



## Weekly Educational Topics



### Repurchase Agreements

---

**"A REPURCHASE AGREEMENT, OR SIMPLY REPO, IS A SHORT-TERM, INTEREST-BEARING LOAN THAT ALLOW PARTIES TO BENEFIT FROM QUICK, TEMPORARY LENDING OPPORTUNITIES."**

---

A repurchase agreement, or simply repo, is a short-term, interest-bearing loan that allow parties to benefit from quick, temporary lending opportunities. Essentially, it is the sale of a security with an agreement for the seller to buy back the same security at a higher price in the future, usually within 24 hours. Similarly, a purchase of a security with the agreement to sell them back is called a reverse repurchase agreement, or reverse repo.

---

**"MANY PARTIES, SUCH AS FINANCIAL INSTITUTIONS AND COMMERCIAL BANKS, ACTIVELY PARTICIPATE IN THE \$2.2 TRILLION REPO MARKET."**

---

Repurchase agreements are considered to be a type of collateralized lending. The securities exchanging hands, usually U.S. T-Bills, act as a collateral for the buyer. However, it cannot be considered as a collateralized loan, as the ownership of these securities officially transfer. With that being said, due to its temporary nature, repos are often written off as loans on the balance sheet.

BY:  
JASON CHI

Many parties, such as financial institutions and commercial banks, actively participate in the \$2.2 trillion repo market. This even includes individuals, who may need repurchase agreements to finance the purchase of other investments. Most notably, central banks use repos to maintain an adequate level of money supply in the economy.

Recently, the Federal Reserve had to repurchase securities from commercial banks and provide liquidity to the repo market. This was noteworthy because of its resemblance to 2008, where the repo market also lacked liquidity. Funding for banks were unavailable and the repo market had run dry, ultimately becoming a major factor that led to the subprime mortgage crisis. As you can see, this is an ongoing problem in the market worth keeping an eye on in the coming months.



## *Weekly Educational Topics*



### **Repurchase Agreements**

**More on this topic:**

[Repo is Wall Street's big year-end worry. Why?](https://www.reuters.com/article/us-usa-fed-repo-tools-explainer/repo-is-wall-streets-big-year-end-worry-why-idUSKBNIYG1UE)

<https://www.reuters.com/article/us-usa-fed-repo-tools-explainer/repo-is-wall-streets-big-year-end-worry-why-idUSKBNIYG1UE>

[New York Fed Adds \\$60.7 Billion to Financial Markets](https://www.wsj.com/articles/new-york-fed-adds-60-7-billion-to-financial-markets-11578929190)

<https://www.wsj.com/articles/new-york-fed-adds-60-7-billion-to-financial-markets-11578929190>

**References:**

<https://www.investopedia.com/terms/r/repurchaseagreement.asp>

<https://www.nytimes.com/2019/09/18/business/fed-repo-rates.html>