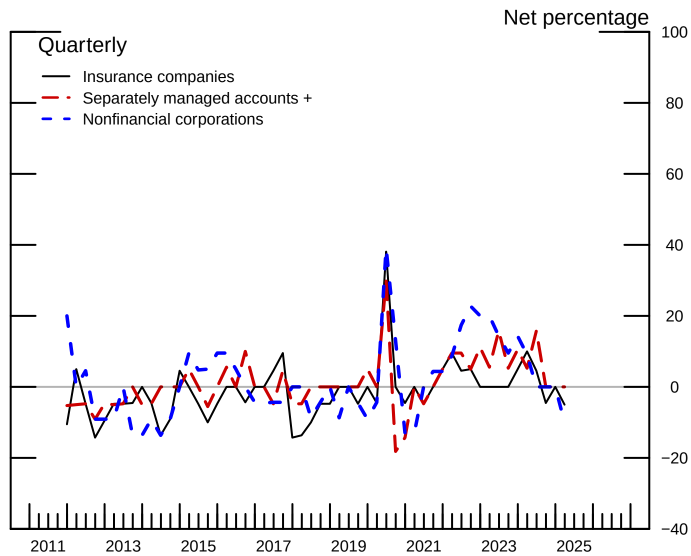
Respondents tightening price terms to the following:





Respondents tightening nonprice terms to the following:

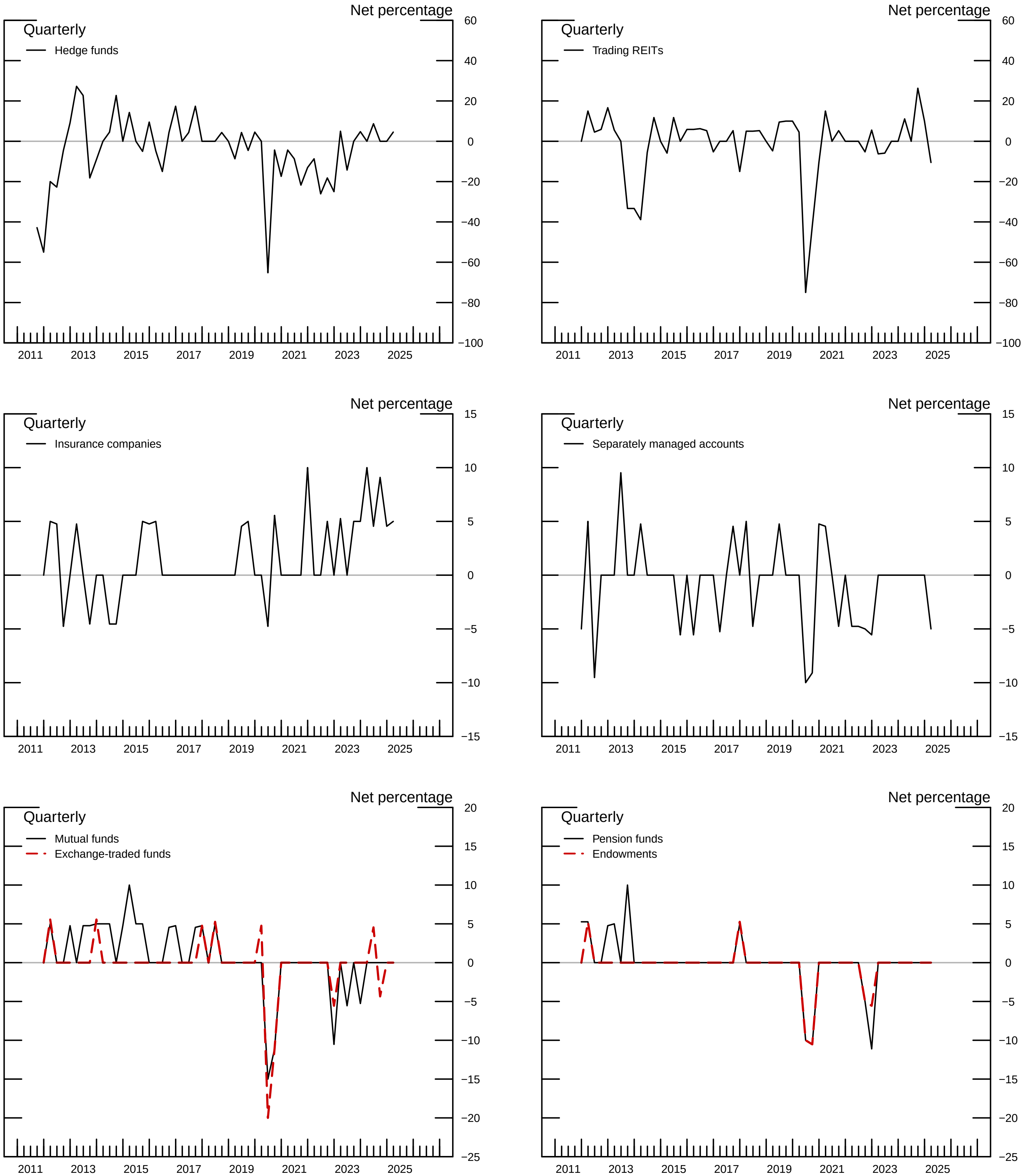




Note: REIT is real estate investment trust.
+ The question was added to the survey in September 2011.
Source: Federal Reserve Board, Senior Credit Officer Opinion Survey on Dealer Financing Terms.

Use of Financial Leverage

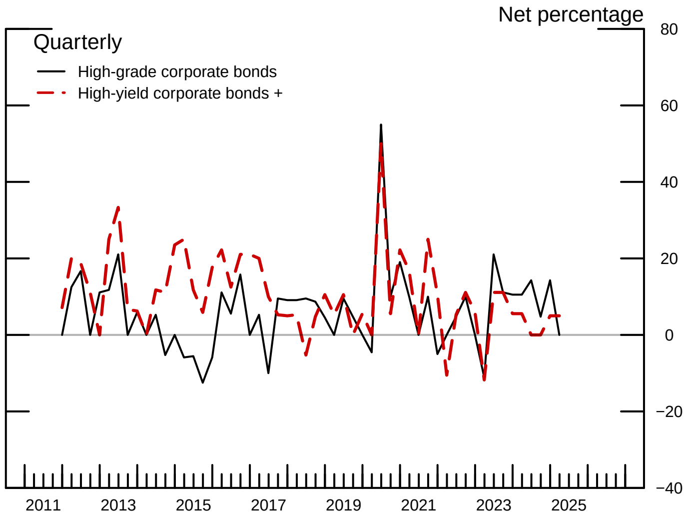
Respondents reporting increased use of leverage by the following:

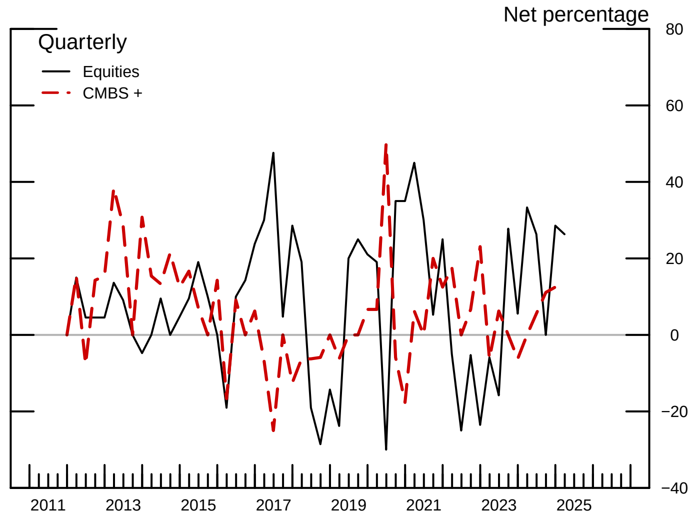


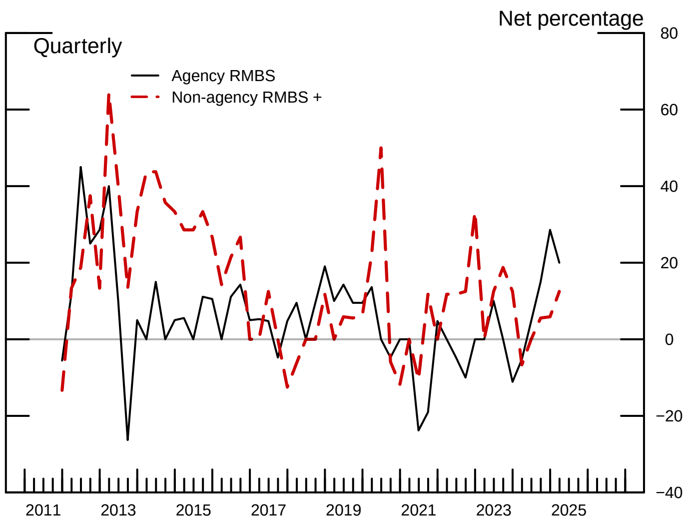
Note: REIT is real estate investment trust.
Source: Federal Reserve Board, Senior Credit Officer Opinion Survey on Dealer Financing Terms.

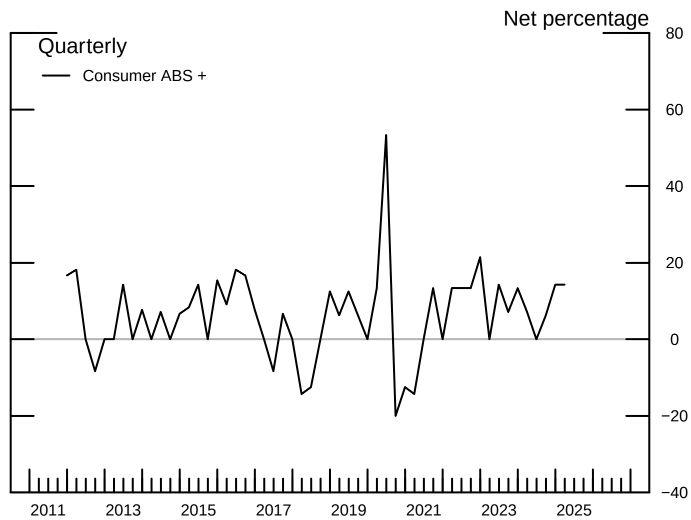
Measures of Demand for Funding and Market Functioning

Respondents reporting increased demand for funding of the following:

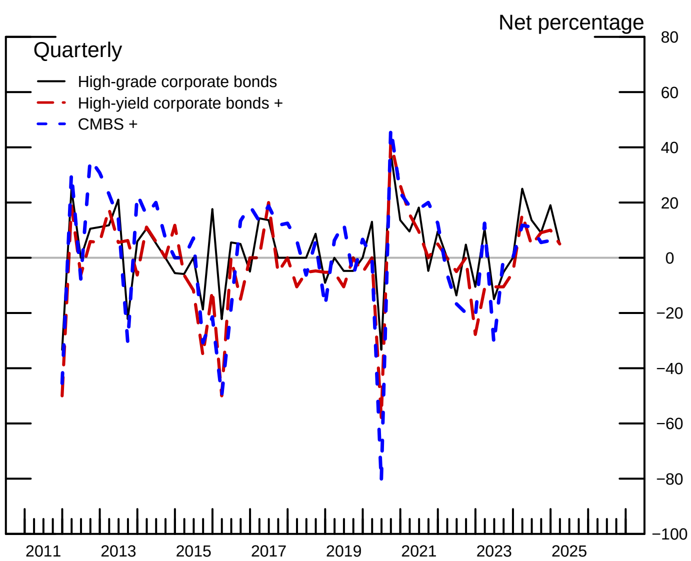


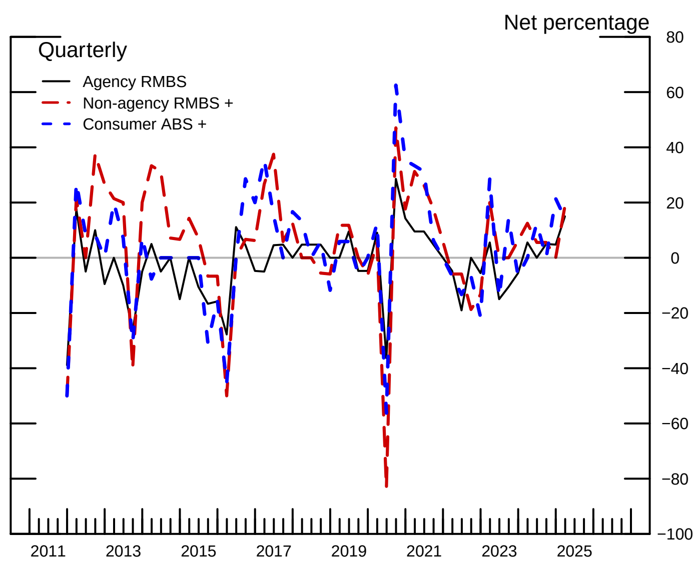






Respondents reporting an improvement in liquidity and functioning in the underlying markets for the following:





Note: CMBS is commercial mortgage−backed securities; RMBS is residential mortgage−backed securities; ABS is asset−backed securities.
+ The question was added to the survey in September 2011.
Source: Federal Reserve Board, Senior Credit Officer Opinion Survey on Dealer Financing Terms.