

November 2009



Federal Reserve System Monthly Report on
Credit and Liquidity Programs and the
Balance Sheet

Board of Governors of the Federal Reserve System

Purpose

The Federal Reserve prepares this monthly report as part of its efforts to enhance transparency in connection with its various programs to foster market liquidity and financial stability and to ensure appropriate accountability to the Congress and the public concerning policy actions taken to address the financial crisis. The report provides detailed information on the new policy tools that have been implemented since the summer of 2007. The Federal Reserve considers transparency about the goals, conduct, and stance of monetary policy to be fundamental to the effectiveness of monetary policy. The Federal Reserve Act sets forth the goals of monetary policy, specifically, “to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.” Since

Note: Financial information in this report has not been audited. Audited financial data are prepared annually and are available at www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm.

the summer of 2007, the Federal Reserve has undertaken a number of important steps aimed at providing liquidity to important financial markets and institutions to support overall financial stability. Financial stability is a critical prerequisite for achieving sustainable economic growth, and all of the Federal Reserve’s actions during the crisis have been directed toward achieving its statutory monetary policy objectives.

Additional information on the status of certain credit facilities implemented in response to the financial crisis is included as an appendix to this report. This information is provided in fulfillment of Section 129 of the Emergency Economic Stabilization Act of 2008.

For prior editions of this report along with other resources, please visit the Board’s public website at www.federalreserve.gov/monetarypolicy/bst_reports.htm.

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Overview

Recent Developments

- Continued improvements in financial market conditions have been accompanied by further declines in credit extended through many of the Federal Reserve's liquidity programs.
- On November 4, 2009, the Federal Open Market Committee (FOMC) announced that the Federal Reserve would purchase about \$175 billion of agency debt, somewhat less than the previously announced maximum of \$200 billion. This reduction is consistent with the recent path of purchases and reflects the limited availability of agency debt.
- Net income, including changes in valuation, for the Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs was \$329 million, \$1,758 million and \$3,730 million, respectively, for the quarter ended September 30, 2009.
- Cash flows generated from the Maiden Lane II and Maiden Lane III portfolios are used to pay down the loans from the Federal Reserve Bank of New York (FRBNY). In the third quarter of 2009, those repayments totaled about \$3.8 billion.
- The Federal Reserve remits earnings to the U.S. Treasury as interest on Federal Reserve notes. Dur-

Table 1. Selected Assets, Liabilities, and Capital Accounts of the Federal Reserve System

Billions of dollars

| Item | Current October 28, 2009 | Change from September 30, 2009 | Change from October 29, 2008 |
|--|-----------------------------|-----------------------------------|---------------------------------|
| Total assets | 2,165 | +21 | +194 |
| <i>Selected assets</i> | | | |
| Securities held outright | 1,690 | +97 | +1,200 |
| U.S. Treasury securities ¹ | 775 | +6 | +298 |
| Agency securities ¹ | 142 | +11 | +128 |
| Agency-guaranteed mortgage-backed securities ² | 774 | +82 | +774 |
| Memo: TSLF ³ | 0 | 0 | -197 |
| Memo: Overnight securities lending ³ | 6 | -7 | -16 |
| Memo: Net commitments to purchase MBS ⁴ | 169 | -15 | +169 |
| Lending to depository and other financial institutions | 162 | -45 | -426 |
| Primary, secondary, and seasonal credit | 23 | -6 | -88 |
| TAF | 139 | -39 | -162 |
| PDCF | 0 | 0 | -79 |
| AMLF | 0 | —* | -96 |
| Foreign central bank liquidity swaps ⁵ | 33 | -24 | -466 |
| Lending through other credit facilities | 60 | -24 | -85 |
| Net portfolio holdings of CPFF LLC ⁶ | 19 | -22 | -126 |
| TALF | 41 | -2 | +41 |
| Support for specific institutions | 110 | +10 | —* |
| Credit extended to AIG, net ⁷ | 45 | +6 | -39 |
| Net portfolio holdings of Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs ⁸ | 65 | +3 | +38 |
| Total liabilities | 2,112 | +19 | +181 |
| <i>Selected liabilities</i> | | | |
| Federal Reserve notes in circulation | 875 | +2 | +51 |
| Deposits of depository institutions | 1,083 | +235 | +657 |
| U.S. Treasury, general account | 31 | -77 | +12 |
| U.S. Treasury, supplementary financing account | 30 | -135 | -529 |
| Other deposits | 11 | -5 | +10 |
| Total capital | 53 | +2 | +13 |

Note: Unaudited. Components may not sum to totals because of rounding.

* Less than \$500 million.

1. Face value.

2. Current face value, which is the remaining principal balance of the underlying mortgages. Does not include unsettled transactions.

3. Securities loans under the TSLF and the overnight facility are off-balance-sheet transactions. These loans are shown here as a memo item to indicate the portion of securities held outright that have been lent through these programs.

4. Current face value. These generally settle within 180 days and include commitments associated with outright transactions as well as dollar rolls.

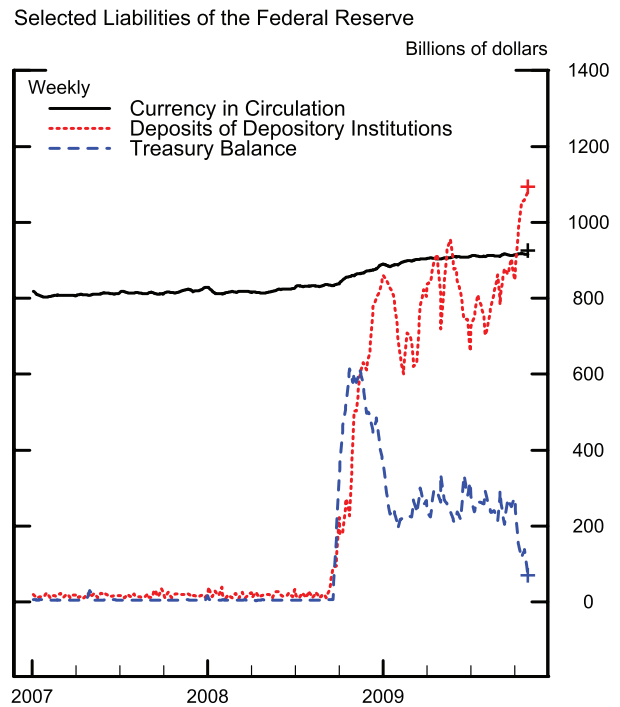
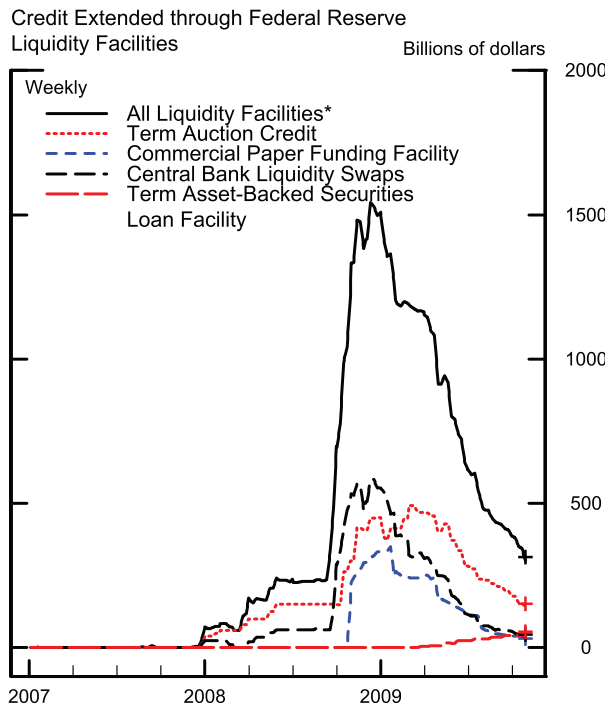
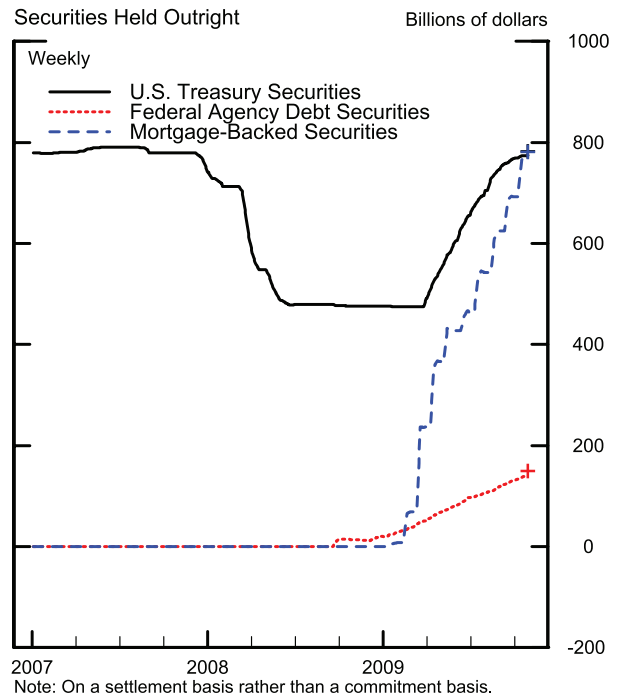
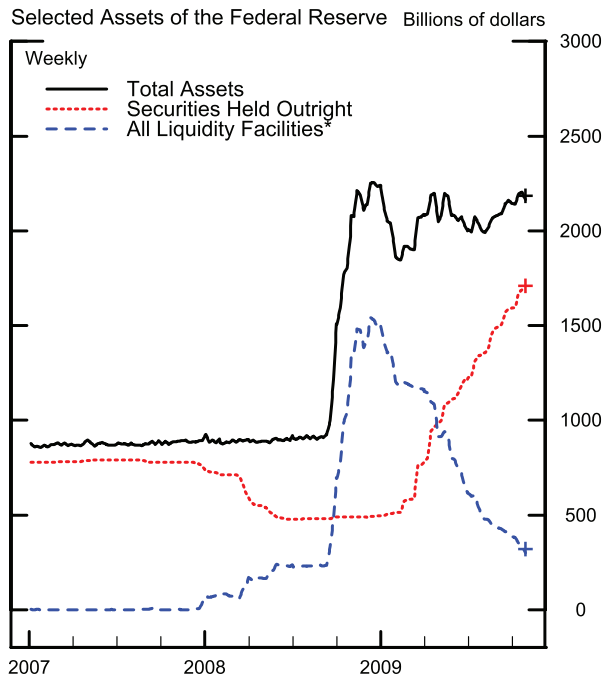
5. Dollar value of the foreign currency held under these agreements valued at the exchange rate to be used when the foreign currency is returned to the foreign central bank.

6. Includes commercial paper holdings, net, and about \$5 billion in other investments.

7. Excludes credit extended to Maiden Lane II and III LLCs.

8. Fair value, reflecting values as of September 30, 2009. Fair value reflects an estimate of the price that would be received upon selling an asset if the transaction were to be conducted in an orderly market on the measurement date. Fair values are updated quarterly.

Figure 1. Credit and Liquidity Programs and the Federal Reserve's Balance Sheet



+ indicates most recent data point. Data are shown through 10/28/2009.

*All Liquidity Facilities includes: Term Auction credit; primary credit; secondary credit; seasonal credit; Primary Dealer Credit Facility; Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility; Term Asset-Backed Securities Loan Facility; Commercial Paper Funding Facility; and central bank liquidity swaps.

- ing the first three quarters of 2009, these distributions to the Treasury totaled \$27 billion.
- As announced by the Treasury in September, the balance of the Supplementary Financing Account at the Federal Reserve was reduced substantially over several weeks in order to preserve flexibility in the conduct of debt-management policy. As of October 28, 2009, the balance of this account was \$30 billion, and by November 4, 2009, it reached the planned level of \$15 billion.
 - On November 17, 2009, the Federal Reserve announced that, in light of the continued improvement in financial market conditions, the maximum maturity of primary credit loans at the discount window for depository institutions will be reduced to 28 days from 90 days effective January 14, 2010.
 - On October 30, 2009, the lending authorization for the Money Market Investor Funding Facility (MMIFF) expired. The MMIFF was established to provide liquidity to U.S. money market mutual funds and certain other money market investors, and thereby increase their ability to meet redemption requests. There were no extensions of credit under the MMIFF.
 - As required by Section 129 of the Emergency Economic Stabilization Act of 2008, the Federal Reserve must report to Congress on the status of its Section 13(3) credit facilities that have credit outstanding. The Federal Reserve now provides this information monthly as part of this report.

System Open Market Account Holdings and Liquidity Arrangements with Foreign Central Banks

System Open Market Account (SOMA) Portfolio

Recent Developments

- The SOMA portfolio has continued to expand in recent weeks, reflecting Federal Reserve purchases of securities under the large-scale asset purchase programs (LSAPs).
- On November 4, 2009, the Federal Open Market Committee (FOMC) announced that the Federal Reserve would purchase about \$175 billion of agency debt. This amount, while somewhat less than the previously announced maximum of \$200 billion, is consistent with the recent path of purchases and reflects the limited availability of agency debt.
- As of October 28, 2009, the Federal Reserve had purchased about \$298 billion in Treasury securities under the LSAPs. About 81 percent of the Treasuries purchased are nominal Treasury securities in the two to 10 year maturity range, and about 14 percent are nominal securities with maturities greater than 10 years. The remainder of the purchases are Treasury Inflation-Protected Securities (TIPS) and nominal securities maturing in less than two years. As anticipated, by the end of October, Treasury purchases reached the announced limit of \$300 billion.
- As of October 28, 2009, the Federal Reserve had purchased about \$142 billion in agency debt and \$774 billion in agency-guaranteed mortgage-backed securities (MBS) as part of the FOMC's LSAPs. Approximately 73 percent of SOMA MBS holdings were 4 and 4.5 percent coupon securities.

Background

Open market operations (OMOs)—the purchase and sale of securities in the open market by a central bank—are a key tool used by the Federal Reserve in the implementation of monetary policy. Historically, the Federal Reserve has used OMOs to adjust the supply of reserve balances so as to keep the federal funds rate around the target federal funds rate established by the FOMC. OMOs are conducted by the Trading Desk at the Federal Reserve Bank of New York (FRBNY), which acts as agent for the FOMC. The range of securities that the Federal Reserve is authorized to pur-

chase and sell is relatively limited. The authority to conduct OMOs is found in Section 14 of the Federal Reserve Act.

OMOs can be divided into two types: permanent and temporary. Permanent OMOs are outright purchases or sales of securities for the SOMA, the Federal Reserve's portfolio. Permanent OMOs have traditionally been used to accommodate the longer-term factors driving the expansion of the Federal Reserve's balance sheet, principally the trend growth of currency in circulation. The composition of the SOMA is shown in Table 2. Temporary OMOs typically are used to address reserve needs that are deemed to be transitory in nature. These operations are either repurchase agreements (repos) or reverse repurchase agreements (reverse repos). Under a repo, the Trading Desk buys a security under an agreement to resell that security in the future. A repo is the economic equivalent of a collateralized loan, in which the difference between the purchase and sale prices reflects the interest on the loan.

Each OMO affects the Federal Reserve's balance sheet; the size and nature of the effect depend on the specifics of the operation. The Federal Reserve publishes its balance sheet each week in the H.4.1 statistical release, "Factors Affecting Reserve Balances of Depository Institutions and Consolidated Statement of Condition of Reserve Banks" (www.federalreserve.gov/releases/h41). The release separately reports securities held outright, repos, and reverse repos.

The Federal Reserve's approach to the implementation of monetary policy has evolved considerably since 2007, and particularly since late 2008. The FOMC has

Table 2. System Open Market Account (SOMA) Holdings
Billions of dollars, as of October 28, 2009

| Security type | Total par value |
|---|-----------------|
| U.S. Treasury bills | 18 |
| U.S. Treasury notes and bonds | 706 |
| Treasury Inflation-Protected Securities ¹ | 45 |
| Agency securities ² | 142 |
| Agency-guaranteed mortgage-backed securities ³ | 774 |
| Total SOMA holdings | 1,684 |

Note: Unaudited. Components may not sum to total because of rounding. Does not include unsettled transactions.

1. Does not reflect inflation compensation of about \$6 billion.

2. Direct obligations of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks.

3. Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the underlying mortgages.

established a near-zero target range for the federal funds rate, implying that the very large volume of reserve balances provided through the various liquidity facilities is consistent with the FOMC's funds rate objectives. In addition, OMOs have provided increasing amounts of reserve balances.

To help reduce the cost and increase the availability of credit for the purchase of houses, on November 25, 2008, the Federal Reserve announced that it would buy direct obligations of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, and MBS guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. The FOMC authorized purchases of up to \$1.25 trillion of agency MBS and up to \$200 billion of agency direct obligations. Subsequently, in November 2009, the FOMC announced that agency debt purchases would be about \$175 billion.

The Federal Reserve determined that supporting the MBS "dollar roll" market promotes the goals of the MBS purchase program. Dollar roll transactions, which consist of a purchase of securities combined with an agreement to sell securities in the future, provide short-term financing to the MBS market. Because of principal and interest payments and occasional delays in the settlement of transactions, the Federal Reserve also has some cash associated with the MBS purchase program.

The FRBNY announced in August 2009 that it would streamline the set of external investment managers for the agency-guaranteed MBS purchase program, reducing the number of investment managers from four to two. These changes were not performance related. The FRBNY had anticipated that it would adjust its use of external investment managers as it gained more experience with the program.

In September 2009, the Federal Reserve began to accept on-the-run agency securities—the most recently issued securities—for purchase in order to mitigate market dislocations and promote overall market functioning. Prior to this change, purchases were focused on off-the-run agency securities.

On September 23, 2009, the FOMC announced its intention to gradually slow the pace of its purchases of agency-guaranteed MBS and agency debt. In implementing this directive, the Open Market Trading Desk of the FRBNY announced that it would scale back the average weekly purchase amounts of agency MBS and reduce the size and frequency of agency debt purchases.

The Federal Reserve's outright holdings of MBS are reported weekly in Tables 1, 3, 9, and 10 of the H.4.1 statistical release. In addition, as of October 1, 2009, detailed data on all settled agency MBS holdings are published on a weekly basis on the FRBNY website

(www.newyorkfed.org/markets/soma/sysopen_accholdings.html), which is consistent with the FRBNY standard practice of publishing detailed data on other SOMA holdings.

In March 2009, the FOMC announced that it would also purchase up to \$300 billion of longer-term Treasury securities to help improve conditions in private credit markets. The Federal Reserve has purchased a range of securities across the maturity spectrum, including TIPS. The bulk of purchases have been in intermediate maturities. In August 2009, the FOMC announced that in order to promote a smooth transition in markets as purchases of these Treasury securities are completed, it decided to gradually slow the pace of these transactions and anticipated that the purchases would be completed by the end of October. The purchases were completed as planned.

Liquidity Swaps

Recent Developments

- Use of the Federal Reserve's foreign central bank dollar liquidity swaps has continued to decline, consistent with ongoing improvements in short-term funding markets.
- As shown in Table 3, as of October 28, 2009, total dollar liquidity extended to foreign central banks had dropped to \$33 billion.

Background

Because of the global character of bank funding markets, the Federal Reserve has worked with other central banks in providing liquidity to financial markets

Table 3. Amounts Outstanding under Dollar Liquidity Swaps

Billions of dollars

| Central bank | Amount as of 10/28/2009 | Amount as of 12/31/2008 |
|---------------------------------------|-------------------------|-------------------------|
| Bank of Canada | 0 | 0 |
| Banco de Mexico | 3 | 0 |
| European Central Bank | 26 | 291 |
| Swiss National Bank | 0 | 25 |
| Bank of Japan | 1 | 123 |
| Bank of England | * | 33 |
| Danmarks Nationalbank | 0 | 15 |
| Reserve Bank of Australia | 0 | 23 |
| Sveriges Riksbank | 0 | 25 |
| Norges Bank | 0 | 8 |
| Reserve Bank of New Zealand | 0 | 0 |
| Bank of Korea | 3 | 10 |
| Banco Central do Brasil | 0 | 0 |
| Monetary Authority of Singapore | 0 | 0 |
| Total | 33 | 554 |

Note: Unaudited. Components may not sum to totals because of rounding.

* Less than \$500 million.

and institutions. As part of these efforts, the FRBNY entered into agreements to establish temporary reciprocal currency arrangements (central bank liquidity swap lines) with a number of foreign central banks. Two types of temporary swap lines have been established—dollar liquidity lines and foreign-currency liquidity lines.

The FRBNY operates the swap lines under the authority in Section 14 of the Federal Reserve Act and in compliance with authorizations, policies, and procedures established by the FOMC.

Dollar Liquidity Swaps

On December 12, 2007, the FOMC announced that it had authorized dollar liquidity swap lines with the European Central Bank and the Swiss National Bank to provide liquidity in U.S. dollars to overseas markets. Subsequently, the FOMC authorized dollar liquidity swap lines with additional central banks. The FOMC has authorized through February 1, 2010, the arrangements between the Federal Reserve and each of the following central banks: the Reserve Bank of Australia, the Banco Central do Brasil, the Bank of Canada, the Bank of Japan, Danmarks Nationalbank, the Bank of England, the European Central Bank, the Bank of Korea, the Banco de Mexico, the Reserve Bank of New Zealand, Norges Bank, the Monetary Authority of Singapore, Sveriges Riksbank, and the Swiss National Bank.

Swaps under these lines consist of two transactions. When a foreign central bank (FCB) draws on its swap line with the FRBNY, the FCB sells a specified amount of its currency to the FRBNY in exchange for dollars at the prevailing market exchange rate. The FRBNY holds the foreign currency in an account at the FCB. The dollars that the FRBNY provides are deposited in an account that the FCB maintains at the FRBNY. At the same time, the FRBNY and the FCB enter into a binding agreement for a second transaction that obligates the FCB to buy back its currency on a specified future date at the same exchange rate. The second transaction unwinds the first. Because the swap transaction will be unwound at the same exchange rate used in the initial transaction, the recorded value of the

foreign currency amounts is not affected by changes in the market exchange rate. At the conclusion of the second transaction, the FCB pays interest at a market-based rate to the FRBNY.

When the FCB lends the dollars it obtained by drawing on its swap line to institutions in its jurisdiction, the dollars are transferred from the FCB account at the FRBNY to the account of the bank that the borrowing institution uses to clear its dollar transactions. The FCB remains obligated to return the dollars to the FRBNY under the terms of the agreement, and the FRBNY is not a counterparty to the loan extended by the FCB. The FCB bears the credit risk associated with the loans it makes to institutions in its jurisdiction.

The foreign currency that the Federal Reserve acquires is an asset on the Federal Reserve's balance sheet. In Tables 1, 9, and 10 of the weekly H.4.1 statistical release, the dollar value of amounts that the foreign central banks have drawn but not yet repaid is reported in the line entitled "Central bank liquidity swaps." Dollar liquidity swaps have maturities ranging from overnight to three months. Table 2 of the H.4.1 statistical release reports the remaining amount of outstanding dollar liquidity swaps.

Foreign-Currency Liquidity Swap Lines

On April 6, 2009, the FOMC announced foreign-currency liquidity swap lines with the Bank of England, the European Central Bank, the Bank of Japan, and the Swiss National Bank. These lines are designed to provide the Federal Reserve with the capacity to offer liquidity to U.S. institutions in foreign currency should a need arise. These lines mirror the existing dollar liquidity swap lines, which provide FCBs with the capacity to offer U.S. dollar liquidity to financial institutions in their jurisdictions. If drawn upon, the foreign-currency swap lines would support operations by the Federal Reserve to address financial strains by providing liquidity to U.S. institutions in amounts of up to £30 billion (sterling), €80 billion (euro), ¥10 trillion (yen), and CHF 40 billion (Swiss francs). The FOMC has authorized these liquidity swap lines through February 1, 2010. So far, the Federal Reserve has not drawn on these swap lines.

Lending Facilities to Support Overall Market Liquidity

Lending to Depository Institutions

Recent Developments

- On November 17, 2009, the Federal Reserve announced that, in light of the continued improvement in financial market conditions, the maximum maturity of primary credit loans at the discount window for depository institutions will be reduced to 28 days from 90 days effective January 14, 2010.
- Credit provided to depository institutions through the discount window and the Term Auction Facility (TAF) has continued to decline, primarily reflecting reductions in loans outstanding under the TAF.
- TAF auctions continue to be undersubscribed and, as a result, the auction rate has been equal to the minimum bid rate of 25 basis points for some time.
- As indicated in Table 6, total collateral pledged by depository institutions with discount window loans outstanding on October 28, 2009, was \$408 billion, about 2.5 times the amount of credit outstanding.

Background

The discount window helps to relieve liquidity strains for individual depository institutions and for the banking system as a whole by providing a source of funding in times of need. Much of the statutory framework that governs lending to depository institutions is contained in Section 10B of the Federal Reserve Act, as amended. The general policies that govern discount window lending are set forth in the Board's Regulation A.

Table 4. Discount Window Credit Outstanding to Depository Institutions

Daily average borrowing for each class of borrower over four weeks ending October 28, 2009

| Type and size of borrower | Average number of borrowers ¹ | Average borrowing (\$ billions) ² |
|---|--|--|
| <i>Commercial banks</i> ³ | | |
| Assets: more than \$50 billion | 12 | 59 |
| Assets: \$5 billion to \$50 billion | 47 | 104 |
| Assets: \$250 million to \$5 billion | 112 | 13 |
| Assets: less than \$250 million | 107 | 1 |
| Thrift institutions and credit unions | 39 | 6 |
| Total | 318 | 183 |

Note: Unaudited. Includes primary, secondary, seasonal, and TAF credit. Size categories based on total domestic assets from Call Report data as of June 30, 2009. Components may not sum to totals because of rounding.

1. Average daily number of depository institutions with credit outstanding. Over this period, a total of 493 institutions borrowed.

2. Average daily borrowing by all depositories in each category.

3. Includes branches and agencies of foreign banks.

Table 5. Concentration of Discount Window Credit Outstanding to Depository Institutions

For four weeks ending October 28, 2009

| Rank by amount of borrowing | Number of borrowers | Daily average borrowing (\$ billions) |
|-----------------------------|---------------------|---------------------------------------|
| Top five | 5 | 66 |
| Next five | 5 | 28 |
| Other | 308 | 89 |
| Total | 318 | 183 |

Note: Unaudited. Amount of primary, secondary, seasonal, and TAF credit extended to the top five and next five borrowers on each day, as ranked by daily average borrowing. Components may not sum to totals because of rounding.

Depository institutions have, since 2003, had access to three types of discount window credit—primary credit, secondary credit, and seasonal credit. Primary credit is available to depository institutions in generally sound financial condition with few administrative requirements. Secondary credit may be provided to depository institutions that do not qualify for primary credit, subject to review by the lending Reserve Bank. Seasonal credit provides short-term funds to smaller depository institutions that experience regular seasonal swings in loans and deposits.

In December 2007, the Federal Reserve introduced the TAF, which provides credit through an auction mechanism to depository institutions in generally sound financial condition. All regular discount window loans and TAF loans must be fully collateralized to the satisfaction of the lending Reserve Bank, with an appropriate “haircut” applied to the value of the collateral.

On September 24, 2009, the Federal Reserve announced that the TAF would be scaled back in response to continued improvements in financial market conditions. The offering amount under the 28-day auction will remain unchanged from its September level of \$75 billion through January 2010. The auction amount for the 84-day auctions was reduced to \$50 billion in October and to \$25 billion in November and will remain at \$25 billion in December. In addition, the maturity dates of the 84-day auctions will be adjusted over time to align these dates with the maturities of the 28-day auctions so that by early 2010 all TAF auctions will be on a 28-day cycle.

In extending credit to depository institutions, the Federal Reserve closely monitors the financial condition of borrowers. Monitoring the financial condition of depository institutions is a four-step process designed to minimize the risk of loss to the Federal Reserve posed by weak or failing depository institutions. The first step is monitoring, on an ongoing basis,

Table 6. Lendable Value of Collateral Pledged by Borrowing Depository Institutions

Billions of dollars, as of October 28, 2009

| Type of collateral | Lendable value |
|--|----------------|
| <i>Loans</i> | |
| Commercial | 85 |
| Residential mortgage | 6 |
| Commercial real estate | 24 |
| Consumer | 31 |
| <i>Securities</i> | |
| U.S. Treasury/agency | 6 |
| Municipal | 23 |
| Corporate market instruments | 34 |
| MBS/CMO: agency-guaranteed | 20 |
| MBS/CMO: other | 24 |
| Asset-backed | 111 |
| International (sovereign, agency, municipal, and corporate) | 43 |
| Total | 408 |

Note: Unaudited. Collateral pledged by borrowers of primary, secondary, seasonal, and TAF credit as of the date shown. Total primary, secondary, seasonal, and TAF credit on this date was \$162 billion. The lendable value of collateral pledged by all depository institutions, including those without any outstanding loans, was \$1,337 billion. Lendable value is value after application of appropriate haircuts. Components may not sum to total because of rounding.

the safety and soundness of all depository institutions that access or may access the discount window and the payment services provided by the Federal Reserve. The second step is identifying institutions whose condition, characteristics, or affiliation would present higher-than-acceptable risk to the Federal Reserve in the absence of controls on their access to Federal Reserve lending facilities and other Federal Reserve services. The third step is communicating—to staff within the Federal Reserve System and to other supervisory agencies, if and when necessary—relevant information about those institutions identified as posing higher risk. The fourth step is implementing appropriate measures to mitigate the risks posed by such entities.

At the heart of the condition monitoring process is an internal rating system that provides a framework for identifying institutions that may pose undue risks to the Federal Reserve. The rating system relies mostly on information from each institution's primary supervisor, including CAMELS ratings,¹ to identify potentially problematic institutions and classify them according to the severity of the risk they pose to the Federal Reserve. Having identified institutions that pose a higher risk, the Federal Reserve then puts in place a standard set of risk controls that become increasingly stringent as the risk posed by an institution grows; individual Reserve Banks may implement additional risk controls to further mitigate risk if they deem it necessary.

1. CAMELS is a rating system employed by banking regulators to assess the soundness of depository institutions. CAMELS is an acronym that stands for Capital, Assets, Management, Earnings, Liquidity, and Sensitivity.

Collateral

All extensions of credit by the Federal Reserve must be secured to the satisfaction of the lending Reserve Bank by "acceptable collateral." Assets accepted as collateral are assigned a lendable value deemed appropriate by the Reserve Bank; lendable value is determined as the market price of the asset less a haircut. When a market price is not available, a haircut may be applied to the outstanding balance or a valuation based on an asset's cash flow. Haircuts reflect credit risk and, for traded assets, the historical volatility of the asset's price and the liquidity of the market in which the asset is traded; the Federal Reserve's haircuts are generally in line with typical market practice. The Federal Reserve applies larger haircuts, and thus assigns lower lendable values, to assets for which no market price is available relative to comparable assets for which a market price is available. A borrower may be required to pledge additional collateral if its financial condition weakens. Collateral is pledged under the terms and conditions specified in the Federal Reserve Banks' standard lending agreement, Operating Circular No. 10 (www.frb services.org/files/regulations/pdf/operating_circular_10.pdf).

Discount window loans and extensions of credit through the TAF are made with recourse to the borrower beyond the pledged collateral. Nonetheless, collateral plays an important role in mitigating the credit risk associated with these extensions of credit. The Federal Reserve generally accepts as collateral for discount window loans and TAF credit any assets that meet regulatory standards for sound asset quality. This category of assets includes most performing loans and most investment-grade securities, although for some types of securities (including commercial mortgage-

Table 7. Lendable Value of Securities Pledged by Depository Institutions by Rating

Billions of dollars, as of October 28, 2009

| Type of security and rating | Lendable value |
|--|----------------|
| U.S. Treasury, agency, and agency-guaranteed securities .. | 139 |
| <i>Other securities</i> | |
| AAA | 184 |
| Aa/AA ¹ | 48 |
| A ² | 63 |
| Baa/BBB ³ | 24 |
| Other investment-grade ⁴ | 68 |
| Total | 525 |

Note: Unaudited. Lendable value for all institutions that have pledged collateral, including those that were not borrowing on the date shown. Lendable value is value after application of appropriate haircuts. Components may not sum to total because of rounding.

1. Includes short-term securities with A-1+ rating or MIG 1 or SP-1+ municipal bond rating.

2. Includes short-term securities with A-1 rating or SP-1 municipal bond rating.

3. Includes short-term securities with A-2, P-2, A-3, or P-3 rating.

4. Determined based on a credit review by a Reserve Bank.

Table 8. Discount Window Credit Outstanding to Depository Institutions—Percent of Collateral Used

As of October 28, 2009

| Percent of collateral used | Number of borrowers | Total borrowing (\$ billions) |
|----------------------------|---------------------|-------------------------------|
| Over 0 and under 25 | 86 | 19 |
| 25 to 50 | 109 | 77 |
| 50 to 75 | 83 | 47 |
| 75 to 90 | 24 | 18 |
| Over 90 | 19 | 1 |
| Total | 321 | 162 |

Note: Unaudited. Components may not sum to totals because of rounding.

backed securities, collateralized debt obligations, collateralized loan obligations, and certain non-dollar-denominated foreign securities) only AAA-rated securities are accepted. Institutions may not pledge as collateral any instruments that they or their affiliates have issued. Additional collateral is required for discount window and TAF loans with remaining maturity of more than 28 days—for these loans, borrowing only up to 75 percent of available collateral is permitted. To ensure that they can borrow from the Federal Reserve should the need arise, many depository institutions that do not have an outstanding discount window or TAF loan nevertheless routinely pledge collateral.

Changes to the lending margins on discount window collateral took effect on October 19, 2009. The Federal Reserve periodically reviews its collateral valuation practices, and the new collateral margins reflect the results of a broad-based review of methodology and data sources that began before the current financial crisis. For more information on these changes to collateral margins, see the Discount Window and Payments System Risk public website (www.frbdiscountwindow.org).

As shown in Table 8, most depository institutions that borrow from the Federal Reserve maintain collateral well in excess of their current borrowing levels.

Lending to Primary Dealers

Recent Developments

- Since mid-August, borrowing from the Term Securities Lending Facility (TSLF) has remained

Table 9. Credit Outstanding to Primary Dealers

As of October 28, 2009

| Number of borrowers | Borrowing under PDCF (\$ billions) | Borrowing under TSLF (\$ billions) |
|---------------------|------------------------------------|------------------------------------|
| 0 | 0 | 0 |

Note: Unaudited. Borrowing figures represent total amounts of PDCF and TSLF credit extended as of the date shown. The total reported for the TSLF represents the par value of securities lent.

unchanged at zero. There has been no borrowing at the Primary Dealer Credit Facility (PDCF) since mid-May.

Background

On March 16, 2008, the Federal Reserve announced the creation of the PDCF, which is an overnight loan facility that provides funding to primary dealers and helps foster improved conditions in financial markets more generally. The Federal Reserve Board has authorized the extension of credit from the PDCF through February 1, 2010. While there is currently no borrowing under the PDCF, the Board believes that it is appropriate to continue to provide the PDCF as a backstop facility in the near term while financial market conditions remain somewhat fragile.

PDCF credit is fully secured by collateral with appropriate haircuts—that is, the value of the collateral exceeds the value of the loan extended. Initially, eligible collateral was restricted to investment-grade securities. On September 14, 2008, however, the set of eligible collateral was broadened to closely match the types of instruments that can be pledged in the tri-party repurchase agreement systems of the two major clearing banks. On September 21 and November 23, 2008, the Federal Reserve Board authorized the extension of credit to a set of other securities dealers on terms very similar to the PDCF. Credit extended under either program is reported weekly in Table 1 of the H.4.1 statistical release as “Primary dealer and other broker-dealer credit” and is included in “Other loans” in Tables 9 and 10 of the H.4.1 statistical release.

On March 11, 2008, the Federal Reserve announced the creation of the Term Securities Lending Facility (TSLF). Under the TSLF, the Federal Reserve Bank of New York (FRBNY) lends Treasury securities to primary dealers for 28 days against eligible collateral in two types of auctions. For so-called “Schedule 1” auctions, the eligible collateral consists of Treasury securities, agency securities, and agency-guaranteed mortgage-backed securities (MBS). For “Schedule 2” auctions, the eligible collateral includes Schedule 1 collateral plus highly rated private securities. In mid-

Table 10. Concentration of Borrowing at the PDCF and TSLF

As of October 28, 2009

| Rank by amount of borrowing | Number of borrowers | Daily average borrowing (\$ billions) |
|-----------------------------|---------------------|---------------------------------------|
| Top five | 0 | 0 |
| Next five | 0 | 0 |
| Other | 0 | 0 |
| Total | 0 | 0 |

Note: Unaudited.

2008, the Federal Reserve introduced the Term Securities Lending Facility Options Program (TOP), which offers options to primary dealers to draw upon short-term, fixed-rate TSLF loans from the System Open Market Account (SOMA) portfolio in exchange for program-eligible collateral. The TOP is intended to enhance the effectiveness of the TSLF by offering added liquidity over periods of heightened collateral market pressures, such as quarter-end dates.

The Federal Reserve Board has authorized the extension of credit from the TSLF through February 1, 2010. TSLF Schedule 1 and TOP auctions, however, were suspended effective July 2009 in light of considerably lower use of the facility. Furthermore, in September the Federal Reserve announced its intention to scale back the size of TSLF auctions held between October 2009 and January 2010. The size of TSLF auctions was reduced to \$50 billion in October and \$25 billion in November, and offering amounts will remain at \$25 billion in December and January.

The TSLF supports the liquidity of primary dealers and fosters improved conditions in financial markets more generally. Securities lent through these programs are reported weekly in Table 1A of the H.4.1 statistical release.

In addition to the TSLF and TOP, the Federal Reserve has long operated an overnight securities lending facility as a vehicle to address market pressures for specific Treasury securities. Since July 9, 2009, this facility has also included housing-related government-sponsored enterprise (GSE) securities that are particularly sought after. Amounts outstanding under that program are, generally, fairly modest, and are also reported in Table 1A of the H.4.1 statistical release.

Collateral

Eligible collateral for loans extended through the PDCF includes all assets eligible for tri-party repurchase agreement arrangements through the major clearing banks as of September 12, 2008. The amount of PDCF credit extended to any dealer may not exceed the lendable value of eligible collateral that the dealer has provided to the FRBNY. The collateral is valued by the clearing banks; values are based on prices reported by a number of private-sector pricing services widely used by market participants. Loans extended under the PDCF are made with recourse beyond the collateral to the primary dealer entity itself. Breakdowns of PDCF collateral by asset type and credit rating are shown in Tables 11 and 12, respectively.

Transactions under the TSLF involve lending securities rather than cash; a dealer borrows Treasury securities from the Federal Reserve and provides another

Table 11. PDCF Collateral by Type

Billions of dollars, as of October 28, 2009

| Type of collateral | Lendable value |
|--|----------------|
| <i>Securities</i> | |
| U.S. Treasury/agency | 0 |
| Municipal | 0 |
| Corporate market instruments | 0 |
| MBS/CMO: agency-guaranteed | 0 |
| MBS/CMO: other | 0 |
| Asset-backed | 0 |
| International (sovereign, agency, and corporate) ... | 0 |
| Equity | 0 |
| Loans | 0 |
| Other | 0 |
| Total | 0 |

Note: Unaudited. Collateral pledged by borrowers of PDCF and related credit to primary dealers as of the date shown. Borrowing on that date was zero. Lendable value is value after application of appropriate haircuts.

Table 12. PDCF Collateral by Rating

Billions of dollars, as of October 28, 2009

| Type of collateral | Lendable value |
|---------------------------------------|----------------|
| U.S. Treasury/agency securities | 0 |
| <i>Other securities</i> | |
| Aaa/AAA | 0 |
| Aa/AA | 0 |
| A | 0 |
| Baa/BBB | 0 |
| Ba/BB | 0 |
| B/B | 0 |
| Caa/CC or below | 0 |
| Unrated securities | 0 |
| Equity | 0 |
| Total | 0 |

Note: Unaudited. Collateral pledged by borrowers of PDCF and related credit to primary dealers as of the date shown. Borrowing on that date was zero. Lendable value is value after application of appropriate haircuts.

security as collateral. Eligible collateral is determined by the Federal Reserve. Currently, two schedules of collateral are defined. Schedule 1 collateral is Treasury, agency, and agency-guaranteed MBS. Schedule 2 collateral is investment-grade corporate, municipal, mortgage-backed, and asset-backed securities, as well as Schedule 1 collateral. Haircuts on posted collateral are determined by the FRBNY using methods consistent with current market practices. Breakdowns of TSLF collateral by asset type and credit rating are shown in Tables 13 and 14, respectively.

Table 13. TSLF Collateral by Type

Billions of dollars, as of October 28, 2009

| Type of collateral | Lendable value |
|----------------------------------|----------------|
| <i>Securities</i> | |
| U.S. Treasury/agency | 0 |
| Municipal | 0 |
| Corporate | 0 |
| MBS/CMO: agency-guaranteed | 0 |
| MBS/CMO: other | 0 |
| Asset-backed | 0 |
| Total | 0 |

Note: Unaudited. Collateral pledged by borrowers of TSLF as of the date shown. Borrowing on that date was zero. Lendable value is value after application of appropriate haircuts.

Table 14. TSLF Collateral by Rating

Billions of dollars, as of October 28, 2009

| Type of collateral | Lendable value |
|--|----------------|
| U.S. Treasury, agency, and agency-guaranteed securities .. | 0 |
| <i>Other securities</i> | |
| Aaa/AAA | 0 |
| Aa/AA | 0 |
| A/A-1 | 0 |
| Baa/BBB | 0 |
| Total | 0 |

Note: Unaudited. Collateral pledged by borrowers of TSLF as of the date shown. Borrowing on that date was zero. Lendable value is value after application of appropriate haircuts. TSLF collateral must be investment-grade.

Commercial Paper Funding Facility (CPFF)

Recent Developments

- The amount of commercial paper held in the CPFF has continued to decline recently, most notably in the last week of October when a significant amount of commercial paper in the CPFF matured and less than one-third of that maturing paper was reissued into the facility.² Improvements in market conditions have allowed some borrowers to obtain financing from private investors. This factor, combined with reduced funding needs and access to other sources of central bank funding, has contributed to the decreased usage of the facility.

Background

The CPFF is a facility, authorized under Section 13(3) of the Federal Reserve Act, that supports liquidity in the commercial paper markets. The CPFF provides a liquidity backstop to U.S. issuers of commercial paper through a specially created limited liability company (LLC) called the CPFF LLC. This LLC purchases three-month unsecured and asset-backed commercial paper directly from eligible issuers. The FRBNY provides financing to the LLC, and the FRBNY's loan to the LLC is secured by all of the assets of the LLC, including those purchased with the cumulated upfront fees paid by the issuers. Breakdowns of commercial paper held in the CPFF LLC, by type and credit rating, are shown in Tables 16 and 17, respectively.

The CPFF was announced on October 7, 2008, and purchases of commercial paper began on October 27. This program is administered by the FRBNY, and the assets and liabilities of the LLC are consolidated onto the balance sheet of the FRBNY. The net assets of the

2. The CPFF purchased a large amount of commercial paper when it began operation one year ago in late October 2008. As a result, a significant portion of the commercial paper in the CPFF matures at succeeding three-month intervals, including late October 2009.

Table 15. Concentration of CPFF Issuers

For four weeks ending October 28, 2009

| Rank by amount of commercial paper | Number of borrowers | Daily average borrowing (\$ billions) |
|------------------------------------|---------------------|---------------------------------------|
| Top five issuers | 5 | 21 |
| Next five issuers | 5 | 8 |
| Other issuers | 11 | 5 |
| Total | 21 | 33 |

Note: Unaudited. Amount of commercial paper held in the CPFF that was issued by the top five and the next five issuers on each day. Components may not sum to totals because of rounding.

Table 16. CPFF Commercial Paper Holdings by Type

Billions of dollars, as of October 28, 2009

| Type of commercial paper | Value |
|-------------------------------------|-----------|
| <i>Unsecured commercial paper</i> | |
| Issued by financial firms | 4 |
| Issued by nonfinancial firms | 0 |
| Asset-backed commercial paper | 11 |
| Total | 15 |

Note: Unaudited. Components may not sum to total because of rounding; does not include \$5 billion of other investments.

Table 17. CPFF Commercial Paper Holdings by Rating

Billions of dollars, as of October 28, 2009

| Type of collateral | Value |
|--|-----------|
| <i>Commercial paper with rating</i> ¹ | |
| A-1/P-1/F-1 | 15 |
| Split-rated | 0 |
| Downgraded after purchase | 0 |
| Total | 15 |

Note: Unaudited. Components may not sum to total because of rounding; does not include \$5 billion of other investments.

1. The CPFF purchases only U.S. dollar-denominated commercial paper (including asset-backed commercial paper) that is rated at least A-1/P-1/F-1 by Moody's, S&P, or Fitch and, if rated by more than one of these rating organizations, is rated at least A-1/P-1/F-1 by two or more. "Split-rated" is acceptable commercial paper that has received an A-1/P-1/F-1 rating from two rating organizations and a lower rating from a third rating organization. Some pledged commercial paper was downgraded below split-rated after purchase; the facility holds such paper to maturity.

LLC are shown in Tables 1, 9, and 10 of the weekly H.4.1 statistical release, and primary accounts of the LLC are presented in Table 7 of the H.4.1 statistical release. The Federal Reserve Board has authorized the extension of credit from the CPFF through February 1, 2010.

Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF)

Recent Developments

- The amount of credit outstanding under the AMLF dropped to zero as of October 13, 2009.

Table 18. AMLF: Number of Borrowers and Amount Outstanding

Daily average for four weeks ending October 28, 2009

| | Number of borrowers | Borrowing (\$ billions) |
|--------------------|---------------------|-------------------------|
| Total | * | ** |

Note: Unaudited.

* Three or fewer borrowers.

** Less than \$500 million.

Background

The AMLF is a lending facility that finances the purchase of high-quality asset-backed commercial paper from money market mutual funds (MMMFs) by U.S. depository institutions and bank holding companies. The program is intended to assist money funds that hold such paper in meeting the demands for redemptions by investors and to foster liquidity in the asset-backed commercial paper (ABCP) market and money markets more generally. The loans extended through the AMLF are non-recourse loans; as a result, the Federal Reserve has rights to only the collateral securing the loan if the borrower elects not to repay. To help ensure that the AMLF is used for its intended purpose of providing a temporary liquidity backstop to MMMFs, the Federal Reserve has established a redemption threshold for use of the facility. Under this requirement, a MMMF must experience material outflows—defined as at least 5 percent of net assets in a single day or at least 10 percent of net assets within the prior five business days—before the ABCP that it sells would be eligible collateral for AMLF loans to depository institutions and bank holding companies. Any eligible ABCP purchased from a MMMF that has experienced redemptions at these thresholds could be pledged to the AMLF at any time within the five business days following the date that the threshold level of redemptions was reached.

The initiation of the AMLF, announced on September 19, 2008, relied on authority under Section 13(3) of the Federal Reserve Act. It is administered by the Federal Reserve Bank of Boston, which is authorized to make AMLF loans to eligible borrowers in all 12 Federal Reserve Districts. Lending through the AMLF is presented in Table 1 of the weekly H.4.1 statistical release and is included in “Other loans” in Tables 9 and 10 of the H.4.1 statistical release. The Federal Reserve Board has authorized the extension of credit through the AMLF through February 1, 2010.

Since May 8, 2009, there has been no new borrowing through the AMLF, and as of October 13, 2009, all prior outstanding AMLF credit had matured.

Collateral

Collateral eligible for the AMLF is limited to ABCP that:

- was purchased by the borrower on or after September 19, 2008, from a registered investment company that holds itself out as a MMMF and has experienced recent material outflows;
- was purchased by the borrower at the mutual fund’s acquisition cost as adjusted for amortization of premium or accretion of discount on the ABCP through the date of its purchase by the borrower;
- was not rated lower than A-1, P-1, or F-1 at the time it was pledged to the Federal Reserve Bank of Boston (this would exclude paper that is rated A-1/P-1/F-1 but is on watch for downgrade by any major rating agency);
- was issued by an entity organized under the laws of the United States or a political subdivision thereof under a program that was in existence on September 18, 2008; and
- has a stated maturity that does not exceed 120 days if the borrower is a bank, or 270 days if the borrower is a non-bank.

The qualifying ABCP must be transferred to the Federal Reserve Bank of Boston’s restricted account at the Depository Trust Company before an advance, collateralized by that ABCP, will be approved. The collateral is valued at the amortized cost (as defined in the Letter of Agreement) of the eligible ABCP pledged to secure an advance. Advances made under the facility are made without recourse, provided the requirements in the Letter of Agreement are met. A breakdown of AMLF collateral by credit rating is shown in Table 19.

Table 19. AMLF Collateral by Rating

Billions of dollars, as of October 28, 2009

| Type of collateral | Value |
|---|----------|
| <i>Asset-backed commercial paper with rating</i> | |
| A-1/P-1/F-1 and not on watch for downgrade | 0 |
| A-1/P-1/F-1 but on watch for downgrade ¹ | 0 |
| Below A-1/P-1/F-1 | 0 |
| Total | 0 |

Note: Unaudited. Components may not sum to total because of rounding.

1. The AMLF accepts only U.S.-dollar denominated asset-backed commercial paper (ABCP) that is not rated lower than A-1, P-1, or F-1 by Moody’s, S&P, or Fitch, and (effective April 22, 2009) is not on watch for downgrade. Collateral that is on watch for downgrade or is rated below A-1/P-1/F-1 is ABCP that has deteriorated after it was pledged.

Term Asset-Backed Securities Loan Facility (TALF)

Recent Developments

- The October non-CMBS TALF subscription supported primary issuance of seven asset-backed securities (ABS) deals worth a total of about \$6.6 billion, of which approximately \$1.5 billion was financed through the TALF. Approximately \$0.9 billion in loans also was extended against previously issued TALF-eligible ABS collateral.
- Starting on November 19, 2009, financial information on TALF LLC is reported weekly in the H.4.1 statistical release. TALF LLC is a limited liability company formed to purchase and manage any asset-backed securities that are received by the Federal Reserve Bank of New York (FRBNY) in connection with the Term Asset-Backed Securities Loan Facility (TALF). Consistent with generally accepted accounting principles, the assets and liabilities of TALF LLC are consolidated with the assets and liabilities of the FRBNY.

Background

On November 25, 2008, the Federal Reserve announced the creation of the TALF under the authority of Section 13(3) of the Federal Reserve Act. The TALF is a funding facility under which the FRBNY extends credit with a term of up to five years to holders of eligible ABS. The TALF is intended to assist financial markets in accommodating the credit needs of consumers and businesses of all sizes by facilitating the issuance of ABS collateralized by a variety of consumer and business loans; it is also intended to improve market conditions for ABS more generally.

Eligible collateral initially included U.S. dollar-denominated ABS that (1) are backed by student loans, auto loans, credit card loans, and loans guaranteed by the Small Business Administration (SBA) and (2) have a credit rating in the highest investment-grade rating category from two or more approved rating agencies and do not have a credit rating below the highest

Table 20. TALF: Number of Borrowers and Loans Outstanding

As of October 28, 2009

| Lending program | Number of borrowers | Borrowing (\$ billions) |
|--------------------|---------------------|-------------------------|
| Non-CMBS | 111 | 37 |
| CMBS | 57 | 4 |
| Total | 139 | 41 |

Note: Unaudited. "Number of borrowers" may not sum to total because borrowers may be included in more than one category. "Borrowing" amounts may not sum to total because of rounding.

investment-grade rating category from a major rating agency. The loans provided through the TALF are non-recourse, meaning that the obligation of the borrower can be discharged by surrendering the collateral to the FRBNY. Borrowers commit their own risk capital in the form of haircuts against the collateral, which serve as the borrower's equity in the transaction and act as a buffer to absorb any decline in the collateral's value in the event the loan is not repaid. The U.S. Treasury is providing protection against losses of up to \$20 billion to the FRBNY using funds authorized under the Troubled Assets Relief Program (TARP) of the Emergency Economic Stabilization Act of 2008.

On February 10, 2009, the Federal Reserve Board announced that it would consider expanding the size of the TALF to as much as \$1 trillion and potentially broaden the eligible collateral to encompass other types of newly issued AAA-rated ABS, such as ABS backed by commercial mortgages or private-label (non-agency) ABS backed by residential mortgages. Any expansion of the TALF would be supported by the Treasury providing additional funds from the TARP. As of October 28, 2009, however, the authorized limit for the program remains at \$200 billion.

Between March and May 2009, the Federal Reserve expanded the range of eligible collateral for TALF loans to include:

- ABS backed by loans or leases related to business equipment, leases of vehicle fleets, floorplan loans, mortgage servicing advances, and insurance premium finance loans;
- newly issued commercial mortgage-backed securities (CMBS) and certain high-quality CMBS issued before January 1, 2009 (so-called "legacy" CMBS).

High-quality newly issued and legacy CMBS must have at least two AAA ratings from a list of approved ratings agencies—DBRS, Fitch, Moody's Investors Service, Realpoint, or Standard & Poor's—and must not have a rating below AAA from any of these rating agencies.

The Federal Reserve also authorized TALF loans with maturities of five years, available for the June funding, to finance purchases of CMBS, ABS backed by student loans, and ABS backed by loans guaranteed by the Small Business Administration. The Federal Reserve indicated that up to \$100 billion of TALF loans could have five-year maturities and that some of the interest on collateral financed with a five-year loan may be diverted toward an accelerated repayment of the loan, especially in the fourth and fifth years.

On September 1, 2009, the following four non-primary dealer broker-dealers were named as agents for the TALF: CastleOak Securities, LP; Loop Capital Markets, LLC; Wells Fargo Securities, LLC; and The Williams Capital Group, LP. These agents, like the primary dealers, will represent borrowers in accessing the facility. The Federal Reserve anticipates that the appointment of these agents will enable a broader range of investors to access TALF financing.

On October 5, 2009, the Federal Reserve announced two changes to the procedures for evaluating ABS pledged to TALF. The first change established criteria for the FRBNY to use when determining which Nationally Recognized Statistical Rating Organizations' (NRSROs) ratings are accepted regarding the eligibility of ABS to be pledged as collateral to the TALF. The second change requires the FRBNY to conduct a formal risk assessment of all proposed collateral in addition to continuing to require that collateral for TALF loans receive two AAA ratings from TALF-eligible NRSROs. These changes are intended to promote competition among credit-rating agencies, ensure appropriate protection against credit risk for the U.S. taxpayer, and ensure that TALF collateral continues to comply with its existing high standards for credit quality, transparency, and simplicity of structure.

The Federal Reserve Board initially authorized the offering of new TALF loans through December 31, 2009, but subsequently authorized an extension of the program until March 31, 2010, for loans against newly issued ABS and legacy CMBS, and until June 30, 2010, for loans against newly issued CMBS.

Collateral and Risk Management

Under the TALF, the FRBNY lends on a non-recourse basis to holders of certain ABS backed by consumer, business, and commercial mortgage loans. Eligible collateral for the TALF includes U.S. dollar-denominated ABS that (1) have a long-term credit rating in the highest investment-grade rating category (for example, AAA) from two or more rating agencies and (2) do not have a long-term credit rating below the highest investment-grade rating category from a single rating agency. Eligible small-business-loan ABS also include U.S. dollar-denominated cash ABS for which all of the underlying credit exposures are fully guaranteed as to principal and interest by the full faith and credit of the U.S. government. All or substantially all of the credit exposures underlying eligible ABS must be exposures to U.S.-domiciled obligors or with respect to real property located in the United States or its territories. The underlying credit exposures of eligible ABS must be student loans, auto loans, credit card loans, loans or

Table 21A. Issuers of Non-CMBS that Collateralize Outstanding TALF Loans

As of October 28, 2009

| Issuers |
|---|
| AH Mortgage Advance Trust 2009-ADV1 |
| AH Mortgage Advance Trust 2009-ADV2 |
| Ally Auto Receivables Trust 2009-A |
| American Express Credit Account Master Trust |
| AmeriCredit Automobile Receivables Trust 2009-1 |
| Bank of America Auto Trust 2009-1 |
| Bank of America Auto Trust 2009-2 |
| BMW Floorplan Master Owner Trust |
| BMW Vehicle Lease Trust 2009-1 |
| Cabela's Credit Card Master Note Trust |
| CarMax Auto Owner Trust 2009-1 |
| CarMax Auto Owner Trust 2009-A |
| Chase Issuance Trust |
| Chesapeake Funding LLC |
| Chrysler Financial Auto Securitization Trust 2009-A |
| CIT Equipment Collateral 2009-VT1 |
| Citibank Credit Card Issuance Trust |
| Citibank Omni Master Trust |
| CitiFinancial Auto Issuance Trust 2009-1 |
| CNH Equipment Trust 2009-B |
| CNH Wholesale Master Note Trust |
| Discover Card Execution Note Trust |
| FIFC Premium Funding LLC |
| First National Master Note Trust |
| Ford Credit Auto Lease Trust 2009-A |
| Ford Credit Auto Owner Trust 2009-A |
| Ford Credit Auto Owner Trust 2009-B |
| Ford Credit Auto Owner Trust 2009-C |
| Ford Credit Auto Owner Trust 2009-D |
| Ford Credit Floorplan Master Owner Trust A |
| GE Capital Credit Card Master Note Trust |
| GE Dealer Floorplan Master Note Trust |
| GE Equipment Midticket LLC, Series 2009-1 |
| Harley-Davidson Motorcycle Trust 2009-1 |
| Harley-Davidson Motorcycle Trust 2009-2 |
| Honda Auto Receivables 2009-2 Owner Trust |
| Honda Auto Receivables 2009-3 Owner Trust |
| Huntington Auto Trust 2009-1 |
| Hyundai ABS Funding Corporation |
| John Deere Owner Trust 2009 |
| MMCA Auto Owner Trust 2009-A |
| Nissan Auto Lease Trust 2009-A |
| Nissan Auto Receivables 2009-A Owner Trust |
| PFS Financing Corp. |
| SLC Private Student Loan Trust 2009-A |
| SLM Private Education Loan Trust 2009-B |
| SLM Private Education Loan Trust 2009-C |
| SLM Private Education Loan Trust 2009-D |
| U.S. Small Business Administration |
| Volkswagen Auto Lease Trust 2009-A |
| Wheels SPV, LLC |
| World Financial Network Credit Card Master Note Trust |
| World Omni Auto Receivables Trust 2009-A |
| World Omni Master Owner Trust |

leases relating to business equipment, leases of vehicle fleets, floorplan loans, mortgage servicing advances, insurance premium finance loans, commercial mortgages, or loans guaranteed by the SBA. Except for ABS for which the underlying credit exposures are SBA-guaranteed loans, eligible newly issued ABS must be issued on or after January 1, 2009.

Eligible legacy CMBS must be issued before January 1, 2009, must be senior in payment priority to all other interests in the underlying pool of commercial mortgages, and must meet certain other criteria designed to protect the Federal Reserve and the Treasury from credit risk. In almost all cases, eligible col-

Table 21B. Issuers of CMBS that Collateralize Outstanding TALF Loans

As of October 28, 2009

| Issuers |
|---|
| Banc of America Commercial Mortgage Inc. Series 2004-1 |
| Banc of America Commercial Mortgage Inc. Series 2004-4 |
| Banc of America Commercial Mortgage Inc. Series 2005-2 |
| Banc of America Commercial Mortgage Inc. Series 2005-3 |
| Banc of America Commercial Mortgage Inc. Series 2005-5 |
| Banc of America Commercial Mortgage Inc. Series 2005-6 |
| Banc of America Commercial Mortgage Trust 2006-4 |
| Banc of America Commercial Mortgage Trust 2006-5 |
| Banc of America Commercial Mortgage Trust 2006-6 |
| Banc of America Commercial Mortgage Trust 2007-1 |
| Banc of America Commercial Mortgage Trust 2007-3 |
| Banc of America Commercial Mortgage Trust 2007-4 |
| Bear Stearns Commercial Mortgage Securities Trust 2004-PWR4 |
| Bear Stearns Commercial Mortgage Securities Trust 2005-PWR10 |
| Bear Stearns Commercial Mortgage Securities Trust 2005-PWR9 |
| Bear Stearns Commercial Mortgage Securities Trust 2005-TOP20 |
| Bear Stearns Commercial Mortgage Securities Trust 2006-PWR12 |
| Bear Stearns Commercial Mortgage Securities Trust 2006-PWR13 |
| Bear Stearns Commercial Mortgage Securities Trust 2006-PWR14 |
| Bear Stearns Commercial Mortgage Securities Trust 2007-PWR15 |
| Bear Stearns Commercial Mortgage Securities Trust 2007-PWR16 |
| Bear Stearns Commercial Mortgage Securities Trust 2007-TOP26 |
| CD 2006-CD2 Mortgage Trust |
| CD 2006-CD3 Mortgage Trust |
| CD 2007-CD4 Commercial Mortgage Trust |
| CD 2007-CD5 Mortgage Trust |
| Citigroup Commercial Mortgage Trust 2004-C1 |
| Citigroup Commercial Mortgage Trust 2006-C4 |
| Citigroup Commercial Mortgage Trust 2008-C7 |
| COBALT CMBS Commercial Mortgage Trust 2006-C1 |
| COBALT CMBS Commercial Mortgage Trust 2007-C2 |
| COMM 2004-LNB2 Mortgage Trust |
| COMM 2005-C6 Mortgage Trust |
| COMM 2005-LP5 Mortgage Trust |
| COMM 2006-C7 Mortgage Trust |
| Commercial Mortgage Loan Trust 2008-LS1 |
| Commercial Mortgage Trust 2004-GG1 |
| Commercial Mortgage Trust 2005-GG3 |
| Commercial Mortgage Trust 2005-GG5 |
| Commercial Mortgage Trust 2006-GG7 |
| Commercial Mortgage Trust 2007-GG9 |
| Credit Suisse Commercial Mortgage Trust Series 2006-C1 |
| Credit Suisse Commercial Mortgage Trust Series 2006-C3 |
| Credit Suisse Commercial Mortgage Trust Series 2006-C4 |
| Credit Suisse Commercial Mortgage Trust Series 2006-C5 |
| Credit Suisse Commercial Mortgage Trust Series 2007-C2 |
| Credit Suisse Commercial Mortgage Trust Series 2007-C3 |
| Credit Suisse Commercial Mortgage Trust Series 2007-C5 |
| CSFB Commercial Mortgage Trust 2005-C1 |
| CSFB Commercial Mortgage Trust 2005-C2 |
| CSFB Commercial Mortgage Trust 2005-C3 |
| CSFB Commercial Mortgage Trust 2005-C5 |
| CSFB Commercial Mortgage Trust 2005-C6 |
| GE Commercial Mortgage Corporation Series 2005-C1 |
| GE Commercial Mortgage Corporation Series 2005-C4 |
| GE Commercial Mortgage Corporation, Series 2007-C1 Trust |
| GMAC Commercial Mortgage Securities, Inc. Series 2006-C1 Trust |
| GS Mortgage Securities Corporation II Series 2005-GG4 |
| GS Mortgage Securities Trust 2006-GG6 |
| GS Mortgage Securities Trust 2006-GG8 |
| GS Mortgage Securities Trust 2007-GG10 |
| J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2003-CIBC7 |
| J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2004-C1 |
| J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2004-CIBC10 |
| J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2004-CIBC8 |
| J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2005-CIBC12 |
| J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2005-CIBC13 |
| J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2005-LDP1 |

Table 21B. Issuers of CMBS that Collateralize Outstanding TALF Loans—Continued

As of October 28, 2009

| Issuers |
|---|
| J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2005-LDP2 |
| J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2005-LDP4 |
| J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2005-LDP5 |
| J.P. Morgan Chase Commercial Mortgage Securities Trust 2006-CIBC15 |
| J.P. Morgan Chase Commercial Mortgage Securities Trust 2006-CIBC17 |
| J.P. Morgan Chase Commercial Mortgage Securities Trust 2006-LDP6 |
| J.P. Morgan Chase Commercial Mortgage Securities Trust 2006-LDP8 |
| J.P. Morgan Chase Commercial Mortgage Securities Trust 2007-LDP11 |
| J.P. Morgan Chase Commercial Mortgage Securities Trust 2007-LDP12 |
| LB Commercial Mortgage Trust 2007-C3 |
| LB-UBS Commercial Mortgage Trust 2004-C2 |
| LB-UBS Commercial Mortgage Trust 2005-C2 |
| LB-UBS Commercial Mortgage Trust 2005-C3 |
| LB-UBS Commercial Mortgage Trust 2006-C3 |
| LB-UBS Commercial Mortgage Trust 2006-C6 |
| LB-UBS Commercial Mortgage Trust 2006-C7 |
| LB-UBS Commercial Mortgage Trust 2007-C1 |
| LB-UBS Commercial Mortgage Trust 2007-C2 |
| LB-UBS Commercial Mortgage Trust 2007-C6 |
| Merrill Lynch Mortgage Trust 2003-KEY1 |
| Merrill Lynch Mortgage Trust 2004-KEY2 |
| Merrill Lynch Mortgage Trust 2005-CIP1 |
| Merrill Lynch Mortgage Trust 2005-CK11 |
| Merrill Lynch Mortgage Trust 2006-C1 |
| ML-CFC Commercial Mortgage Trust 2006-2 |
| ML-CFC Commercial Mortgage Trust 2006-3 |
| ML-CFC Commercial Mortgage Trust 2007-5 |
| ML-CFC Commercial Mortgage Trust 2007-6 |
| ML-CFC Commercial Mortgage Trust 2007-9 |
| Morgan Stanley Capital I Trust 2003-IQ4 |
| Morgan Stanley Capital I Trust 2004-TOP13 |
| Morgan Stanley Capital I Trust 2005-HQ5 |
| Morgan Stanley Capital I Trust 2005-HQ7 |
| Morgan Stanley Capital I Trust 2006-TOP21 |
| Morgan Stanley Capital I Trust 2007-HQ11 |
| Morgan Stanley Capital I Trust 2007-IQ14 |
| Wachovia Bank Commercial Mortgage Trust Series 2003-C9 |
| Wachovia Bank Commercial Mortgage Trust Series 2004-C12 |
| Wachovia Bank Commercial Mortgage Trust Series 2005-C19 |
| Wachovia Bank Commercial Mortgage Trust Series 2005-C22 |
| Wachovia Bank Commercial Mortgage Trust Series 2006-C23 |
| Wachovia Bank Commercial Mortgage Trust Series 2006-C24 |
| Wachovia Bank Commercial Mortgage Trust Series 2006-C25 |
| Wachovia Bank Commercial Mortgage Trust Series 2006-C26 |
| Wachovia Bank Commercial Mortgage Trust Series 2006-C27 |
| Wachovia Bank Commercial Mortgage Trust Series 2006-C28 |
| Wachovia Bank Commercial Mortgage Trust Series 2006-C29 |
| Wachovia Bank Commercial Mortgage Trust Series 2007-C30 |
| Wachovia Bank Commercial Mortgage Trust Series 2007-C31 |
| Wachovia Bank Commercial Mortgage Trust Series 2007-C33 |

lateral for a particular borrower must not be backed by loans originated or securitized by the borrower or by an affiliate of the borrower. The FRBNY's loan is secured by the ABS collateral, with the FRBNY lending an amount equal to the market value of the ABS less a haircut. The Federal Reserve has set initial haircuts for each type of eligible collateral to reflect an assessment of the riskiness and maturity of the various types of eligible ABS.

TALF LLC (a limited liability company formed to purchase and manage any asset-backed securities that might be received by the FRBNY in connection with the TALF) has committed to purchase, for a fee,

Table 22. TALF Collateral by Underlying Loan Type

Billions of dollars, as of October 28, 2009

| Type of collateral | Value |
|--------------------------------|-----------|
| <i>By underlying loan type</i> | |
| Auto | 7 |
| Commercial mortgages | 5 |
| Newly issued | 0 |
| Legacy | 5 |
| Credit card | 22 |
| Equipment | 1 |
| Premium finance | 1 |
| Floorplan | 2 |
| Servicing advances | 1 |
| Small business | 1 |
| Student loan | 6 |
| Total | 46 |

Note: Unaudited. Components may not sum to total because of rounding. Data represent the face value of collateral.

all ABS received by the FRBNY in conjunction with a TALF loan at a price equal to the TALF loan plus accrued but unpaid interest. Purchases of these securities are funded first through the fees received by the

Table 23. TALF Collateral by Rating

Billions of dollars, as of October 28, 2009

| Type of collateral | Value |
|--|-----------|
| <i>Asset-backed securities with rating</i> | |
| AAA/Aaa | 46 |
| Total | 46 |

Note: Unaudited.

LLC and any interest the LLC has earned on its investments. In the event that such funding proves insufficient, the U.S. Treasury's Troubled Asset Relief Program (TARP) will provide additional subordinated debt funding to the TALF LLC to finance up to \$20 billion of asset purchases. Subsequently, the FRBNY will finance any additional purchases of securities by providing senior debt funding to TALF LLC. Thus, the TARP funds provide credit protection to FRBNY.

Breakdowns of TALF collateral by underlying loan type and credit rating are shown in Tables 22 and 23, respectively.

Lending in Support of Specific Institutions

Recent Developments

- Net income, including changes in valuation, for the Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs was \$329 million, \$1,758 million and \$3,730 million, respectively, for the quarter ended September 30, 2009. As presented in Table 24, these changes resulted in improvements to the fair value asset coverage of loans of the Federal Reserve Bank of New York (FRBNY) to the Maiden Lane LLCs.
- Cash flows generated from the Maiden Lane II and Maiden Lane III portfolios are used to pay down the loans from the FRBNY. As shown in Tables 29 and 32, those repayments totaled about \$3.8 billion in the third quarter of 2009.

Background

In the current financial crisis, the Federal Reserve has extended credit to certain specific institutions in order to avert disorderly failures that could result in severe dislocations and strains for the financial system as a whole and harm the U.S. economy. In certain other cases, the Federal Reserve has committed to extend credit, if necessary, to support important financial firms.

Bear Stearns and Maiden Lane LLC

In March 2008, the FRBNY and JPMorgan Chase & Co. (JPMC) entered into an arrangement related to financing provided by the FRBNY to facilitate the merger of JPMC and the Bear Stearns Companies Inc. In connection with the transaction, the Federal Reserve Board authorized the FRBNY, under Section 13(3) of the Federal Reserve Act, to extend credit to a Delaware limited liability company, Maiden Lane LLC, to fund the purchase of a portfolio of mortgage-related

Table 24. Fair Value Asset Coverage

Millions of dollars

| | Fair value asset coverage of FRBNY loan on 9/30/2009 | Fair value asset coverage of FRBNY loan on 6/30/2009 |
|---------------------------|--|--|
| Maiden Lane LLC | (3,055) | (3,400) |
| Maiden Lane II LLC | (604) | (2,371) |
| Maiden Lane III LLC | 3,645 | (129) |

Note: Unaudited. Fair value asset coverage is the amount by which the fair value of the net portfolio assets of each LLC (see Table 38) is greater or less than the outstanding balance of the loans extended by the FRBNY, including accrued interest.

Table 25. Maiden Lane LLC Outstanding Principal Balance of Loans

Millions of dollars

| | FRBNY senior loan | JPMC subordinate loan |
|---|-------------------|-----------------------|
| Principal balance at closing | 28,820 | 1,150 |
| <i>Most Recent Quarterly Activity</i> | | |
| Principal balance on 6/30/2009 (including accrued and capitalized interest) | 29,159 | 1,217 |
| Accrued and capitalized interest 6/30/2009 to 9/30/2009 | 37 | 16 |
| Repayment during the period from 6/30/2009 to 9/30/2009 | 0 | 0 |
| Principal balance on 9/30/2009 (including accrued and capitalized interest) | 29,196 | 1,233 |

Note: Unaudited. As part of the asset purchase agreement, JPMC made a loan to Maiden Lane LLC. For repayment purposes, this obligation is subordinated to the senior loan extended by the FRBNY.

securities, residential and commercial mortgage loans, and associated hedges from Bear Stearns. The LLC will manage its assets through time to maximize the repayment of credit extended to the LLC and to minimize disruption to the financial markets. In the second quarter of 2008, the FRBNY extended credit to Maiden Lane LLC. Details of the terms of the loan are published on the FRBNY website (www.newyorkfed.org/markets/maidenlane.html). The assets of Maiden Lane LLC are presented weekly in Tables 1, 9, and 10 of the H.4.1 statistical release.

Table 26. Maiden Lane LLC Summary of Portfolio Composition, Cash/Cash Equivalents, and Other Assets and Liabilities

Millions of dollars

| | Fair Value on 9/30/2009 | Fair Value on 6/30/2009 |
|--------------------------------------|-------------------------|-------------------------|
| Agency MBS | 17,437 | 16,424 |
| Non-agency RMBS | 1,938 | 1,962 |
| Commercial loans | 4,025 | 4,447 |
| Residential loans | 623 | 683 |
| Swap contracts | 1,318 | 1,827 |
| TBA commitments ¹ | 382 | 1,199 |
| Other investments | 863 | 736 |
| Cash & cash equivalents | 1,446 | 1,805 |
| Other assets ² | 527 | 827 |
| Other liabilities ³ | (2,418) | (4,151) |
| Net assets | 26,141 | 25,759 |

Note: Unaudited. Components may not sum to totals because of rounding.

1. To be announced (TBA) commitments are commitments to purchase or sell mortgage-backed securities for a fixed price at a future date.

2. Including interest and principal receivable and other receivables.

3. Including amounts payable for securities purchased, collateral posted to Maiden Lane LLC by swap counterparties, and other liabilities/acrued expenses.

Table 27. Maiden Lane LLC Securities Distribution by Type and Rating

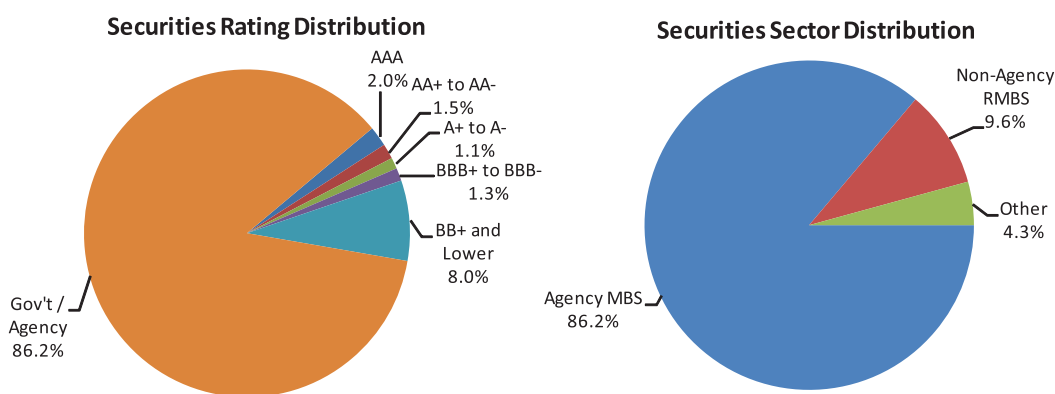
Percent, as of September 30, 2009

| Security type ¹ | Rating | | | | | | Total |
|----------------------------|------------|------------|------------|--------------|---------------|---------------|--------------|
| | AAA | AA+ to AA- | A+ to A- | BBB+ to BBB- | BB+ and lower | Gov't/ Agency | |
| Agency MBS | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 86.2 | 86.2 |
| Non-agency RMBS | 0.5 | 0.6 | 0.8 | 0.4 | 7.3 | 0.0 | 9.6 |
| Other ² | 1.5 | 0.9 | 0.3 | 0.9 | 0.7 | 0.0 | 4.3 |
| Total | 2.0 | 1.5 | 1.1 | 1.3 | 8.0 | 86.2 | 100.0 |

Note: Unaudited. This table presents the sector and ratings composition of the securities in the Maiden Lane LLC portfolio as a percentage of all securities in the portfolio. It is based on the fair value of the securities. Lowest of all ratings is used for purposes of this table. Rows and columns may not sum to totals because of rounding.

1. Does not include Maiden Lane LLC's swaps and other derivative contracts, commercial and residential mortgage loans, and TBA investments.

2. Includes all asset sectors that, individually, represent less than 5 percent of the aggregate fair value of securities in the portfolio.

Figure 2. Maiden Lane LLC Securities Distribution as of September 30, 2009

Additional details on the accounts of Maiden Lane LLC are presented in Table 4 of the H.4.1 statistical release.

Information about the assets and liabilities of Maiden Lane LLC is presented as of September 30, 2009, in Tables 25 through 27 and Figure 2. This information is updated on a quarterly basis.

American International Group (AIG)

Recent Developments

- As shown in Table 28, the balance on the AIG revolving credit facility increased to \$44.8 billion

Table 28. AIG Revolving Credit Facility

Billions of dollars

| | Value |
|---|-------|
| Balance on September 30, 2009 | 38.7 |
| Principal drawdowns | 7.7 |
| Principal repayments | (1.8) |
| Recapitalized interest & fees | 0.0 |
| Amortization of restructuring allowance | 0.1 |
| Balance on October 28, 2009 | 44.8 |

Note: Unaudited. Components may not sum to total because of rounding. Does not include Maiden Lane II LLC and Maiden Lane III LLC.

over the reporting period, as loan drawdowns outpaced loan repayments.

- AIG third quarter results:** On November 6, 2009, AIG reported a profit in the third quarter of 2009, as certain of its businesses continue to stabilize, and the company's results reflected positive market valuation changes. For the quarter ended September 30, 2009, AIG reported net income attributable to AIG of \$455 million (including net income attributable to AIG common shareholders of \$92 million) compared with a net loss of \$24.5 billion in the third quarter of 2008. Third quarter 2009 adjusted net income was \$1.9 billion, compared with an adjusted net loss of \$9.2 billion in the third quarter of 2008.
- As announced earlier in the year, the FRBNY will receive preferred interests in American International Assurance Company LTD (AIA) and American Life Insurance Company (ALICO) special purpose vehicles (SPVs). These transactions are expected to be consummated in the fourth quarter of 2009. As a result of these transactions, there will be a \$25 billion reduction in the balance and the amount available under the FRBNY revolving credit facility. On a related note, the U.S. Securities and Exchange Commission recently ruled that it would not object to

AIG's proposal to classify as permanent equity the Federal Reserve's preferred interests in the SPVs for AIA and ALICO.

- In October 2009, the Office of the Special Master for TARP Executive Compensation communicated to AIG acceptable standards for 2009 compensation for AIG's senior executive officers and most highly compensated employees. The standards place a cap on annual cash salary and restructure compensation packages so that the majority of a covered AIG executive's base salary will be paid in the form of 'stock units' that reflect the value of a 'basket' of four AIG insurance subsidiaries. The Special Master has advised AIG to reduce retention payments due to employees at AIG Financial Products Corp. (AIGFP) in 2010. Final details of the compensation packages will be determined by AIG within these standards and will be subject to the approval of the Office of the Special Master.
- *Update on asset divestitures:* During the first nine months of 2009 and through October 30, 2009, AIG entered into agreements to sell, or completed the sale of, operations and assets that as of September 30, 2009 (or the date of sale or, in the case of Transatlantic Holdings, Inc., deconsolidation) had aggregate carrying values of \$86.3 billion in assets and \$69.2 billion in liabilities. These transactions are expected to generate approximately \$5.6 billion of aggregate net cash proceeds that will be available to repay outstanding borrowings and reduce the amount of the FRBNY facility, after taking into account taxes, transaction expenses, settlement of intercompany loan facilities, and capital required to be retained for regulatory or ratings purposes. These figures exclude actions at AIG Financial Products Corp. (AIGFP), which are discussed separately below. Gains and losses recorded in connection with the dispositions of businesses include estimates that are subject to subsequent adjustments. Based on the transactions thus far, AIG does not believe that such adjustments will be material to future results of operations or cash flows. Noteworthy asset divestitures were as follows:
 - On September 5, 2009, AIG entered into an agreement to sell a portion of its investment advisory and asset management business for approximately \$296 million in cash, plus additional future consideration that includes a performance note and a continuing share of carried interest.
 - On October 12, 2009, AIG entered into an agreement to sell the 97.6 percent share of Nan Shan Life Insurance Company, Ltd. (Nan Shan) held

through its subsidiaries to a consortium for approximately \$2.2 billion. As a result of this transaction, AIG expects to meet the criteria for "held-for-sale" accounting with respect to Nan Shan and recognize a loss of approximately \$1.4 billion net of taxes in the fourth quarter of 2009.

- *Status of unwinding AIGFP:*
 - On August 11, 2009, AIGFP completed the sale of its energy and infrastructure investment assets, realizing aggregate net proceeds in excess of \$1.9 billion. In connection with the AIGFP wind-down process, certain other assets have been sold or are under contract to be sold. The proceeds from these sales will be used to fund AIGFP's wind-down and are not included in the amounts described above under asset divestitures.
 - AIGFP reduced the notional amount of its derivative portfolio by 28 percent from approximately \$1.6 trillion at December 31, 2008, to approximately \$1.1 trillion at September 30, 2009. During the third quarter of 2009, the derivative portfolio was reduced 13 percent from approximately \$1.3 trillion at June 30, 2009.
 - AIGFP reduced the number of trade positions in its portfolio by 43 percent from approximately 35,000 at December 31, 2008, to approximately 20,000 at September 30, 2009. During the third quarter of 2009, the number of trade positions was reduced 12 percent from approximately 22,500 at June 30, 2009.

Background

On September 16, 2008, the Federal Reserve, with the full support of the Treasury Department, announced that it would lend to AIG to prevent a disorderly failure of this systemically important firm, protect the financial system and the broader economy, and provide the company time to restructure its operations in an orderly manner. Initially, the FRBNY extended an \$85 billion line of credit to the company. The terms of the credit facility are disclosed on the Board's website (www.federalreserve.gov/monetarypolicy/bst_supportspecific.htm). Loans outstanding under this facility are presented weekly in Table 1 of the H.4.1 statistical release and included in "Other loans" in Tables 9 and 10 of the H.4.1 statistical release.

On November 10, 2008, the Federal Reserve and the Treasury announced a restructuring of the government's financial support to AIG. As part of this restructuring, two new limited liability companies (LLCs) were created, Maiden Lane II LLC and Maiden Lane III LLC, and the line of credit extended to AIG

was reduced from \$85 billion to \$60 billion. (On October 8, 2008, the FRBNY had been authorized to extend credit to certain AIG subsidiaries against a range of securities. This arrangement was discontinued after the establishment of the Maiden Lane II facility.) More detail on these LLCs is reported in the remainder of this section. Additional information is included in Tables 5 and 6 of the H.4.1 statistical release.

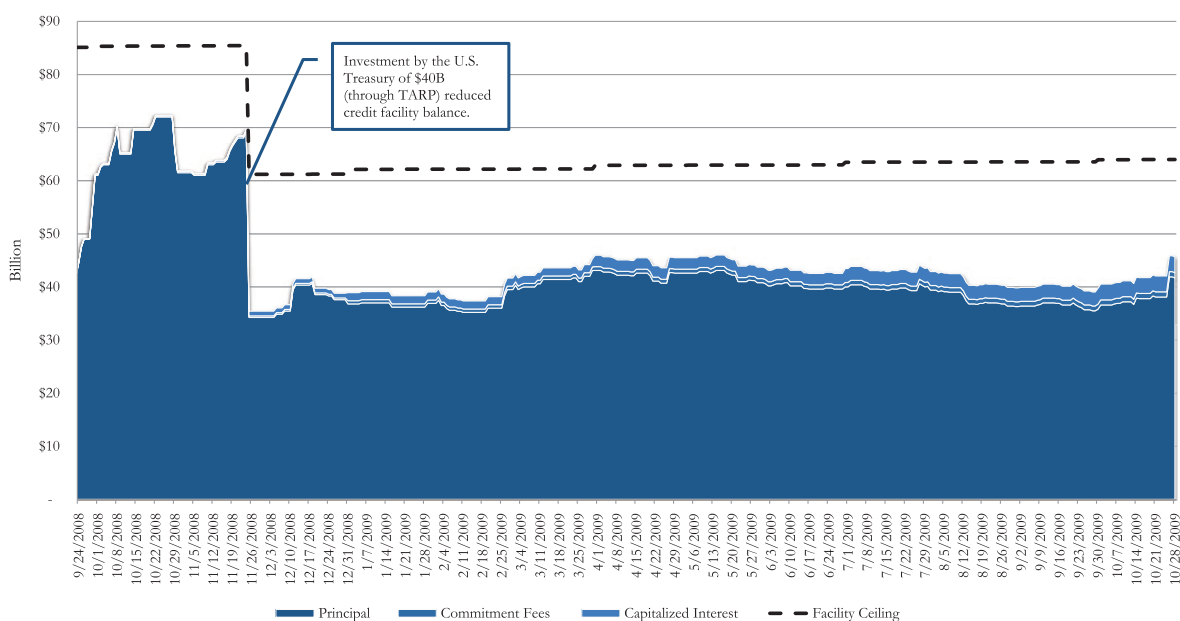
On March 2, 2009, the Federal Reserve and the Treasury announced an additional restructuring of the government's assistance to AIG, designed to enhance the company's capital and liquidity in order to facilitate the orderly completion of the company's global divestiture program. Additional information on the restructuring is available at www.federalreserve.gov/newsevents/press/other/20090302a.htm.

On April 17, 2009, the FRBNY implemented a loan restructuring adjustment that was previously approved and announced on March 2. The interest rate on the loan to AIG, which is the three-month LIBOR plus 300 basis points, was modified by removing the existing interest rate floor of 3.5 percent on the LIBOR rate. Consistent with U.S. generally accepted accounting principles (GAAP), as of July 29, 2009, the reported value of the AIG revolving credit extension was reduced by a \$1.3 billion adjustment to reflect the loan restructuring. This restructuring adjustment is intended to recognize the economic effect of the reduced interest rate and will be recovered as the

adjustment is amortized over the remaining term of the credit extension. The Federal Reserve expects that the credit extension, including interest and commitment fees under the modified terms, will be fully repaid.

On June 25, 2009, the FRBNY entered into agreements with AIG to carry out two transactions previously approved and announced on March 2, as part of the restructuring of the U.S. government's assistance to AIG. Under these agreements, the FRBNY will receive preferred equity interests in two special-purpose vehicles formed to hold the outstanding common stock of American International Assurance Company Ltd. (AIA) and American Life Insurance Company (ALICO), two life insurance subsidiaries of AIG. In exchange, upon the closing of each transaction and the resulting issuance of preferred equity, the FRBNY will reduce the outstanding balance and amount available to AIG under the revolving credit facility by \$25 billion. The closing of each transaction is expected to occur by the end of 2009, pending the completion of the necessary regulatory approval processes. These transactions, when consummated, will position both AIA and ALICO for future initial public offerings, depending on market conditions. Subject to certain conditions, proceeds from any public offerings by the companies must first be used to redeem the FRBNY's preferred interests, until the preferred interests have been redeemed in full.

Figure 3. AIG Revolving Credit



Note: The above data illustrate selected components of the amount of credit extended to the American International Group Inc., including loan principal, all capitalized interest and fees, and the amortized portion of the initial commitment fee. The data exclude commercial paper sold by AIG and its subsidiaries to the Commercial Paper Funding Facility as well as amounts borrowed prior to December 12, 2008, under a securities borrowing arrangement. The facility ceiling represents the \$60 billion limit on the credit agreement plus capitalized interest and fees.

The interest rate on the loan to AIG is the three-month LIBOR rate plus 300 basis points. The lending under this facility is secured by a pledge of assets of AIG and its primary nonregulated subsidiaries, including all or a substantial portion of AIG's ownership interest in its regulated U.S. and foreign subsidiaries. Furthermore, AIG's obligations to the FRBNY are guaranteed by certain domestic, nonregulated subsidiaries of AIG with more than \$50 million in assets.

Figure 3 shows the amount of credit extended to AIG over time through the credit facility, including the principal, interest, and commitment fees, along with the facility ceiling.

Maiden Lane II LLC

Under Section 13(3) of the Federal Reserve Act, the Federal Reserve Board authorized the FRBNY to lend up to \$22.5 billion to a newly formed Delaware limited liability company, Maiden Lane II LLC, to fund the purchase of residential mortgage-backed securities (RMBS) from the securities lending portfolio of several regulated U.S. insurance subsidiaries of AIG. On December 12, 2008, the FRBNY loaned about \$19.5 billion to Maiden Lane II LLC. Details of the terms of the loan are published on the FRBNY website (www.newyorkfed.org/markets/maidenlane2.html).

The assets of Maiden Lane II LLC are presented in Tables 1, 9, and 10 of the weekly H.4.1 statistical release. Additional detail on the accounts of Maiden Lane II LLC is presented in Table 5 of the H.4.1 statistical release.

Information about the assets and liabilities of Maiden Lane II LLC is presented as of September 30, 2009, in Tables 29 through 31 and Figure 4. This information is updated on a quarterly basis.

Table 29. Maiden Lane II LLC Outstanding Principal Balance of Senior Loan and Fixed Deferred Purchase Price

Millions of dollars

| | FRBNY senior loan | AIG fixed deferred purchase price |
|---|-------------------|-----------------------------------|
| Principal balance at closing | 19,494 | 1,000 |
| <i>Most Recent Quarterly Activity</i> | | |
| Principal balance on 6/30/2009 (including accrued and capitalized interest) | 17,712 | 1,020 |
| Accrued and capitalized interest 6/30/2009 to 9/30/2009 | 55 | 8 |
| Repayment during the period from 6/30/2009 to 9/30/2009 | (966) | 0 |
| Principal balance on 9/30/2009 (including accrued and capitalized interest) | 16,801 | 1,028 |

Note: Unaudited. As part of the asset purchase agreement, AIG subsidiaries were entitled to receive from Maiden Lane II LLC a fixed deferred purchase price plus interest on the amount. This obligation is subordinated to the senior loan extended by the FRBNY, and it reduced the amount paid by Maiden Lane II LLC for the assets by a corresponding amount.

Table 30. Maiden Lane II LLC Summary of RMBS Portfolio Composition and Cash/Cash Equivalents

Millions of dollars

| | Fair Value on 9/30/2009 | Fair Value on 6/30/2009 |
|--------------------------------------|-------------------------|-------------------------|
| Alt-A (ARM) | 4,903 | 4,455 |
| Subprime | 8,758 | 8,348 |
| Option ARM | 939 | 840 |
| Other ¹ | 1,299 | 1,371 |
| Cash & cash equivalents | 297 | 327 |
| Other assets ² | 3 | 3 |
| Other liabilities ³ | (2) | (2) |
| Total | 16,197 | 15,341 |

Note: Unaudited. Components may not sum to totals because of rounding.

1. Includes all asset sectors that, individually, represent less than 5 percent of aggregate outstanding fair value of securities in the portfolio.
2. Including interest and principal receivable and other receivables.
3. Including accrued expenses and other payables.

Table 31. Maiden Lane II LLC Asset Distribution by Sector and Rating

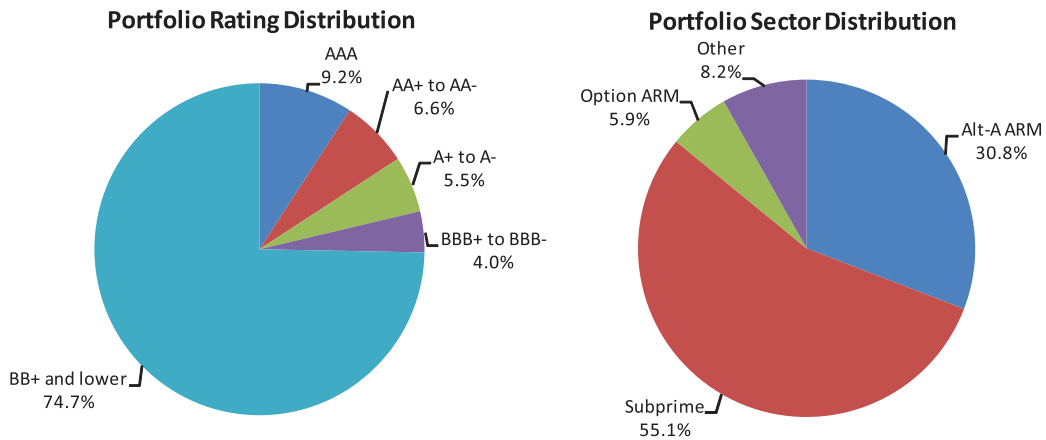
Percent, as of September 30, 2009

| RMBS sector | Rating | | | | | Total |
|--------------------------|------------|------------|------------|--------------|---------------|--------------|
| | AAA | AA+ to AA- | A+ to A- | BBB+ to BBB- | BB+ and lower | |
| Alt-A (ARM) | 0.9 | 3.0 | 2.6 | 1.4 | 23.0 | 30.8 |
| Subprime | 8.1 | 3.0 | 2.9 | 2.6 | 38.5 | 55.1 |
| Option ARM | 0.0 | 0.0 | 0.0 | 0.0 | 5.9 | 5.9 |
| Other ¹ | 0.1 | 0.6 | 0.0 | 0.0 | 7.4 | 8.2 |
| Total | 9.2 | 6.6 | 5.5 | 4.0 | 74.7 | 100.0 |

Note: Unaudited. This table presents the sector and ratings composition of Maiden Lane II LLC's RMBS portfolio as a percentage of aggregate fair value of the securities in the portfolio. Lowest of all ratings is used for the purposes of this table. Rows and columns may not sum to totals because of rounding.

1. Includes all asset sectors that, individually, represent less than 5 percent of the aggregate fair value of securities in the portfolio.

Figure 4. Maiden Lane II LLC Portfolio Distribution as of September 30, 2009



Maiden Lane III LLC

Under Section 13(3) of the Federal Reserve Act, the Federal Reserve Board authorized the FRBNY to lend up to \$30 billion to a newly formed Delaware limited

Table 32. Maiden Lane III LLC Outstanding Principal Balance of Senior Loan and Equity Contribution

Millions of dollars

| | FRBNY senior loan | AIG equity contribution |
|---|-------------------|-------------------------|
| Principal balance at closing | 24,339 | 5,000 |
| <i>Most Recent Quarterly Activity</i> | | |
| Principal balance on 6/30/2009 (including accrued and capitalized interest) | 22,614 | 5,108 |
| Accrued and capitalized interest 6/30/2009 to 9/30/2009 | 66 | 43 |
| Repayment during the period from 6/30/2009 to 9/30/2009 | (2,825) | 0 |
| Principal balance on 9/30/2009 (including accrued and capitalized interest) | 19,855 | 5,151 |

Note: Unaudited. As part of the asset purchase agreement, AIG purchased a \$5 billion equity contribution, which is subordinated to the senior loan extended by FRBNY.

liability company, Maiden Lane III LLC, to fund the purchase of certain asset-backed collateralized debt obligations (ABS CDOs) from certain counterparties of AIG Financial Products Corp. (AIGFP) on which AIGFP had written credit default swaps and similar contracts. On November 25, 2008, the FRBNY loaned about \$24.4 billion to Maiden Lane III LLC. Details of

Table 33. Maiden Lane III LLC Summary of Portfolio Composition and Cash/Cash Equivalents

Millions of dollars

| | Fair Value on 9/30/2009 | Fair Value on 6/30/2009 |
|--------------------------------------|-------------------------|-------------------------|
| High-grade ABS CDO | 16,001 | 14,491 |
| Mezzanine ABS CDO | 2,099 | 1,882 |
| Commercial real estate CDO | 4,572 | 4,186 |
| RMBS, CMBS, & Other | 246 | 225 |
| Cash & cash equivalents | 547 | 1,645 |
| Other assets ¹ | 38 | 59 |
| Other liabilities ² | (3) | (4) |
| Total | 23,500 | 22,485 |

Note: Unaudited. Components may not sum to totals because of rounding.

1. Including interest and principal receivable and other receivables.
2. Including accrued expenses.

Figure 5. Maiden Lane III LLC Portfolio Distribution as of September 30, 2009

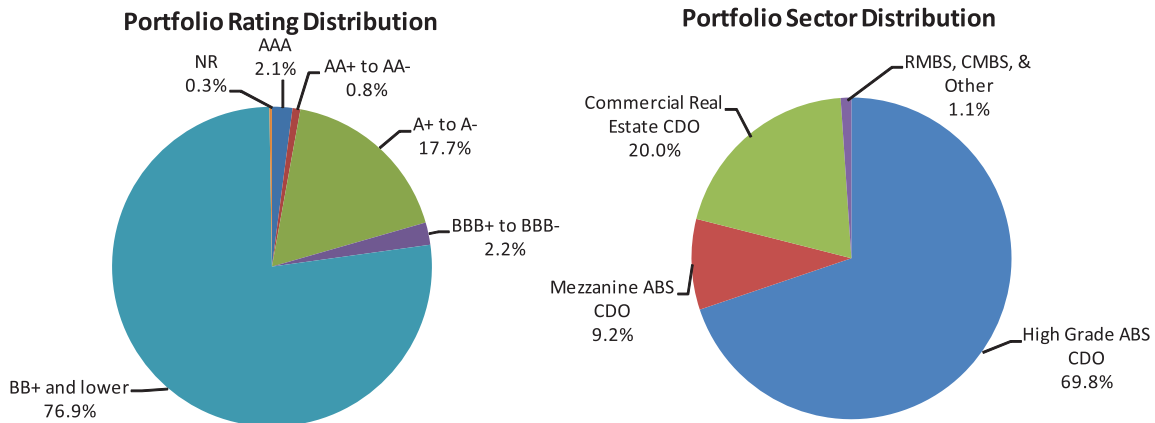


Table 34. Maiden Lane III LLC Asset Distribution by Security Type/Vintage and Rating

Percent, as of September 30, 2009

| Security type/vintage ¹ | Rating | | | | | | Total |
|------------------------------------|------------|------------|-------------|--------------|---------------|------------|--------------|
| | AAA | AA+ to AA- | A+ to A- | BBB+ to BBB- | BB+ and lower | Not rated | |
| High-grade ABS CDO | 0.0 | 0.0 | 0.0 | 0.7 | 69.1 | 0.0 | 69.8 |
| Pre-2005 | 0.0 | 0.0 | 0.0 | 0.7 | 23.9 | 0.0 | 24.6 |
| 2005 | 0.0 | 0.0 | 0.0 | 0.0 | 30.1 | 0.0 | 30.1 |
| 2006 | 0.0 | 0.0 | 0.0 | 0.0 | 7.5 | 0.0 | 7.5 |
| 2007 | 0.0 | 0.0 | 0.0 | 0.0 | 7.6 | 0.0 | 7.6 |
| Mezzanine ABS CDO | 0.0 | 0.2 | 0.0 | 1.4 | 7.3 | 0.3 | 9.2 |
| Pre-2005 | 0.0 | 0.2 | 0.0 | 1.0 | 4.0 | 0.3 | 5.5 |
| 2005 | 0.0 | 0.0 | 0.0 | 0.0 | 2.9 | 0.0 | 2.9 |
| 2006 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 2007 | 0.0 | 0.0 | 0.0 | 0.4 | 0.3 | 0.0 | 0.7 |
| Commercial real estate CDO | 1.9 | 0.5 | 17.6 | 0.0 | 0.0 | 0.0 | 20.0 |
| Pre-2005 | 1.9 | 0.5 | 2.8 | 0.0 | 0.0 | 0.0 | 5.2 |
| 2005 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 2006 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 2007 | 0.0 | 0.0 | 14.8 | 0.0 | 0.0 | 0.0 | 14.8 |
| RMBS, CMBS, and other | 0.2 | 0.2 | 0.1 | 0.1 | 0.5 | 0.0 | 1.1 |
| Pre-2005 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | 0.2 |
| 2005 | 0.2 | 0.1 | 0.1 | 0.1 | 0.4 | 0.0 | 0.8 |
| 2006 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 |
| 2007 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 2.1 | 0.8 | 17.7 | 2.2 | 76.9 | 0.3 | 100.0 |

Note: Unaudited. This table presents the security type, vintage, and rating composition of the securities in the Maiden Lane III LLC portfolio as a percentage of all securities in the portfolio. It is based on the fair value of the securities. Lowest of all ratings is used for purposes of this table. Rows and columns may not sum to totals because of rounding.

1. The year of issuance with the highest concentration of underlying assets as measured by outstanding principal balance determines the vintage of the CDO.

the terms of the loan are published on the FRBNY website (www.newyorkfed.org/markets/maidenlane3.html). Assets of the portfolio of the LLC will be managed to maximize cash flows to ensure repayment of obligations of the LLC while minimizing disruptions to financial markets.

The assets of Maiden Lane III LLC are presented in Tables 1, 9, and 10 of the weekly H.4.1 statistical release. Additional detail on the accounts of Maiden Lane III LLC is presented in Table 6 of the H.4.1 statistical release.

Information about the assets and liabilities of Maiden Lane III LLC is presented as of September 30, 2009, in Tables 32 through 34 and Figure 5. This information is updated on a quarterly basis.

Citigroup

On November 23, 2008, the Treasury, the Federal Reserve, and the Federal Deposit Insurance Corporation (FDIC) jointly announced that the U.S. government would provide support to Citigroup in an effort to support financial markets. The terms of the arrangement are provided on the Federal Reserve Board's website (www.federalreserve.gov/monetarypolicy/bst_supportspecific.htm). The FRBNY has not extended credit to Citigroup under this arrangement.

Bank of America

On January 16, 2009, the Treasury, the Federal Reserve, and the FDIC jointly announced that the U.S. government had agreed to provide certain support to Bank of America to promote financial market stability. Information concerning these actions is available on the Federal Reserve Board's website at www.federalreserve.gov/monetarypolicy/bst_supportspecific.htm.

On May 7, 2009, following the release of the results of the Supervisory Capital Assessment Program, Bank of America announced that it did not plan to move forward with a part of the package of supports announced in January 2009—specifically, a residual financing arrangement with the Federal Reserve and the related guarantee protections that would be provided by the Treasury and the FDIC with respect to an identified pool of approximately \$118 billion in assets.

In September 2009, Bank of America paid an exit fee in order to terminate the term sheet with the Treasury, the Federal Reserve, and the FDIC. The term sheet was never implemented. The Federal Reserve's portion of the exit fee was \$57 million.

Federal Reserve Banks' Financial Tables

Quarterly Developments

- The daily average balance of the Federal Reserve System Open Market Account (SOMA) holdings exceeded \$1 trillion during the first three quarters of 2009 (Table 36). Net earnings from the portfolio amounted to approximately \$32 billion during this period; most of the earnings are attributable to the holdings of U.S. government securities and agency-guaranteed mortgage-backed securities (MBS).
- Net earnings from Federal Reserve loan programs over the first three quarters of the year amounted to about \$2.2 billion; interest earned on Term Auction Facility (TAF) loans and credit extended to American International Group, Inc. (AIG) accounted for most of the total (Table 37).
- After providing for the payment of dividends and reservation of an amount necessary to equate surplus with capital paid-in, distributions to the U.S. Treasury as interest on Federal Reserve notes totaled \$27 billion during the first three quarters of 2009, as noted in Table 35.

Background

The Federal Reserve Banks annually prepare financial statements reflecting balances as of December 31 and income and expenses for the year then ended. The Federal Reserve Bank financial statements also include the accounts and results of operations of several limited liability companies (LLCs) that have been consolidated with the Federal Reserve Bank of New York (FRBNY) (the “consolidated LLCs”).

The Board of Governors, the Federal Reserve Banks, and the consolidated LLCs are all subject to several levels of audit and review. The Reserve Banks' financial statements and those of the consolidated LLC entities are audited annually by a registered independent public accountant retained by the Board of Governors. To ensure auditor independence, the Board requires that the external auditor be independent in all matters relating to the audit. Specifically, the external auditor may not perform services for the Reserve Banks or others that would place it in a position of auditing its own work, making management decisions on behalf of the Reserve Banks, or in any other way impairing its audit independence. In addition, the

Reserve Banks, including the consolidated LLCs, are subject to oversight by the Board.

The Board of Governors' financial statements are audited annually by an independent audit firm retained by the Board's Office of Inspector General. The audit firm also provides a report on compliance and on internal control over financial reporting in accordance with government auditing standards. The Office of Inspector General also conducts audits, reviews, and investigations relating to the Board's programs and operations as well as of Board functions delegated to the Reserve Banks.

Audited annual financial statements for the Reserve Banks and Board of Governors are available at www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm. On a quarterly basis, the Federal Reserve prepares unaudited updates of tables presented in the Annual Report.

Combined Statement of Income and Comprehensive Income

Table 35 presents unaudited combined Reserve Bank income and expense information for the first three quarters of this year. Tables 36 through 38 present information for the SOMA portfolio, the Federal Reserve loan programs, and the variable interest entities—the CPFF and Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs—for the first three quarters of this year. These tables are updated quarterly.

SOMA Financial Summary

Table 36 shows the Federal Reserve's average daily balance of assets and liabilities in the SOMA portfolio for the period from January 1, 2009, through September 30, 2009, the related interest income and expense, and the realized and unrealized gains and losses for the first three quarters of the year. U.S. government and agency securities, as well as agency-guaranteed MBS making up the SOMA portfolio, are recorded at amortized cost on a settlement-date basis. Rather than using a fair value presentation, an amortized cost presentation more appropriately reflects the Reserve Banks' purpose for holding these securities given the Federal Reserve's unique responsibility to conduct monetary policy.

Although the fair value of security holdings can be substantially greater than or less than the recorded

Table 35. Federal Reserve Banks' Combined Statement of Income and Comprehensive Income from January 1, 2009 to September 30, 2009

Millions of dollars

| | |
|--|---------|
| Interest income: | |
| Loans to depository institutions (refer to Table 37) | 889 |
| Other loans (refer to Table 37) | 2,261 |
| System Open Market Account (refer to Table 36) | 31,131 |
| Consolidated variable interest entities (refer to Table 38): | |
| Investments held by consolidated variable interest entities: | |
| Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs | 4,668 |
| Commercial Paper Funding Facility LLC | 3,962 |
| Total interest income | 42,911 |
| Interest expense: | |
| System Open Market Account (refer to Table 36) | 86 |
| Depository institution deposits | 1,496 |
| Consolidated variable interest entities (refer to Table 38) | 200 |
| Total interest expense | 1,782 |
| Net interest income | 41,129 |
| Non-interest income (loss): | |
| System Open Market Account—realized and unrealized losses, net (refer to Table 36) | 487 |
| Investments held by consolidated variable interest entities gains (losses), net (refer to Table 38): | |
| Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs | (3,802) |
| Commercial Paper Funding Facility LLC | 8 |
| Provision for loan restructuring (refer to Table 37) ¹ | (989) |
| Income from services | 517 |
| Reimbursable services to government agencies | 299 |
| Other income | 25 |
| Total non-interest (loss) | (3,455) |
| Operating expenses: | |
| Salaries and other benefits | 2,019 |
| Occupancy expense | 202 |
| Equipment expense | 136 |
| Assessments by the Board of Governors | 641 |
| Professional fees related to consolidated variable interest entities (refer to Table 38) | 88 |
| Other expenses | 401 |
| Total operating expenses | 3,487 |
| Net income prior to distribution | 34,187 |
| Change in funded status of benefit plans ² | 297 |
| Comprehensive income prior to distribution | 34,484 |
| Distribution of comprehensive income: | |
| Dividends paid to member banks | 1,049 |
| Remaining amount to be distributed | 33,435 |
| Memo: Distributions to U.S. Treasury (interest on Federal Reserve notes) ³ | 26,977 |

Note: Unaudited.

1. In accordance with GAAP, as of June 30, 2009, the AIG revolving credit extension was reduced by a \$1.4 billion adjustment for loan restructuring. The adjustment is related to the loan modification, announced on March 2, 2009, which eliminated the existing floor on the interest rate. The restructuring adjustment is being recovered as it is amortized over the remaining term of the credit extension.

2. Represents the recognition of benefit plan deferred actuarial gains and losses and prior service costs.

3. The Board of Governors requires each Reserve Bank to distribute any remaining net earnings to the U.S. Treasury as interest on Federal Reserve notes, after providing for the payment of dividends and reservation of an amount necessary to equate surplus with capital paid-in. These distributions are made weekly based on estimated net earnings for the preceding week. The amount of each Bank's weekly distribution to the U.S. Treasury would be affected by significant losses and increases in capital paid-in at a Reserve Bank, which would require that the Reserve Bank retains net earnings until the surplus is equal to the capital paid-in. The distributions to the U.S. Treasury are reported on an accrual basis; actual payments to the U.S. Treasury during the period from January 1, 2009, through September 30, 2009, were \$24,552 million.

value at any point in time, these unrealized gains or losses have no effect on the ability of the Reserve Banks to meet their financial obligations and responsibilities. As of September 30, 2009, the fair value of the U.S. government and agency securities held in the SOMA, excluding accrued interest, was \$980 billion, the fair value of the agency-guaranteed MBS was \$703 billion, and the fair value of investments denominated in foreign currencies was \$26 billion, as determined by reference to quoted prices for identical securities.

FRBNY conducts purchases and sales of U.S. government securities under authorization and direction from the Federal Open Market Committee (FOMC). The FRBNY buys and sells securities at market prices from securities dealers and foreign and international account holders. The FOMC has also authorized the FRBNY to purchase and sell U.S. government securities under agreements to resell or repurchase such securities (commonly referred to as repurchase and reverse repurchase transactions).

Table 36. SOMA Financial Summary

Millions of dollars

| | January 1, 2009 – September 30, 2009 | | | | |
|--|--------------------------------------|----------------------------|-------------------------|---------------------------|---------------|
| | Average daily balance ¹ | Interest income/ (expense) | Realized gains (losses) | Unrealized gains (losses) | Net earnings |
| <i>SOMA assets</i> | | | | | |
| U.S. government securities ² | 592,742 | 16,202 | – | – | 16,202 |
| Federal agency and government-sponsored enterprise securities ² | 73,655 | 1,241 | – | – | 1,241 |
| Agency-guaranteed mortgage-backed securities ³ | 352,202 | 11,351 | (411) | – | 10,940 |
| Investments denominated in foreign currencies ⁴ | 24,505 | 231 | – | 898 | 1,129 |
| Central bank liquidity swaps ⁵ | 230,113 | 2,093 | – | – | 2,093 |
| Securities purchased under agreements to resell | 5,128 | 13 | – | – | 13 |
| Total | 1,278,345 | 31,131 | (411) | 898 | 31,618 |
| <i>SOMA liabilities</i> | | | | | |
| Securities sold under agreements to repurchase | 69,928 | (86) | – | – | (86) |
| Total | 1,208,417 | 31,045 | (411) | 898 | 31,532 |

Note: Unaudited. Components may not sum to totals because of rounding.

1. Based on holdings at opening of business.

2. Face value.

3. Current face value of the securities, which is the remaining principal balance of the underlying mortgages.

4. Includes accrued interest. Investments denominated in foreign currencies are revalued daily at market exchange rates.

5. Dollar value of foreign currency held under these agreements valued at the exchange rate to be used when the foreign currency is returned to the foreign central bank. This exchange rate equals the market exchange rate used when the foreign currency was acquired from the foreign central bank.

The SOMA holds foreign currency deposits and foreign government debt instruments denominated in foreign currencies with foreign central banks and the Bank for International Settlements. Central bank liquidity swaps are the foreign currencies that the Federal Reserve acquires and records as an asset (excluding accrued interest) on the Federal Reserve's balance sheet. On January 5, 2009, the Federal Reserve began purchasing MBS guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Transactions in MBS are recorded on settlement dates, which can extend several months into the future. MBS dollar roll transactions, which consist of a purchase of securities combined with an agreement to sell securities in the future, may generate realized gains and losses.

Loan Programs Financial Summary

Table 37 summarizes the average daily loan balances and interest income of the Federal Reserve for the first three quarters of 2009. The most significant loan balance is the TAF, which was established at the end of 2007. As noted earlier in this report, during 2008 the Federal Reserve established several lending facilities under authority of Section 13(3) of the Federal Reserve Act. These included the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF), the Primary Dealer Credit Facility (PDCF), and credit extended to American International Group, Inc. (AIG). Amounts funded by the Reserve Banks under all these programs are recorded as loans

Table 37. Loan Programs Financial Summary

Millions of dollars

| Loan programs | January 1, 2009 - September 30, 2009 | | | |
|--|--------------------------------------|------------------------------|----------------------------------|--------------|
| | Average daily balance ¹ | Interest income ² | Provision for loan restructuring | Total |
| Primary, secondary, and seasonal credit | 46,864 | 176 | – | 176 |
| Term Auction Facility (TAF) | 351,661 | 713 | – | 713 |
| Total loans to depository institutions | 398,525 | 889 | – | 889 |
| Asset-Backed Commercial Paper Money Market Mutual Fund | | | | |
| Liquidity Facility (AMLF) | 10,315 | 72 | – | 72 |
| Primary Dealer Credit Facility (PDCF) and other broker-dealer credit | 10,167 | 37 | – | 37 |
| Credit extended to American International Group, Inc. (AIG), net | 41,753 | 1,938 | (989) | 949 |
| Term Asset-Backed Securities Loan Facility (TALF) | 16,011 | 214 | – | 214 |
| Total loans to others | 78,246 | 2,261 | (989) | 1,272 |
| Total loan programs | 476,771 | 3,150 | (989) | 2,161 |
| Allowance for loan losses | – | – | – | – |
| Total loan programs, net | 476,771 | 3,150 | (989) | 2,161 |

Note: Unaudited. Components may not sum to totals because of rounding.

1. Based on holdings at opening of business. Average daily balance includes outstanding principal and capitalized interest net of unamortized deferred commitment fees and allowance for loan restructuring, and excludes undrawn amounts and credit extended to consolidated LLCs.

2. Interest income includes the amortization of the deferred commitment and administrative fees.

Table 38. Consolidated Variable Interest Entities Financial Summary

Millions of dollars

| Item | | | | | |
|---|--------|---------|---------|---------|------------------------|
| | CPFF | ML | ML II | ML III | Total Maiden Lane LLCs |
| <i>Net portfolio assets of the consolidated LLCs and the net position of FRBNY and subordinated interest holders as of September 30, 2009</i> | | | | | |
| Net portfolio assets ¹ | 41,384 | 28,559 | 16,199 | 23,503 | 68,261 |
| Other liabilities of consolidated LLCs | (360) | (2,418) | (2) | (3) | (2,423) |
| Net portfolio assets available | 41,024 | 26,141 | 16,197 | 23,500 | 65,838 |
| | | | | | |
| Loans extended to the consolidated LLCs by FRBNY ² | 36,589 | 29,196 | 16,801 | 19,855 | 65,852 |
| Other beneficial interests ^{2,3} | 0 | 1,233 | 1,028 | 5,151 | 7,412 |
| Total loans | 36,589 | 30,429 | 17,829 | 25,006 | 73,264 |
| | | | | | |
| Cumulative change in net assets since the inception of the programs | | | | | |
| Allocated to FRBNY | 4,435 | (3,055) | (604) | 0 | (3,659) |
| Allocated to other beneficial interests | 0 | (1,233) | (1,028) | (1,506) | (3,767) |
| Cumulative change in net assets | 4,435 | (4,288) | (1,632) | (1,506) | (7,426) |
| | | | | | |
| <i>Summary of consolidated VIE net income for the current year through September 30, 2009, including a reconciliation of total consolidated VIE net income to the consolidated VIE net income recorded by FRBNY</i> | | | | | |
| Portfolio interest income ⁴ | 3,962 | 1,369 | 876 | 2,423 | 4,668 |
| Interest expense on loans extended by FRBNY ⁵ | (587) | (109) | (187) | (236) | (532) |
| Interest expense—other | 0 | (45) | (26) | (129) | (200) |
| Portfolio holdings gains (losses) ⁶ | 8 | (881) | (955) | (1,346) | (3,182) |
| Professional fees | (27) | (31) | (9) | (21) | (61) |
| Net income (loss) of consolidated LLCs | 3,356 | 303 | (301) | 691 | 693 |
| | | | | | |
| Less: Net income (loss) allocated to other beneficial interests ⁶ | 0 | (45) | (26) | 691 | 620 |
| Net income (loss) allocated to FRBNY | 3,356 | 348 | (275) | 0 | 73 |
| Add: Interest expense on loans extended by FRBNY, eliminated in consolidation ⁵ | 587 | 109 | 187 | 236 | 532 |
| Net income (loss) recorded by FRBNY | 3,943 | 457 | (88) | 236 | 605 |

Note: Unaudited. Components may not sum to totals because of rounding.

1. Commercial paper holdings are recorded at book value, which includes amortized cost and related fees. Maiden Lane, Maiden Lane II, and Maiden Lane III holdings are recorded at fair value.

2. Includes accrued interest.

3. The other beneficial interest holder related to Maiden Lane LLC is JPMC, and for Maiden Lane II and Maiden Lane III LLCs it is AIG.

4. Interest income is recorded when earned, and it includes amortization of premiums, accretion of discounts, and paydown gains and losses.

5. Interest expense recorded by each VIE on the loans extended by the FRBNY is eliminated when the VIEs are consolidated in the FRBNY's financial statements and, as a result, the consolidated VIEs' net income (loss) recorded by the FRBNY is increased by this amount.

6. The amount of Maiden Lane portfolio holdings losses allocated to FRBNY is \$3,802 million, which is the total of portfolio holdings gains (losses) reduced by the net income (loss) allocated to other beneficial interests. This amount is reported as "Investments held by consolidated variable interest entities gains (losses), net" on Table 35.

by the Reserve Banks. Net earnings from these loan programs were about \$2.2 billion during the first three quarters of 2009. All loans must be fully collateralized to the satisfaction of the lending Reserve Bank, with an appropriate haircut applied to the collateral. At September 30, 2009, no loans were impaired, and an allowance for loan losses was not required.

Consolidated Variable Interest Entities (VIEs) Financial Summary

Table 38 summarizes the assets and liabilities of various consolidated VIEs previously discussed in this report. It also summarizes the net position of senior and subordinated interest holders and the allocation of the change in net assets to interest holders. The FRBNY is the sole beneficiary of the CPFF LLC and the primary beneficiary of the Maiden Lane LLCs. Commercial paper holdings are recorded at book value,

which includes amortized cost and related fees. Maiden Lane LLC, Maiden Lane II LLC, and Maiden Lane III LLC holdings are recorded at fair value, which reflects an estimate of the price that would be received upon selling an asset if the transaction were to be conducted in an orderly market on the measurement date. Consistent with generally accepted accounting principles, the assets and liabilities of these LLCs have been consolidated with the assets and liabilities of the FRBNY. As a consequence of the consolidation, the extensions of credit from the FRBNY to the LLCs are eliminated.

"Net portfolio assets available" represent the net assets available to beneficiaries of the consolidated VIEs and for repayment of loans extended by the FRBNY. "Net income (loss) allocated to FRBNY" represents the allocation of the change in net assets and liabilities of the consolidated VIEs available for repayment of the loans extended by the FRBNY and other

beneficiaries of the consolidated VIEs. The differences between the fair value of the net assets available and the face value of the loans (including accrued interest) are indicative of gains or losses that would have been

incurred by the beneficiaries if the assets had been fully liquidated at prices equal to the fair value as of September 30, 2009.

Appendix

Additional Information Provided Pursuant to Section 129 of the Emergency Economic Stabilization Act of 2008

For the reasons discussed below, the Board does not anticipate that the Federal Reserve or taxpayers will incur any net loss on the loans provided by the Federal Reserve under the TSLF, PDCF, CPFF, TALF, or the AMLF, or the loans provided by the Federal Reserve Bank of New York (FRBNY) to AIG or to Maiden Lane LLC, Maiden Lane II LLC, or Maiden Lane III LLC (collectively, the “Maiden Lane facilities”). In making these assessments, the Board has considered, among other things, the terms and conditions governing the relevant facility and the type, nature, and value of the current collateral or other security arrangements associated with the facility. As discussed earlier in this report, the Federal Reserve has established various terms and conditions governing the types of collateral that may be pledged in support of a loan under a facility in order to mitigate the risk of loss. In the case of the Maiden Lane facilities, the Board also has considered analyses of the projected returns on the portfolio holdings of the respective special purpose vehicle (SPV) (the assets of which serve as collateral for the loan(s) extended to the SPV) conducted by the FRBNY or its advisors in connection with the most recent quarterly revaluation of the assets of each SPV.

Term Securities Lending Facility

As noted in the main portion of this report, no loans currently are outstanding under the TSLF, and all prior loans under the TSLF were repaid in full. The potential for losses on any new securities loans that may be extended under the TSLF is mitigated by the quality of the collateral accepted, haircuts on the value of the collateral, daily revaluation of the collateral, and limits on the participation of individual dealers. Moreover, loans extended under this program are with recourse to the borrower beyond the specific collateral pledged.

Primary Dealer Credit Facility

As noted in the main portion of this report, no loans currently are outstanding under the PDCF, and all prior loans under the PDCF were repaid in full. All credit extended by the Federal Reserve under the PDCF is with recourse to the broker-dealer entity beyond the

pledged collateral, and the risk of loss is mitigated by daily revaluation of the collateral and haircuts on the collateral value.

Commercial Paper Funding Facility

All advances by the FRBNY to the SPV established under the CPFF are secured by all the assets of the SPV. In addition, in situations where the obligations acquired by the SPV are asset-backed commercial paper (ABCP), the advances are further secured by the assets that support the commercial paper. To use the CPFF, each issuer also must pay a facility fee. Furthermore, each time an issuer sells commercial paper that is not ABCP to the SPV, the issuer must pay a surcharge unless it has entered into a collateral arrangement for the commercial paper, or obtained an endorsement or guarantee of its obligation on the commercial paper, that is acceptable to the FRBNY. All fees are retained by the SPV and serve as additional collateral for the FRBNY loans to provide an additional cushion against losses.

Term Asset-Backed Securities Loan Facility

Under TALF, the FRBNY makes loans on a collateralized basis to holders of eligible ABS and CMBS. The potential for the Federal Reserve or taxpayers to incur any net loss on the TALF loans extended by the FRBNY to the holders of ABS and CMBS is mitigated by the quality of the collateral, the risk assessment performed by the FRBNY on all pledged collateral, and the margin by which the value of the collateral exceeds the amount of the loan (the haircut). Potential losses to the Federal Reserve also are mitigated by the portion of interest on TALF loans to borrowers transferred to TALF LLC and by \$20 billion in credit protection provided by the Treasury under the Troubled Asset Relief Program, both of which are available to TALF LLC to purchase any collateral received by the FRBNY in lieu of repaying a TALF loan or foreclosed upon due to a default by the borrower.

Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility

As noted in the main portion of this report, no loans currently are outstanding under the AMLF, and all prior loans under the AMLF were repaid in full. Loans

extended under the AMLF are secured by ABCP that receives the highest rating from a major credit rating agency. Moreover, the ABCP is supported by the assets backing the paper.

Loans to Maiden Lane LLC, Maiden Lane II LLC, and Maiden Lane III LLC

The portfolio holdings of each of Maiden Lane LLC (Maiden Lane), Maiden Lane II LLC (ML-II) and Maiden Lane III LLC (ML-III) are revalued in accordance with generally accepted accounting principles (GAAP) as of the end of each quarter to reflect an estimate of the fair value of the assets on the measurement date. The fair value determined through these revaluations may fluctuate over time. In addition, the fair value of the portfolio holdings that is reported on the weekly H.4.1 statistical release reflects any accrued interest earnings, principal repayments, expense payments and, to the extent any may have occurred since the most recent measurement date, realized gains or losses. The fair values as of October 28, 2009—as shown in Table 1 of this report, and reported in greater detail in the H.4.1 release for that date—are based on quarterly revaluations as of September 30, 2009.

Because the collateral assets for the loans to Maiden Lane, ML-II, and ML-III are expected to generate cash proceeds and may be sold over time or held to maturity, the current reported fair values of the net portfolio holdings of Maiden Lane, ML-II, and ML-III do not reflect the amount of aggregate proceeds that the Federal Reserve could receive from the assets of the respective entity over the extended term of the loan to the entity. The extended terms of the loans provide an opportunity to dispose of the assets of each entity in an orderly manner over time and to collect interest on the assets held by the entity prior to their sale, other disposition, or maturity. Each of the loans extended to Maiden Lane, ML-II, and ML-III is current under the terms of the relevant loan agreement.

In addition, JPMorgan Chase will absorb the first \$1.15 billion of realized losses on the assets of Maiden Lane, should any occur. Similarly, certain U.S. insur-

ance subsidiaries of AIG have a \$1 billion subordinated position in ML-II and an AIG affiliate has a \$5 billion subordinated position in ML-III, which are available to absorb first any loss that ultimately is incurred by ML-II or ML-III, respectively. Moreover, under the terms of the agreements, the FRBNY is entitled to any residual cash flow generated by the collateral assets held by Maiden Lane after the loans made by the FRBNY and JPMorgan Chase are repaid, and $\frac{5}{6}$ ths and $\frac{2}{3}$ rds of any residual cash flow generated by the assets held by ML-II and ML-III, respectively, after the senior note of the FRBNY and the subordinate positions of AIG affiliates for these facilities are repaid.

Revolving Credit Facility for American International Group, Inc.

In light of the extremely broad and diverse range of collateral (including AIG's ownership interest in numerous nonpublic companies) and guarantees securing advances under the Revolving Credit Facility and the term of the credit facility, it is difficult to estimate with precision the aggregate value that ultimately will or may be received in the future from the sale of collateral or the enforcement of guarantees supporting the Revolving Credit Facility, and disclosure of any such estimate could interfere with the goal of maximizing value through the company's global divestiture program and, consequently, diminish the proceeds available to repay the loan. However, based on the substantial assets and operations supporting repayment of the loan, the capital and capital commitments provided to AIG under the TARP, and the most recently completed quarterly review of the security arrangements supporting the Revolving Credit Facility conducted as of September 30, 2009, by the FRBNY supported by analyses performed by its advisors, the Federal Reserve anticipates that the loans provided by the Federal Reserve under the Revolving Credit Facility, including interest and commitment fees under the modified terms of the facility, will be fully repaid and will not result in any net loss to the Federal Reserve or taxpayers.