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Money Market Investor Funding Facility: Questions and Answers

The following is intended to address operational questions about the Money Market Investor Funding Facility (MMIFF).

Effective October 23, 2008

Why is the Federal Reserve establishing the MMIFF?

The short-term debt markets have been under considerable strain in recent weeks as money market mutual funds and other investors have been increasing their liquidity positions by investing in shorter-term—frequently overnight—assets. By facilitating sales of money market instruments in the secondary market, the MMIFF should give money market mutual funds and other money market investors confidence that they can extend the terms of their investments and still maintain appropriate liquidity positions. Greater access to term financing from money market investors will enhance the ability of banks and other financial intermediaries to accommodate the credit needs of businesses and households.

How will the MMIFF work?

The Federal Reserve Bank of New York will provide senior secured funding to a series of special purpose vehicles established by the private sector (PSPVs) to finance the purchase of certain money market instruments from eligible investors. Eligible assets will include U.S. dollar-denominated certificates of deposit, bank notes and commercial paper issued by highly rated financial institutions and having remaining maturities of 90 days or less. Eligible investors will include U.S. 2a7 money market mutual funds and over time may include other U.S. money market investors. Each PSPV will finance its purchases of eligible assets by selling asset-backed commercial paper (ABCP) and by borrowing under the MMIFF. The PSPV will issue to the seller of the eligible asset subordinated ABCP equal to 10 percent of the asset's purchase price. The ABCP will be rated at least A-1/P-1/F1 by two or more major nationally recognized statistical rating organizations (NRSROs). The New York Fed will lend to each PSPV, on a senior secured basis, 90 percent of the purchase price of each eligible asset. The PSPVs will hold the eligible assets until they mature, and proceeds from the assets will be used to repay the Federal Reserve loan and the ABCP.

How is the Federal Reserve protected against loss?

The New York Fed loans under the MMIFF will be fully collateralized by all of the assets of the PSPVs. These assets will be short-term, high-credit-quality debt instruments. In addition, the ABCP issued by each PSPV and held by the investors will be subordinated to the New York Fed loans and will absorb approximately the first ten percent of any losses incurred by the PSPV. Any excess spread earned by the PSPVs will be retained as a further buffer against loss.

How many PSPVs will be established to borrow under the MMIFF?

The MMIFF will be initially authorized to lend to five PSPVs.

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How big will the MMIFF be?

The PSPVs will be authorized, in total, to purchase a maximum amount of \$600 billion in eligible assets. Since the New York Fed will provide 90 percent of the financing of the PSPVs, Federal Reserve lending could total \$540 billion.

When will the MMIFF become operational?

The New York Fed is working to complete the operational steps necessary to begin funding the PSPVs. The Board will make an additional announcement when the start date is known.

What investors will be eligible to sell assets to PSPVs participating in the MMIFF?

Eligible investors will include U.S. 2a7 money market mutual funds and over time may include other U.S. money market investors.

Why are only 2a7 money market mutual funds eligible to sell assets to the PSPVs?

The MMIFF is designed in large part to provide liquidity to money market mutual funds. The Federal Reserve's decision to establish the MMIFF hinges importantly on the key role money market mutual funds play as a source of short-term credit for financial and nonfinancial corporations. Other types of U.S. money market investors may become eligible investors over time.

Which assets are eligible to be sold to PSPVs participating in the MMIFF?

Each PSPV will purchase U.S. dollar-denominated certificates of deposit, bank notes, and commercial paper with a remaining maturity of 90 days or less. Each of the five PSPVs will only purchase debt instruments issued by ten financial institutions designated in its operational documents. Each of these financial institutions will have a short-term debt rating of at least A-1/P-1/F1 from two or more major NRSROs.

How were the fifty financial institutions chosen?

The fifty financial institutions were chosen by representatives of the U.S. money market mutual fund industry. The financial institutions were chosen primarily because they are among the largest issuers of highly rated short-term liabilities held by money market mutual funds, but also with an objective of achieving geographical diversification in each PSPV. The financial institutions include most of the largest global North American and European financial institutions.

Does the Federal Reserve intend to expand the MMIFF beyond debt instruments of these fifty financial institutions?

The Federal Reserve may consider such an expansion, however it will assess the effects of the MMIFF before expanding the MMIFF's coverage

What will be the rate of return on the ABCP?

Eligible investors will sell eligible assets to the PSPVs at amortized cost. Investors will initially earn an interest rate on the ABCP they receive that is at least 25 basis points below the interest rate on the assets they sell. When a PSPV is wound down, it is likely that each ABCP investor will receive a contingent distribution of funds, to the extent there is available accumulated income in the PSPV, that will increase the yield on the investor's ABCP up to 25 basis points above the yield on the assets it sold to the PSPV.

At what rate will the Federal Reserve lend to the PSPVs under the MMIFF?

The New York Fed will lend to the PSPVs at the primary credit rate, currently 1.75 percent. In order to reduce the interest rate risk of the PSPVs, however, the Federal Reserve has agreed to subordinate its right to receive certain amounts of potential interest payments. Specifically, if the primary credit rate rises above 2.25 percent, the New York Fed's right to receive interest above 2.25 percent will be subordinated to the rights of the ABCP holders to receive principal and interest. Any accumulated income in a PSPV not distributed to the ABCP investors will accrue to the New York Fed.

What role will the private sector play in the MMIFF?

JP Morgan Chase will be the sponsor and manager of the conduits; it was chosen for this role by representatives of the money market

mutual fund industry. A wide variety of banks and financial institutions will provide custodial, private placement and administrative services to the PSPVs.

How will investors sell assets to PSPVs participating in the MMIFF?

Procedures for selling assets to a PSPV are under development. The Investment Company Institute (202-326-5845) will answer questions regarding the details and operational aspects of the PSPVs.

Is there any limit on how much an investor may sell to the PSPVs participating in the MMIFF?

The MMIFF program documents will not limit how much a single investor may sell to a PSPV, but SEC Rule 2a-7 under the Investment Company Act will place quantitative limits on the ability of money market mutual funds to sell assets to the PSPVs.

Over what time period will the MMIFF operate?

The PSPVs will begin purchasing eligible assets as soon as possible and will cease purchasing assets on April 30, 2009, unless the Board of Governors of the Federal Reserve System extends the MMIFF. The New York Fed will continue to fund the PSPVs after such date until the PSPVs' underlying assets mature.

What is the relationship between the CPFF and the MMIFF?

The MMIFF complements the CPFF. The CPFF will finance an SPV's purchase of three-month commercial paper from issuers at interest rates chosen to be above market rates in more normal times, assuring participating issuers that they need pay no more than the CPFF rates to roll over their commercial paper. The MMIFF will tend to pull down short-term debt rates by relieving some of the balance sheet pressures on money market investors. Both the MMIFF and the CPFF are intended to improve liquidity in short-term debt markets and thereby increase the availability of credit for businesses and households.

What is the relationship between the AMLF and the MMIFF?

The AMLF finances the purchases of ABCP by banking organizations with loans from the Federal Reserve Bank of Boston at the primary credit rate. The loans are collateralized by the ABCP but are without recourse to the borrowing banking organization. Under the MMIFF, the New York Fed's loans are collateralized by a different set of money market instruments and are with recourse to the borrowing PSPV. Both the AMLF and the MMIFF are intended to facilitate the sale of assets by money market mutual funds in the secondary market to increase their liquidity and encourage them to lend at longer maturities, but the MMIFF facilitates the sale of a different set of assets than the AMLF.

What is the legal basis for the MMIFF?

The MMIFF is authorized under section 13(3) of the Federal Reserve Act, which permits the Board, in unusual and exigent circumstances, to authorize Reserve Banks to extend credit to individuals, partnerships, and corporations that are unable to obtain adequate credit accommodations.

How will the Federal Reserve report lending under the MMIFF?

Balance sheet items related to the MMIFF will be reported on the H.4.1 weekly statistical release entitled "Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks." There will be an explanatory cover note on the release when items are added.

Where should questions regarding the MMIFF be directed?

Questions should be directed to the New York Fed's Public Affairs department: 212-720-6130.