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Department of the Treasury

PRESS RELEASES

Numbers not used HP-1116 and 1128.
HP-1161 included, but not listed in the index.

August 1, 2008
HP-1108

Treasury Economic Update 8.1.08

"Today's jobs data reflect the headwinds affecting the U.S. economy--the housing correction, credit market strains, and higher energy prices. Yesterday's GDP data reflect the positive impact and timeliness of the stimulus payments, which will continue to support spending as we work through these headwinds."
Assistant Secretary Phillip Swagel, August 1, 2008

Employment Fell in July:

Job Growth: Payroll employment fell by 51,000 in July, following a decrease of 51,000 in June. The United States has added about 7.8 million jobs since August 2003. Employment increased in 33 states and the District of Columbia over the year ending in June. *(Last updated: August 1, 2008)*

Unemployment: The unemployment rate was 5.7 percent in July, up from 5.5 percent in June. *(Last updated: August 1, 2008)*

Growth Was Moderate in Q2:

Real GDP: Real GDP growth in Q2 was 1.9 percent at an annual rate, up from 0.9 percent growth in Q1. Consumer spending added 1.1 percentage points to growth in the first quarter and net exports added 2.4 percentage points. These positives were partly offset by the continued drag from housing and a large inventory reduction. *(Last updated: July 31, 2008)*

Signs of Economic Strength Include Exports and Low Inflation:

Exports: Strong global growth is boosting U.S. exports, which grew 10.2 percent over the past 4 quarters. *(Last updated: July 31, 2008)*

Inflation: Core inflation remains contained. The consumer price index excluding food and energy rose 2.4 percent over the 12 months ending in June.
(Last updated: July 16, 2008)

The Economic Stimulus Package Will Provide a Temporary Boost to Our Economy:

The package will help our economy weather the housing correction and other challenges. The Economic Stimulus Act of 2008, signed into law by President Bush has two main elements--stimulus payments so that working Americans have more money to spend and temporary tax incentives for businesses to invest and grow. Together, the legislation will provide about $150 billion of stimulus for the economy in 2008, providing a meaningful boost to the U.S. economy in 2008.
(Last updated: February 29, 2008)

Pro-Growth Policies Will Enhance Long-Term U.S. Economic Strength:

We made significant progress on the deficit. The FY07 budget deficit was down to 1.2 percent of GDP, from 1.9 percent in FY06. Much of the improvement in the deficit reflects strong revenue growth, which in turn reflects strong economic growth. The economic stimulus package and the slowing economy contribute to the near-term budget deficit. The Mid-Session Review of the Budget projects that the deficit will be 2.7 percent of GDP in FY08 and 3.3 percent of GDP in FY09. Looking ahead, higher spending on entitlement programs dominates the future fiscal situation; we must squarely face up to the challenge of reforming these programs.

http://www.treas.gov/economic-plan/

ECONOMY

U.S. DEPARTMENT OF THE TREASURY

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Printer Friendly Version of the U.S. Economic Strength

The U.S. economy is fundamentally strong, but the housing correction, credit turmoil, and high oil prices are weighing on growth this year and short-term risks are to the downside. The Economic Stimulus Act of 2008, signed into law on February 13, will help protect the strength of our economy as we weather the housing downturn and other challenges. This agreement includes short-term incentives to bolster business investment and consumer spending to keep our economy growing and creating jobs this year.

LATEST NEWS

Treasury Releases Fifth in a Series of Social Security Papers

FOCUS ON

Economic Growth Package

- Week 11 Wrap-Up: Treasury Sent 7.530 Million Stimulus Payments This Week
- Treasurer Cabral Remarks on the Economic Stimulus Package
- Paulson Remarks on the Economic Stimulus Package
- Fact Sheet: State-by-State Benefit of the Economic Stimulus Act of 2008
- Fact Sheet: Examples of How the Economic Growth Package will Benefit Americans
- Paulson Statement on Senate Passage of Economic Growth Package
- Paulson Statement on House Passage of Economic Growth Legislation
- Paulson Answers Questions on Economic Growth Agreement
- Paulson Press Briefing on the Bipartisan Economic Growth Agreement
- White House Fact Sheet: New Growth Package Meets Criteria to Keep Our Economy Healthy
- Bush Statement on Economic Growth Agreement
- Paulson Remarks on the Economy
- Paulson Takes Questions at the White House
- Paulson Remarks at White House Press Briefing
- White House Fact Sheet: Taking Action to Keep Our Economy Healthy
- Transcript: President's Remarks

Treasury Releases Social Security Papers

To build on the discussions that Secretary Paulson has had with

search

"Today's labor market data reflect headwinds the U.S. economy face from the housing correction and financial market strains. At the sa time, exports have been a source strength, while the recent decline prices will help relieve some of th pressures facing consumers. We expect the U.S. economy to grow moderate pace this year." Assista Secretary

Assistant Secretary Phillip Swage
September 5, 2008

MORE INFORMATION

- Economic Report of the Presic
- The White House Economy ar Budget
- Bureau of Economic Analysis
- Bureau of Labor Statistics
- The Federal Reserve
- Economic Data Tables

RELATED OFFICES

- Treasury's Office of Economic Policy

members of Congress in both parties, Treasury has released a series of issue briefs that discuss Social Security reform, focusing on the nature of the problem and those aspects of reform that have broad support.

- Paulson Statement on Treasury Social Security Papers on Common Ground
- **Issue Brief 1**: Social Security Reform: The Nature of the Problem
- **Issue Brief 2**: Social Security Reform: A Framework for Analysis
- **Issue Brief 3**: Social Security Reform: Benchmarks for Assessing Fairness and Benefit Adequacy
- **Issue Brief 4**: Social Security Reform: Mechanisms for Achieving True Pre-Funding
- **Issue Brief 5**: Treasury Releases Fifth in a Series of Social Security Papers

U.S. Economic Strength

Employment Fell in August:

Job Growth: Payroll employment fell by 84,000 in August, following a decrease of 60,000 in July. The United States has added about 7.7 million jobs since August 2003. Employment increased in 29 states and the District of Columbia over the year ending in July. *(Last updated: September 5, 2008)*

Unemployment: The unemployment rate was 6.1 percent in August, up from 5.7 percent in July. *(Last updated: September 5, 2008)*

Growth Was Solid in Q2:
Real GDP: Real GDP growth in Q2 was 3.3 percent at an annual rate, up from 0.9 percent growth in Q1. Consumer spending added 1.3 percentage points to growth in the first quarter and net exports added 3.0 percentage points. These positives were partly offset by the continued drag from housing and a large inventory reduction. *(Last updated: August 28, 2008)*

Signs of Economic Strength Include Exports and Low Inflation:
Exports: Strong global growth is boosting U.S. exports, which grew 11.2 percent over the past 4 quarters. *(Last updated: August 28, 2008)*
Inflation: Core inflation remains contained. The consumer price index excluding food and energy rose 2.5 percent over the 12 months ending in July. *(Last updated: August 15, 2008)*

The Economic Stimulus Package Will Provide a Temporary Boost to Our Economy:
The package will help our economy weather the housing correction and other challenges. The Economic Stimulus Act of 2008, signed into law by President Bush has two main elements—stimulus payments so that working Americans have more money to spend and temporary tax incentives for businesses to invest and grow. Together, the legislation will provide about $150 billion of stimulus for the economy in 2008, providing a meaningful boost to the U.S. economy in 2008.*(Last updated: February 29, 2008)*

Pro-Growth Policies Will Enhance Long-Term U.S. Economic Strength:
We made significant progress on the deficit. The FY07 budget deficit was down to 1.2 percent of GDP, from 1.9 percent in FY06. Much of the improvement in the deficit reflects strong revenue growth, which in turn reflects strong economic growth. The economic stimulus package and the slowing economy contribute to the near-term budget deficit. The Mid-Session Review of the

Budget projects that the deficit will be 2.7 percent of GDP in FY08 and 3.3 percent of GDP in FY09. Looking ahead, higher spending on entitlement programs dominates the future fiscal situation; we must squarely face up to the challenge of reforming these programs.

Last Updated: September 5, 2008

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August 5, 2008
HP-1109

Treasury Designates the Financial Network of Major Sinaloa Cartel Operator Rigoberto Gaxiola Medina

Washington, DC--The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today named 14 companies and 17 individuals tied to drug trafficking kingpin Rigoberto Gaxiola Medina as specially designated narcotics traffickers (SDNTs). The designees, all based in Mexico, are now subject to economic sanctions pursuant to the Foreign Narcotics Kingpin Designation Act.

Rigoberto Gaxiola Medina, currently imprisoned in Mexico, is the leader of a major drug trafficking organization responsible for transporting thousands of tons of marijuana from Mexico into the Southwestern United States. His organization built and employed a network of underground tunnels to move drugs and cash between Mexico and the United States. As a gate-keeper for marijuana shipments entering the United States, Gaxiola's organization functions as a vital component of the Joaquin "Chapo" Guzman Loera drug trafficking organization and the Sinaloa Cartel.

"We are sanctioning Rigoberto Gaxiola Medina's network of companies and associates to support and advance the Mexican authorities' important efforts against this criminal organization," said OFAC Director Adam J. Szubin.

The designation includes key Gaxiola associates Roque Duarte Munoz, Armando Aguirre Cardona, Juan Luis Guzman Enriquez and Juan Francisco Quintero Arce, all of whom were arrested in 2003 along with Rigoberto Gaxiola Medina by Mexican federal authorities. Another associate designated today, Sandra Lucero de Martinez, was arrested by U.S. law enforcement in 2005 and subsequently extradited to Mexico to face organized crime charges. All six individuals are currently imprisoned on a combination of convictions for organized crime and unlawful use of military-grade weapons.

Despite the 2003 arrests, Rigoberto Gaxiola Medina's financial network for laundering drug proceeds has continued to function under the leadership of his family and close business associates, including his wife, Maria Del Rosario Garcia Duran, his sons Rigoberto Gaxiola Garcia and Carlos Alberto Gaxiola Garcia, and his daughter, Maria Elena Gaxiola Garcia, all of whom are also being designated today by OFAC. Other key associates designated by this action are Eleazar Fontes Moreno, Rafael Angel Valencia Jaime, and Ana Cristina Arce Borboa.

The financial network designated by today's action is comprised of companies in the Mexican states of Sonora, Sinaloa, and Jalisco, including: 4 mining firms, *Minera Rio Presidio, S.A. De C.V.*, *Minera La Castellana y Anexas, S.A. De C.V.*, *Copa de Plata, S.A. De C.V.* and *Compania Minera Del Rio Cianury, S.A. De C.V.*; a car dealership, *Distribuidora Gran Auto, S.A. De C.V.*; and a private gym, *Bioesport, S.A. De C.V.*

This action is part of ongoing efforts under the Foreign Narcotics Kingpin Designation Act to apply financial measures against significant foreign narcotics traffickers worldwide. More than 300 businesses and individuals associated with 75 drug kingpins have been designated pursuant to the Kingpin Act since June 2000.

Today's designation would not have been possible without key support from the Drug Enforcement Administration (DEA) Resident Office in Hermosillo, Sonora, Mexico; DEA's Financial Operations Division; the Department of Homeland Security's Immigration and Customs Enforcement field office in San Diego; and the U.S. Attorney's Office, District of Arizona.

Today's designation action freezes any assets the 31 designees may have under U.S. jurisdiction and prohibits U.S. persons from conducting transactions or dealings in property interests of the designated individuals and entities. Penalties for violations of the Kingpin Act range from civil penalties of up to $1,075,000 per violation to more severe criminal penalties. Criminal penalties for corporate officers may include up to 30 years in prison and fines up to $5,000,000. Criminal fines for corporations may reach $10,000,000. Other individuals face up to 10 years in prison for criminal violations of the Kingpin Act and fines pursuant to Title 18 of the United States Code.

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REPORTS

- Designation Chart

Rigoberto Gaxiola Medina Financial Network

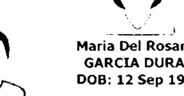
Department of the Treasury
Office of Foreign Assets Control

Foreign Narcotics Kingpin Designation Act
August 2008

Mexican Custody

All individuals depicted in this chart are Mexican nationals

Gaxiola Family Members



Rigoberto GAXIOLA GARCIA
DOB: 25 Jan 1973
Alt. DOB: 26 Jan 1973

Maria Del Rosario GARCIA DURAN
DOB: 12 Sep 1953

Maria Elena GAXIOLA GARCIA
DOB: 18 Aug 1975

Carlos Alberto GAXIOLA GARCIA
DOB: 02 Mar 1978

Key Business Associates

Eleazar FONTES MORENO
DOB: 23 July 1947

Jose Manuel FITCH TOVAR
DOB: 28 Dec 1936

Jose Elmer FITCH PARENTE
DOB: 27 Jan 1965

Rafael Angel VALENCIA JAIME
DOB: 22 Jan 1968

Pablo Antonio FITCH PARENTE
DOB: 24 Mar 1966

Manuel Dario BALDENEGRO BASTIDAS
DOB: 11 Jan 1963

Ana Cristina ARCE BORBOA
DOB: 22 May 1961

Jose Raul VEGA SANCHEZ
DOB:19 Oct 1956

Apprehended in Mexico

Juan Francisco QUINTERO ARCE
DOB: 26 Aug 1959

Sandra LUCERO DE MARTINEZ
DOB: 29 Oct 1969

Roque DUARTE MUNOZ
DOB: 09 Dec 1960

Juan Luis GUZMAN ENRIQUEZ
DOB: 24 Jun 1950

Armando AGUIRRE CARDONA
DOB: 28 Oct 1955

Mining Companies

COMPANIA MINERA DEL RIO CIANURY SA DE CV
Culiacan, Sinaloa, Mexico

COPA DE PLATA SA DE CV
Culiacan, Sinaloa, Mexico

MINERA RIO PRESIDIO SA DE CV
Culiacan, Sinaloa, Mexico

MINERA LA CASTELLANA Y ANEXAS SA DE CV
Culiacan, Sinaloa, Mexico

Real Estate/Construction Companies

DISTRIBUIDORA DE HERMOSILLO GAXIOLA HERMANOS SA DE CV
Hermosillo, Sonora, Mexico
Guadalajara, Jalisco, Mexico

INMOBILIARIA GAXIOLA HERMANOS SA DE CV
Hermosillo, Sonora, Mexico
Guadalajara, Jalisco, Mexico

MOLDURAS DEL NOROESTE SA DE CV
Hermosillo, Sonora, Mexico

INMUEBLES SIERRA VISTA SA DE CV
Hermosillo, Sonora, Mexico

TEMPLE DEL PITIC SA DE CV
Hermosillo, Sonora, Mexico

GRUPO INDUSTRIAL GAXIOLA HERMANOS SA DE CV
Hermosillo, Sonora, Mexico
Guadalajara, Jalisco, Mexico

Retail/Transport Companies

BIOESPORT SA DE CV
Hermosillo, Sonora, Mexico

AGRICOLA GAXIOLA SA DE CV
Hermosillo, Sonora, Mexico

DISTRIBUIDORA GRAN AUTO SA DE CV
Hermosillo, Sonora, Mexico

FLETES Y TRANSPORTES GAXGAR SA DE CV
Hermosillo, Sonora, Mexico
Guadalajara, Jalisco, Mexico

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August 6, 2008
HP-1110

Treasury, IRS Issue Ruling Preventing Certain Pension Transfers

Agencies Offer Framework for Possible Legislative Change

Washington, DC--The Treasury Department and the Internal Revenue Service today issued Revenue Ruling 2008-45, which states that a transfer of a tax-qualified pension plan from an employer to an unrelated taxpayer when the transfer is not connected with a transfer of significant business assets, operations, or employees, is not permissible under current law. *A copy of the ruling is attached.*

Accompanying today's ruling, the Administration put forth a framework of principles, as described below, that should guide the development of legislation that could permit such transactions, in circumstances where the transaction is in the best interest of plan participants, their beneficiaries, employers, and the pension insurance system. The legislative framework was developed by the Treasury Department, the Labor Department, the Commerce Department, and the Pension Benefit Guaranty Corporation.

Under the legislative framework, a pension plan (or a portion of a plan) under which benefits are no longer accruing (i.e., a frozen plan) could be transferred to an entity unrelated to the employer (or former employer) of the participants in the plan, provided that certain conditions are met. The conditions would reflect the following fundamental requirements:

- Plan participants, their representatives, and ERISA regulators would be required to receive advance notice of a plan transfer, and the parties to the transaction would be required to provide regulators information necessary to review and approve the proposed transaction.
- Only financially strong entities in well-regulated sectors would be permitted to acquire a pension plan in a plan transfer transaction.
- The parties to the transaction would be required to demonstrate that participants' benefits and the pension insurance system would be exposed to less risk as a result of the transfer, and that the transfer would be in the best interests of the participants and beneficiaries.
- Limitations on transfers would be imposed to limit undue concentration of risk.
- Transferees and members of their controlled groups would assume full responsibility for the liabilities of transferred plans and would comply with post-transaction reporting and fiduciary requirements.
- Subsequent transfer transactions would be subject to the rules applicable to original transfer transactions.

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REPORTS

- Revenue Ruling 2008-45

Part I – Rulings and Decisions Under the Internal Revenue Code of 1986

Section 401. — Qualified Pension, Profit-sharing, and Stock Bonus Plans

26 CFR 1.401-1: Qualified pension, profit-sharing, and stock bonus plans.

(Also, § 414.)

Rev. Rul. 2008-45

ISSUE

Is the exclusive benefit rule of § 401(a) of the Internal Revenue Code ("Code") violated if the sponsorship of a qualified retirement plan is transferred from an employer to an unrelated taxpayer and the transfer of the sponsorship of the plan is not in connection with a transfer of business assets, operations, or employees from the employer to the unrelated taxpayer?

FACTS

Corporation A maintains an underfunded defined benefit plan with no ongoing accrual of benefits. Corporation A transfers sponsorship of the plan to Subsidiary B, a wholly-owned subsidiary of Corporation A. Subsidiary B does not maintain any trade or business, has no employees, and has nominal assets. As part of the transfer, the plan document is amended to substitute Subsidiary B as the plan sponsor and to provide for Subsidiary B to assume Corporation A's responsibilities under the plan.

In connection with the transfer of the plan sponsorship, Corporation A also transfers cash and marketable securities to Subsidiary B. The amount of the transferred assets is equal to the amount of the plan's underfunding, as determined with reference to specified actuarial assumptions, plus an additional margin.

Shortly after the sponsorship of the plan and these assets are transferred to Subsidiary B, ownership of at least 80% of Subsidiary B's stock is transferred to

Corporation C, an unrelated corporation. After this transaction, Subsidiary B is no longer a member of the Corporation A controlled group, within the meaning of § 414(b) of the Code, but instead is a member of the Corporation C controlled group. The transaction is not in connection with the transfer of business assets (other than cash or marketable securities transferred to Subsidiary B), operations, or employees from Corporation A's controlled group to Corporation C's controlled group. The only business risk or opportunity in the transaction for Corporation C is to profit from the acquisition and operation of the plan.

LAW

Section 401(a) provides that, in order to be qualified under that section, a stock bonus, pension, or profit-sharing plan of an employer must be for the exclusive benefit of its employees or their beneficiaries. Consistent with this exclusive benefit rule of § 401(a), § 1.401-1(a)(2)(i) of the Income Tax Regulations provides, in part, that a qualified pension plan is a definite written program and arrangement which is established and maintained by an employer to provide for the livelihood of employees or their beneficiaries after the retirement of the employees. Similarly, § 1.401-1(a)(3)(ii) requires that a qualified plan be established by an employer for the exclusive benefit of its employees or their beneficiaries in order to be qualified.

Section 414(a) provides that, in the case in which the employer maintains a plan of a predecessor employer, service for such predecessor is treated as service for the employer.

Section 414(b) provides that, for specified purposes, including § 401, all employees of all corporations which are members of a controlled group of corporations

are treated as employed by a single employer.

ANALYSIS

Unlike other situations where the sponsorship of a plan is transferred in connection with the acquisition of business assets or operations, Subsidiary B does not maintain a business and its assets only compensate Corporation C for assuming Corporation A's responsibility under the plan to make contributions to the plan. Therefore, any profit or loss to Corporation C resulting from the transaction would be solely from the use of the assets that are transferred to its controlled group in connection with the acquisition and operation of the plan.

In accordance with § 414(b), all employees of all corporations which are members of a controlled group of corporations are treated as employed by a single employer. Accordingly, even though Subsidiary B has no employees of its own, it is treated as an employer with respect to the employees of the Corporation A controlled group while it is part of that controlled group. For purposes of the exclusive benefit rule of § 401(a), however, Subsidiary B will no longer be treated as an employer with respect to the employees of the Corporation A controlled group when it is no longer a member of that controlled group.

This result is not affected by § 414(a). Section 414(a) provides that if an employer maintains a plan of a predecessor employer, then service for such predecessor is treated as service for the employer. By its terms, § 414(a) applies only to an "employer" and does not create employer status for a taxpayer that is not otherwise an employer.

Accordingly, when Subsidiary B is no longer a member of the Corporation A

controlled group, the plan does not satisfy the exclusive benefit rule of § 401(a) because it is not maintained by an employer to provide retirement benefits for its employees and their beneficiaries. This conclusion would be the same even if the new controlled group has some employees covered by the plan after the transaction, or some business assets or operations are transferred, where substantially all the business risks and opportunities under the transaction are those associated with the transfer of the sponsorship of the plan.

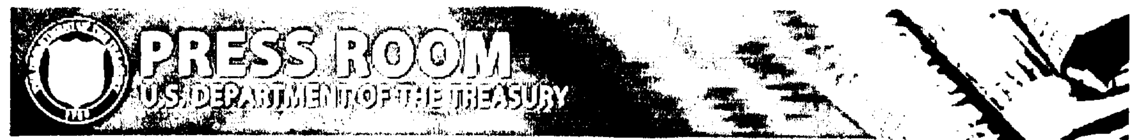
HOLDING

The exclusive benefit rule of § 401(a) is violated if the sponsorship of a qualified retirement plan is transferred from an employer to an unrelated taxpayer and the transfer of the sponsorship of the plan is not in connection with a transfer of business assets, operations, or employees from the employer to the unrelated taxpayer.

This ruling does not address any federal income tax consequences other than those specifically addressed herein.

DRAFTING INFORMATION

The principal author of this revenue ruling is Robert M. Walsh of the Employee Plans, Tax Exempt and Government Entities Division. For further information regarding this revenue ruling, please call the Employee Plans taxpayer assistance number between 8:30 a.m. and 4:30 p.m. Eastern time, Monday through Friday at (877) 829-5500 (a toll-free number) or email Mr. Walsh at RetirementPlanQuestions@irs.gov.



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August 8, 2008
HP-1111

U.S., Malta Sign Income Tax Treaty

Washington, DC--The Treasury Department today announced that U.S. Ambassador to Malta, Molly Bordonaro, and Malta Finance Minister Tonio Fenech have signed a new income tax treaty between the two countries in the Maltese capital of Valletta.

The agreement provides for reduced withholding rates on cross-border dividend payments generally with the elimination of withholding on cross-border dividend payments to pension funds. It also generally provides for withholding at a 10-percent rate on interest, royalties, and other income.

The treaty also contains a comprehensive limitation of benefits provision and provides for the exchange of information between the competent authorities to facilitate the administration of each country's tax laws.

The final version of the treaty is attached.

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REPORTS

- U.S.-Malta Income Tax Treaty

CONVENTION BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF MALTA FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON INCOME

The Government of the United States of America and the Government of Malta, desiring to conclude a Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, have agreed as follows:

Article 1

GENERAL SCOPE

1. This Convention shall apply only to persons who are residents of one or both of the Contracting States, except as otherwise provided in the Convention.

2. This Convention shall not restrict in any manner any benefit now or hereafter accorded:

a) by the laws of either Contracting State; or

b) by any other agreement to which the Contracting States are parties.

3. a) Notwithstanding the provisions of subparagraph b) of paragraph 2 of this Article:

i) for purposes of paragraph 3 of Article XXII (Consultation) of the General Agreement on Trade in Services, the Contracting States agree that any question arising as to the interpretation or application of this Convention and, in particular, whether a taxation measure is within the scope of this Convention, shall be determined exclusively in accordance with the provisions of Article 25 (Mutual Agreement Procedure) of this Convention; and

ii) the provisions of Article XVII of the General Agreement on Trade in Services shall not apply to a taxation measure unless the competent authorities agree that the measure is not within the scope of Article 24 (Non-Discrimination) of this Convention.

b) For the purposes of this paragraph, a "measure" is a law, regulation, rule, procedure, decision, administrative action, or any similar provision or action.

4. Except to the extent provided in paragraph 5, this Convention shall not affect the taxation by a Contracting State of its residents (as determined under Article 4 (Resident)) and its citizens. Notwithstanding the other provisions of this Convention, a former citizen or former long-term resident of a Contracting State may, for the period of ten years following the loss of such status, be taxed in accordance with the laws of that Contracting State.

5. The provisions of paragraph 4 shall not affect:

a) the benefits conferred by a Contracting State under paragraph 2 of Article 9 (Associated Enterprises), paragraphs 1 b), 2, and 5 of Article 17 (Pensions, Social Security, Annuities, Alimony, and Child Support), and Articles 18 (Pension Funds), 23 (Relief from Double Taxation), 24 (Non-Discrimination), and 25 (Mutual Agreement Procedure); and

b) the benefits conferred by a Contracting State under Articles 19 (Government Service), 20 (Students and Trainees), and 27 (Members of Diplomatic Missions and Consular Posts), upon individuals who are neither citizens of, nor have been admitted for permanent residence in, that State.

6. An item of income, profit or gain derived through an entity that is fiscally transparent under the laws of either Contracting State shall be considered to be derived by a resident of a State to the extent that the item is treated for purposes of the taxation law of such Contracting State as the income, profit or gain of a resident.

Article 2

TAXES COVERED

1. This Convention shall apply to taxes on income imposed on behalf of a Contracting State irrespective of the manner in which they are levied.

2. There shall be regarded as taxes on income all taxes imposed on total income, or on elements of income, including taxes on gains from the alienation of property.

3. The existing taxes to which this Convention shall apply are:

   a) in the case of the United States: the Federal income taxes imposed by the Internal Revenue Code (but excluding social security and unemployment taxes), and the Federal excise taxes imposed with respect to private foundations;

   b) in the case of Malta: the income tax.

4. This Convention shall apply also to any identical or substantially similar taxes that are imposed after the date of signature of the Convention in addition to, or in place of, the existing taxes. The competent authorities of the Contracting States shall notify each other of any changes that have been made in their respective taxation or other laws that significantly affect their obligations under this Convention.

Article 3

GENERAL DEFINITIONS

1. For the purposes of this Convention, unless the context otherwise requires:

a) the term "person" includes an individual, an estate, a trust, a partnership, a company, and any other body of persons;

b) the term "company" means any body corporate or any entity that is treated as a body corporate for tax purposes according to the laws of the state in which it is organized;

c) the terms "enterprise of a Contracting State" and "enterprise of the other Contracting State" mean respectively an enterprise carried on by a resident of a Contracting State, and an enterprise carried on by a resident of the other Contracting State; the terms also include an enterprise carried on by a resident of a Contracting State through an entity that is treated as fiscally transparent in that Contracting State;

d) the term "enterprise" applies to the carrying on of any business;

e) the term "business" includes the performance of professional services and of other activities of an independent character;

f) the term "international traffic" means any transport by a ship or aircraft, except when such transport is solely between places in a Contracting State;

g) the term "competent authority" means:

i) in the United States: the Secretary of the Treasury or his delegate; and

ii) in Malta: the Minister responsible for finance or his authorized representative;

h) the term "United States" means the United States of America, and includes the states thereof and the District of Columbia; such term also includes the territorial sea thereof and the sea bed and subsoil of the submarine areas adjacent to that territorial sea, over which the United States exercises sovereign rights in accordance with international law; the term, however, does not include

Puerto Rico, the Virgin Islands, Guam or any other United States possession or territory;

i) the term "Malta" means the Republic of Malta and, when used in a geographical sense, means the Island of Malta, the Island of Gozo and the other islands of the Maltese archipelago including the territorial sea thereof as well as any area of the sea-bed, its sub-soil and the superjacent water column adjacent to the territorial sea, where the Republic of Malta exercises sovereign rights, jurisdiction or control in accordance with international law and its national law, including its legislation relating to the exploration of the Continental Shelf and exploitation of its natural resources;

j) the term "national" of a Contracting State means:

i) any individual possessing the nationality or citizenship of that State; and

ii) any legal person, partnership or association deriving its status as such from the laws in force in that State;

k) the term "pension fund" means any person established in a Contracting State that is:

i) in the case of pension funds established in the United States, generally exempt from income taxation, and in the case of pension funds established in Malta, a licensed fund or scheme subject to tax only on income derived from immovable property situated in Malta; and

ii) operated principally either:

A) to administer or provide pension or retirement benefits; or

B) to earn income for the benefit of one or more persons meeting the requirements of subparagraph i) and clause A) of this subparagraph.

2. As regards the application of the Convention at any time by a Contracting State any term not defined therein shall, unless the context otherwise requires, or the competent authorities agree to a common meaning pursuant to the provisions of Article 25 (Mutual Agreement Procedure), have the meaning which it has at that time under the law of that State for the purposes of the taxes to which the Convention applies, any

meaning under the applicable tax laws of that State prevailing over a meaning given to the term under other laws of that State.

Article 4

RESIDENT

1. For the purposes of this Convention, the term "resident of a Contracting State" means any person who, under the laws of that State, is liable to tax therein by reason of his domicile, residence, citizenship, place of management, place of incorporation, or any other criterion of a similar nature, and also includes that State and any political subdivision or local authority thereof. This term, however, does not include any person who is liable to tax in that State in respect only of income from sources in that State or of profits attributable to a permanent establishment in that State.

2. The term "resident of a Contracting State" includes:

a) a pension fund established in that State; and

b) an organization that is established and maintained in that State exclusively for religious, charitable, scientific, artistic, cultural, or educational purposes,

notwithstanding that all or part of its income or gains may be exempt from tax under the domestic law of that State.

3. Where, by reason of the provisions of paragraph 1, an individual is a resident of both Contracting States, then his status shall be determined as follows:

a) he shall be deemed to be a resident only of the State in which he has a permanent home available to him; if he has a permanent home available to him in both States, he shall be deemed to be a resident only of the State with which his personal and economic relations are closer (center of vital interests);

b) if the State in which he has his center of vital interests cannot be determined, or if he does not have a permanent home available to him in either State, he shall be deemed to be a resident only of the State in which he has an habitual abode;

c) if he has an habitual abode in both States or in neither of them, he shall be deemed to be a resident only of the State of which he is a national;

d) if he is a national of both States or of neither of them, the competent authorities of the Contracting States shall endeavor to settle the question by mutual agreement.

4. Where by reason of the provisions of paragraph 1 a company is a resident of both Contracting States, then if it is incorporated under the laws of one of the Contracting States or a political subdivision thereof, but not under the laws of the other Contracting State or a political subdivision thereof, such company shall be deemed to be a resident of the first-mentioned Contracting State. In all other cases involving dual resident companies, the competent authorities of the Contracting States shall endeavor to determine the mode of application of the Convention to such company. If the competent authorities do not reach such an agreement, that company will not be treated as a resident of either Contracting State for purposes of its claiming any benefits provided by the Convention.

5. Where by reason of the provisions of paragraphs 1 and 2 of this Article a person other than an individual or a company is a resident of both Contracting States, the competent authorities of the Contracting States shall by mutual agreement endeavor to determine the mode of application of this Convention to that person.

Article 5

PERMANENT ESTABLISHMENT

1. For the purposes of this Convention, the term "permanent establishment" means a fixed place of business through which the business of an enterprise is wholly or partly carried on.

2. The term "permanent establishment" includes especially:

a) a place of management;

b) a branch;

c) an office;

d) a factory;

e) a workshop; and

f) a mine, an oil or gas well, a quarry, or any other place of extraction of natural resources.

3. A building site or construction or installation project, or an installation or drilling rig or ship used for the exploration of natural resources, constitutes a permanent establishment only if it lasts, or the exploration activity continues for more than twelve months.

4. Notwithstanding the preceding provisions of this Article, the term "permanent establishment" shall be deemed not to include:

a) the use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise;

b) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display or delivery;

c) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise;

d) the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, or of collecting information, for the enterprise;

e) the maintenance of a fixed place of business solely for the purpose of carrying on, for the enterprise, any other activity of a preparatory or auxiliary character;

f) the maintenance of a fixed place of business solely for any combination of the activities mentioned in subparagraphs a) through e), provided that the overall activity of the fixed place of business resulting from this combination is of a preparatory or auxiliary character.

5. Notwithstanding the provisions of paragraphs 1 and 2, where a person -- other than an agent of an independent status to whom paragraph 6 applies -- is acting on behalf of an enterprise and has and habitually exercises in a Contracting State an authority to conclude contracts that are binding on the enterprise, that enterprise shall be deemed to have a permanent establishment in that State in respect of any activities that the person undertakes for the enterprise, unless the activities of such person are limited to those mentioned in paragraph 4 that, if exercised through a fixed place of business, would not make this fixed place of business a permanent establishment under the provisions of that paragraph.

6. An enterprise shall not be deemed to have a permanent establishment in a Contracting State merely because it carries on business in that State through a broker, general commission agent, or any other agent of an independent status, provided that such persons are acting in the ordinary course of their business as independent agents.

7. The fact that a company that is a resident of a Contracting State controls or is controlled by a company that is a resident of the other Contracting State, or that carries on business in that other State (whether through a permanent establishment or otherwise), shall not be taken into account in determining whether either company has a permanent establishment in that other State.

Article 6

INCOME FROM REAL (IMMOVABLE) PROPERTY

1. Income derived by a resident of a Contracting State from real (immovable) property, including income from agriculture or forestry, situated in the other Contracting State may be taxed in that other State.

2. The term "real (immovable) property" shall have the meaning which it has under the law of the Contracting State in which the property in question is situated. The term shall in any case include property accessory to real (immovable) property (including livestock and equipment used in agriculture and forestry), rights to which the provisions of general law respecting landed property apply, usufruct of real (immovable) property and rights to variable or fixed payments as consideration for the working of, or the right to work, mineral deposits, sources and other natural resources. Ships and aircraft shall not be regarded as real (immovable) property.

3. The provisions of paragraph 1 shall apply to income derived from the direct use, letting, or use in any other form of real (immovable) property.

4. The provisions of paragraphs 1 and 3 shall also apply to the income from real (immovable) property of an enterprise.

5. A resident of a Contracting State who is liable to tax in the other Contracting State on income from real (immovable) property situated in the other Contracting State may elect for any taxable year to compute the tax on such income on a net basis as if such income were business profits attributable to a permanent establishment in such other State. In the case of income from real (immovable) property situated in the United States, any such election shall be binding for the taxable year of the election and all subsequent taxable years unless the competent authority of the United States agrees to terminate the election.

Article 7

BUSINESS PROFITS

1. The profits of an enterprise of a Contracting State shall be taxable only in that State unless the enterprise carries on business in the other Contracting State through a permanent establishment situated therein. If the enterprise carries on business as aforesaid, the profits of the enterprise may be taxed in the other State but only so much of them as are attributable to that permanent establishment.

2. Subject to the provisions of paragraph 3, where an enterprise of a Contracting State carries on business in the other Contracting State through a permanent establishment situated therein, there shall in each Contracting State be attributed to that permanent establishment the profits that it might be expected to make if it were a distinct and independent enterprise engaged in the same or similar activities under the same or similar conditions. For this purpose, the profits to be attributed to the permanent establishment shall include only the profits derived from the assets used, risks assumed and activities performed by the permanent establishment.

3. In determining the profits of a permanent establishment, there shall be allowed as deductions expenses that are incurred for the purposes of the permanent establishment, including executive and general administrative expenses so incurred, whether in the State in which the permanent establishment is situated or elsewhere.

4. No profits shall be attributed to a permanent establishment by reason of the mere purchase by that permanent establishment of goods or merchandise for the enterprise.

5. For the purposes of the preceding paragraphs, the profits to be attributed to the permanent establishment shall be determined by the same method year by year unless there is good and sufficient reason to the contrary.

6. Where profits include items of income that are dealt with separately in other Articles of the Convention, then the provisions of those Articles shall not be affected by the provisions of this Article.

7. In applying this Article, paragraph 6 of Article 10 (Dividends), paragraph 5 of Article 11 (Interest), paragraph 4 of Article 12 (Royalties), paragraph 3 of Article 13 (Gains), and paragraph 2 of Article 21 (Other Income), any income or gain attributable to a permanent establishment during its existence is taxable in the Contracting State where such permanent establishment is situated even if the payments are deferred until such permanent establishment has ceased to exist.

Article 8

SHIPPING AND AIR TRANSPORT

1. Profits of an enterprise of a Contracting State from the operation of ships or aircraft in international traffic shall be taxable only in that State.

2. For purposes of this Article, profits from the operation of ships or aircraft include, but are not limited to:

a) profits from the rental of ships or aircraft on a full (time or voyage) basis;

b) profits from the rental on a bareboat basis of ships or aircraft if the rental income is incidental to profits from the operation of ships or aircraft in international traffic; and

c) profits from the rental on a bareboat basis of ships or aircraft if such ships or aircraft are operated in international traffic by the lessee.

Profits derived by an enterprise from the inland transport of property or passengers within either Contracting State shall be treated as profits from the operation of ships or aircraft in international traffic if such transport is undertaken as part of international traffic.

3. Profits of an enterprise of a Contracting State from the use, maintenance, or rental of containers (including trailers, barges, and related equipment for the transport of containers) shall be taxable only in that Contracting State, except to the extent that those containers are used for transport solely between places within the other Contracting State.

4. The provisions of paragraphs 1 and 3 shall also apply to profits from participation in a pool, a joint business, or an international operating agency.

Article 9

ASSOCIATED ENTERPRISES

Where:

a) an enterprise of a Contracting State participates directly or indirectly in the management, control or capital of an enterprise of the other Contracting State; or

b) the same persons participate directly or indirectly in the management, control, or capital of an enterprise of a Contracting State and an enterprise of the other Contracting State,

and in either case conditions are made or imposed between the two enterprises in their commercial or financial relations that differ from those that would be made between independent enterprises, then any profits that, but for those conditions, would have accrued to one of the enterprises, but by reason of those conditions have not so accrued, may be included in the profits of that enterprise and taxed accordingly.

2. Where a Contracting State includes in the profits of an enterprise of that State, and taxes accordingly, profits on which an enterprise of the other Contracting State has been charged to tax in that other State, and the other Contracting State agrees that the profits so included are profits that would have accrued to the enterprise of the first-mentioned State if the conditions made between the two enterprises had been those that would have been made between independent enterprises, then that other State shall make an appropriate adjustment to the amount of the tax charged therein on those profits. In determining such adjustment, due regard shall be had to the other provisions of this Convention and the competent authorities of the Contracting States shall if necessary consult each other.

Article 10

DIVIDENDS

1. Dividends paid by a company that is a resident of a Contracting State to a resident of the other Contracting State may be taxed in that other State.

2. However, such dividends may also be taxed in the Contracting State of which the company paying the dividends is a resident and according to the laws of that State, but:

a) if the dividends are paid by a company that is a resident of the United States to a resident of Malta who is the beneficial owner thereof, except as otherwise provided in this Convention, the tax charged by the United States shall not exceed:

i) 5 percent of the gross amount of the dividends if the beneficial owner is a company that owns directly at least 10 percent of the voting stock of the company paying the dividends;

ii) 15 percent of the gross amount of the dividends in all other cases.

b) if the dividends are paid by a company that is a resident of Malta to a resident of the United States who is the beneficial owner thereof, the tax charged by Malta on the gross amount of the dividends shall not exceed that Malta tax chargeable on the profits out of which the dividends are paid.

This paragraph shall not affect the taxation of the company in respect of the profits out of which the dividends are paid.

3. Notwithstanding paragraph 2, dividends shall not be taxed in the Contracting State of which the company paying the dividends is a resident if:

a) the beneficial owner of the dividends is a pension fund that is a resident of the other Contracting State; and

b) such dividends are not derived from the carrying on of a trade or business by the pension fund or through an associated enterprise.

4. a) Clause i) of subparagraph a) of paragraph 2 shall not apply in the case of dividends paid by a U.S. Regulated Investment Company (RIC) or a U.S. Real Estate Investment Trust (REIT). In the case of dividends paid by a RIC, clause ii) of subparagraph a) of paragraph 2 and paragraph 3 shall apply. In the case of dividends paid by a REIT, clause ii) of subparagraph a) of paragraph 2 and

paragraph 3 shall apply only if:

i) the beneficial owner of the dividends is an individual or pension fund, in either case holding an interest of not more than 10 percent in the REIT;

ii) the dividends are paid with respect to a class of stock that is publicly traded and the beneficial owner of the dividends is a person holding an interest of not more than 5 percent of any class of the REIT's stock; or

iii) the beneficial owner of the dividends is a person holding an interest of not more than 10 percent in the REIT and the REIT is diversified.

b) For purposes of this paragraph, a REIT shall be "diversified" if the value of no single interest in real property exceeds 10 percent of its total interests in real property. For the purposes of this rule, foreclosure property shall not be considered an interest in real property. Where a REIT holds an interest in a partnership, it shall be treated as owning directly a proportion of the partnership's interests in real property corresponding to its interest in the partnership.

5. For purposes of this Article, the term "dividends" means income from shares or other rights, not being debt-claims, participating in profits, as well as income that is subjected to the same taxation treatment as income from shares under the laws of the State of which the payer is a resident.

6. The provisions of paragraphs 2 through 4 shall not apply if the beneficial owner of the dividends, being a resident of a Contracting State, carries on business in the other Contracting State, of which the payer is a resident, through a permanent establishment situated therein, and the holding in respect of which the dividends are paid is effectively connected with such permanent establishment. In such case the provisions of Article 7 (Business Profits) shall apply.

7. A Contracting State may not impose any tax on dividends paid by a resident of the other State, except insofar as the dividends are paid to a resident of the first-mentioned State or the dividends are attributable to a permanent establishment, nor may it impose tax on a corporation's undistributed profits, except as provided in paragraph 8, even if the dividends paid or the undistributed profits consist wholly or partly of profits or income arising in that State.

8. a) A company that is a resident of one of the States and that has a permanent establishment in the other State or that is subject to tax in the other State on a net basis on its income that may be taxed in the other State under Article 6 (Income

from Real (Immovable) Property) or under paragraph 1 of Article 13 (Gains) may be subject in that other State to a tax in addition to the tax allowable under the other provisions of this Convention.

b) Such tax, however, may be imposed:

i) on only the portion of the business profits of the company attributable to the permanent establishment and the portion of the income referred to in subparagraph a) that is subject to tax under Article 6 or under paragraph 1 of Article 13 that, in the case of the United States, represents the dividend equivalent amount of such profits or income and, in the case of Malta, is an amount that is analogous to the dividend equivalent amount; and

ii) at a rate not in excess of the rate specified in clause i) of subparagraph a) of paragraph 2.

Article 11

INTEREST

1. Interest arising in a Contracting State and beneficially owned by a resident of the other Contracting State may be taxed in that other State.

2. Such interest may also be taxed in the Contracting State in which it arises, and according to the laws of that State, but the tax so charged shall not exceed 10 percent of the gross amount of the interest.

3. Notwithstanding the provisions of paragraphs 1 and 2:

a) interest arising in the United States that is contingent interest of a type that does not qualify as portfolio interest under United States law may be taxed by the United States but, if the beneficial owner of the interest is a resident of Malta, the interest may be taxed at a rate not exceeding 15 percent of the gross amount of the interest; and

b) interest that is an excess inclusion with respect to a residual interest in a real estate mortgage investment conduit may be taxed by each State in accordance with its domestic law.

4. The term "interest" as used in this Article means income from debt-claims of every kind, whether or not secured by mortgage, and whether or not carrying a right to participate in the debtor's profits, and in particular, income from government securities and income from bonds or debentures, including premiums or prizes attaching to such securities, bonds or debentures, and all other income that is subjected to the same taxation treatment as income from money lent by the taxation law of the Contracting State in which the income arises. Income dealt with in Article 10 (Dividends) and penalty charges for late payment shall not be regarded as interest for the purposes of this Convention.

5. The provisions of paragraphs 1, 2, and 3 shall not apply if the beneficial owner of the interest, being a resident of a Contracting State, carries on business in the other Contracting State, in which the interest arises, through a permanent establishment situated therein, and the debt-claim in respect of which the interest is paid is effectively connected with such permanent establishment. In such case the provisions of Article 7 (Business Profits) shall apply.

6. Interest shall be deemed to arise in a Contracting State where the payer is a resident of that State. Where, however, the person paying the interest, whether the person is a resident of a Contracting State or not, has in a Contracting State a permanent

establishment in connection with which the indebtedness on which the interest is paid was incurred, and such interest is borne by such permanent establishment, then such interest shall be deemed to arise in the State in which the permanent establishment is situated.

7. Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the interest, having regard to the debt-claim for which it is paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case the excess part of the payments shall remain taxable according to the laws of each State, due regard being had to the other provisions of this Convention.

8. In the case of the United States, the excess, if any, of the amount of interest allocable to the profits of a company resident in the other Contracting State that are either attributable to a permanent establishment in the United States or subject to tax in the United States under Article 6 (Income from Real (Immovable) Property) or paragraph 1 of Article 13 (Gains) over the interest paid by that permanent establishment or trade or business in the United States shall be deemed to arise in the United States and be beneficially owned by a resident of the other Contracting State. The tax imposed under this Article on such interest shall not exceed the rate specified in paragraph 2.

Article 12

ROYALTIES

1. Royalties arising in a Contracting State and beneficially owned by a resident of the other Contracting State may be taxed in that other State.

2. Such royalties may also be taxed in the Contracting State in which they arise, and according to the laws of that State, but the tax so charged shall not exceed 10 percent of the gross amount of the royalties.

3. For purposes of this Article, the term "royalties" means:

a) payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic, scientific or other work (including cinematographic films), any patent, trademark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience; and

b) gain derived from the alienation of any property described in subparagraph a), to the extent that such gain is contingent on the productivity, use, or disposition of the property.

4. The provisions of paragraphs 1 and 2 shall not apply if the beneficial owner of the royalties, being a resident of a Contracting State, carries on business in the other Contracting State through a permanent establishment situated therein and the right or property in respect of which the royalties are paid is effectively connected with such permanent establishment. In such case the provisions of Article 7 (Business Profits) shall apply.

5. Royalties shall be deemed to arise in a Contracting State when they are in consideration for the use of, or the right to use, property, information or experience in that State.

6. Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the royalties, having regard to the use, right, or information for which they are paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of the Convention.

Article 13

GAINS

1. Gains derived by a resident of a Contracting State that are attributable to the alienation of real (immovable) property situated in the other Contracting State may be taxed in that other State.

2. For the purposes of this Article the term "real (immovable) property situated in the other Contracting State" shall include:

a) real (immovable) property referred to in Article 6 (Income from Real (Immovable) Property);

b) where that other State is the United States, a United States real property interest; and

c) where that other State is Malta,

i) shares, including rights to acquire shares, in a company resident in Malta whose assets consist wholly or principally of real (immovable) property referred to in subparagraph a) of this paragraph situated in Malta; and

ii) an interest in a partnership or trust to the extent that the assets of the partnership or trust consist of real (immovable) property situated in Malta, or of shares referred to in clause i) of this sub-paragraph.

3. Gains from the alienation of movable property forming part of the business property of a permanent establishment that an enterprise of a Contracting State has in the other Contracting State, including such gains from the alienation of such a permanent establishment (alone or with the whole enterprise), may be taxed in that other State.

4. Gains derived by an enterprise of a Contracting State from the alienation of ships or aircraft operated or used in international traffic or personal property pertaining to the operation or use of such ships or aircraft shall be taxable only in that State.

5. Gains derived by an enterprise of a Contracting State from the alienation of containers (including trailers, barges and related equipment for the transport of containers) used for the transport of goods or merchandise shall be taxable only in that State, unless those containers are used for transport solely between places within the

other Contracting State.

6. Gains from the alienation of any property other than property referred to in paragraphs 1 through 5 and other than gain described in subparagraph b) of paragraph 3 of Article 12 (Royalties) shall be taxable only in the Contracting State of which the alienator is a resident.

Article 14

INCOME FROM EMPLOYMENT

1. Subject to the provisions of Articles 15 (Directors' Fees), 17 (Pensions, Social Security, Annuities, Alimony, and Child Support) and 19 (Government Service), salaries, wages, and other similar remuneration derived by a resident of a Contracting State in respect of an employment shall be taxable only in that State unless the employment is exercised in the other Contracting State. If the employment is so exercised, such remuneration as is derived therefrom may be taxed in that other State.

2. Notwithstanding the provisions of paragraph 1, remuneration derived by a resident of a Contracting State in respect of an employment exercised in the other Contracting State shall be taxable only in the first-mentioned State if:

a) the recipient is present in the other State for a period or periods not exceeding in the aggregate 183 days in any twelve month period commencing or ending in the taxable year concerned;

b) the remuneration is paid by, or on behalf of, an employer who is not a resident of the other State; and

c) the remuneration is not borne by a permanent establishment which the employer has in the other State.

3. Notwithstanding the preceding provisions of this Article, remuneration described in paragraph 1 that is derived by a resident of a Contracting State in respect of an employment as a member of the regular complement of a ship or aircraft operated in international traffic shall be taxable only in that State.

Article 15

DIRECTORS' FEES

Directors' fees and other compensation derived by a resident of a Contracting State for services rendered in the other Contracting State in his capacity as a member of the board of directors of a company that is a resident of the other Contracting State may be taxed in that other Contracting State.

Article 16

ENTERTAINERS AND SPORTSMEN

1. Income derived by a resident of a Contracting State as an entertainer, such as a theater, motion picture, radio, or television artiste, or a musician, or as a sportsman, from his personal activities as such exercised in the other Contracting State, which income would be exempt from tax in that other Contracting State under the provisions of Articles 7 (Business Profits) and 14 (Income from Employment) may be taxed in that other State, except where the amount of the gross receipts derived by such entertainer or sportsman, including expenses reimbursed to him or borne on his behalf, from such activities does not exceed twenty thousand United States dollars ($20,000) or its equivalent in Euros for the taxable year of the payment.

2. Where income in respect of activities exercised by an entertainer or a sportsman in his capacity as such accrues not to the entertainer or sportsman himself but to another person, that income, notwithstanding the provisions of Article 7 (Business Profits) or 14 (Income from Employment), may be taxed in the Contracting State in which the activities of the entertainer or sportsman are exercised unless the contract pursuant to which the personal activities are performed allows that other person to designate the individual who is to perform the personal activities.

Article 17

PENSIONS, SOCIAL SECURITY, ANNUITIES, ALIMONY, AND CHILD SUPPORT

1. a) Pensions and other similar remuneration beneficially owned by a resident of a Contracting State shall be taxable only in that State.

   b) Notwithstanding subparagraph a), the amount of any such pension or remuneration arising in a Contracting State that, when received, would be exempt from taxation in that State if the beneficial owner were a resident thereof shall be exempt from taxation in the Contracting State of which the beneficial owner is a resident.

2. Notwithstanding the provisions of paragraph 1, payments made by a Contracting State under provisions of the social security or similar legislation of that State to a resident of the other Contracting State or to a citizen of the United States shall be taxable only in the first-mentioned State.

3. Annuities derived and beneficially owned by an individual resident of a Contracting State shall be taxable only in that State. The term "annuities" as used in this paragraph means a stated sum paid periodically at stated times during a specified number of years, or for life, under an obligation to make the payments in return for adequate and full consideration (other than services rendered).

4. Alimony paid by a resident of a Contracting State to a resident of the other Contracting State shall be taxable only in that other State. The term "alimony" as used in this paragraph means periodic payments made pursuant to a written separation agreement or a decree of divorce, separate maintenance, or compulsory support, which payments are taxable to the recipient under the laws of the State of which he is a resident.

5. Periodic payments, not dealt with in paragraph 4, for the support of a child made pursuant to a written separation agreement or a decree of divorce, separate maintenance, or compulsory support, paid by a resident of a Contracting State to a resident of the other Contracting State, shall be exempt from tax in both Contracting States.

Article 18

PENSION FUNDS

Where an individual who is a resident of one of the States is a member or beneficiary of, or participant in, a pension fund that is a resident of the other State, income earned by the pension fund may be taxed as income of that individual only when, and, subject to the provisions of paragraph 1 of Article 17 (Pensions, Social Security, Annuities, Alimony, and Child Support), to the extent that, it is paid to, or for the benefit of, that individual from the pension fund (and not transferred to another pension fund in that other State).

Article 19

GOVERNMENT SERVICE

1. Notwithstanding the provisions of Articles 14 (Income from Employment), 15 (Directors' Fees), 16 (Entertainers and Sportsmen) and 20 (Students and Trainees):

a) Salaries, wages and other remuneration, other than a pension, paid to an individual in respect of services rendered to a Contracting State or a political subdivision or local authority thereof shall, subject to the provisions of subparagraph b), be taxable only in that State;

b) such remuneration, however, shall be taxable only in the other Contracting State if the services are rendered in that State and the individual is a resident of that State who:

i) is a national of that State; or

ii) did not become a resident of that State solely for the purpose of rendering the services.

2. Notwithstanding the provisions of paragraph 1 of Article 17 (Pensions, Social Security, Annuities, Alimony, and Child Support):

a) any pension and other similar remuneration paid by, or out of funds created by, a Contracting State or a political subdivision or a local authority thereof to an individual in respect of services rendered to that State or subdivision or authority (other than a payment to which paragraph 2 of Article 17 applies) shall, subject to the provisions of subparagraph b), be taxable only in that State;

b) such pension, however, shall be taxable only in the other Contracting State if the individual is a resident of, and a national of, that State.

3. The provisions of Articles 14 (Income from Employment), 15 (Directors' Fees), 16 (Entertainers and Sportsmen) and 17 (Pensions, Social Security, Annuities, Alimony, and Child Support) shall apply to salaries, wages and other remuneration, and to pensions, in respect of services rendered in connection with a business carried on by a Contracting State or a political subdivision or a local authority thereof.

Article 20

STUDENTS AND TRAINEES

1. Payments, other than compensation for personal services, received by a student or business trainee who is, or was immediately before visiting a Contracting State, a resident of the other Contracting State, and who is present in the first-mentioned State for the purpose of his full-time education or for his full-time training, shall not be taxed in that State, provided that such payments arise outside that State, and are for the purpose of his maintenance, education or training. The exemption from tax provided by this paragraph shall apply to a business trainee only for a period of time not exceeding one year from the date the business trainee first arrives in the first-mentioned Contracting State for the purpose of training.

2. A student or business trainee within the meaning of paragraph 1 shall be exempt from tax by the Contracting State in which the individual is temporarily present with respect to income from personal services in an aggregate amount equal to $9,000 or its equivalent in Euros annually. The competent authorities shall, every five years, adjust the amount provided in this subparagraph to the extent necessary to take into account changes in the U.S. personal exemption and the standard deduction and in the Maltese personal tax rates.

3. For purposes of this Article, a business trainee is an individual:

a) who is temporarily in a Contracting State for the purpose of securing training required to qualify the individual to practice a profession or professional specialty; or

b) who is temporarily in a Contracting State as an employee of, or under contract with, a resident of the other Contracting State, for the primary purpose of acquiring technical, professional, or business experience from a person other than that resident of the other Contracting State (or a person related to such resident of the other Contracting State).

Article 21

OTHER INCOME

1. Items of income beneficially owned by a resident of a Contracting State, wherever arising, not dealt with in the foregoing Articles of this Convention shall be taxable in that State.

2. The provisions of paragraph 1 shall not apply to income, other than income from real (immovable) property as defined in paragraph 2 of Article 6 (Income from Real (Immovable) Property), if the beneficial owner of the income, being a resident of a Contracting State, carries on business in the other Contracting State through a permanent establishment situated therein and the income is attributable to such permanent establishment. In such case the provisions of Article 7 (Business Profits) shall apply.

3. Notwithstanding the provisions of paragraphs 1 and 2, items of income of a resident of one of the Contracting States not dealt with in the foregoing Articles of this Convention from sources in the other Contracting State may also be taxed in the other Contracting State, but the tax so charged shall not exceed 10 percent of the amount of such items.

Article 22

LIMITATION ON BENEFITS

1. Except as otherwise provided in this Article, a resident of one of the Contracting States that derives income from the other Contracting State shall be entitled, in that other Contracting State, to all the benefits of this Convention otherwise accorded to residents of a Contracting State only if such resident is a "qualified person" as defined in paragraph 2 of this Article and satisfies any other conditions specified in the Convention for the obtaining of such benefits.

2. A resident of one of the Contracting States is a qualified person for a taxable year only if such resident is either:

a) an individual;

b) a Contracting State, political subdivision or local authority thereof;

c) a company, if:

i)

A) its principal class of shares (and any disproportionate class of shares) is listed on a recognized stock exchange located in the Contracting State of which the company is a resident;

B) its principal class of shares (and any disproportionate class of shares) is regularly traded on one or more recognized stock exchanges located in the Contracting State of which the company is a resident;

C) its principal class of shares is primarily traded on one or more recognized stock exchanges located in the Contracting State of which the company is a resident; and

D) the company satisfies the requirements of clause ii) of subparagraph f) of this paragraph; or

ii)

A) at least 75 percent of each such class of shares in the company is owned directly or indirectly by companies entitled to benefits under clause i), provided that in the case of indirect ownership, each intermediate owner is a resident of the same

Contracting State entitled to benefits of the Convention under this clause ii); and

B) the company satisfies the requirements of clause ii) of subparagraph f) of this paragraph;

d) an entity described in subparagraph b) of paragraph 2 of Article 4 (Resident) that is generally exempt from income taxation in its Contracting State of residence;

e) a pension fund, provided that more than 75 percent of the beneficiaries, members or participants of the pension fund are individuals who are residents of either Contracting State; or

f) a person other than an individual, if:

i) on at least half the days of the taxable year at least 75 percent of each class of shares or other beneficial interests in the person is owned, directly or indirectly, by residents of that Contracting State that are entitled to the benefits of this Convention under subparagraph a), subparagraph b), clause i) of subparagraph c), subparagraph d), or subparagraph e) of this paragraph, provided that, in the case of indirect ownership, each intermediate owner is a qualified person that is a resident of that Contracting State; and

ii) less than 25 percent of the person's gross income for the taxable year, as determined in the person's State of residence, is paid or accrued, directly or indirectly, to persons who are not residents of either Contracting State entitled to the benefits of this Convention under subparagraph a), subparagraph b), clause i) of subparagraph c), subparagraph d), or subparagraph e) of this paragraph (other than in the form of arm's length payments in the ordinary course of business for services or tangible property).

3. Notwithstanding that a company that is a resident of a Contracting State may not be a qualified person, it shall be entitled to all the benefits of this Convention otherwise accorded to residents of a Contracting State with respect to an item of income if it satisfies any other specified conditions for the obtaining of such benefits and:

a) at least 95 percent of each class of shares of the company are owned, directly or indirectly, by seven or fewer persons who are equivalent beneficiaries; and

b) less than 25 percent of the company's gross income for the taxable year in which the item of income arises is paid or accrued, directly or indirectly, to persons who are not equivalent beneficiaries (other than in the form of arm's length payments in the ordinary course of business for services or tangible property).

4.

a) A resident of a Contracting State will be entitled to benefits of the Convention with respect to an item of income derived from the other State, regardless of whether the resident is a qualified person, if:

i) the resident is engaged in the active conduct of a trade or business in the first-mentioned State (other than the business of making or managing investments for the resident's own account, unless these activities are banking or insurance activities carried on by a bank or insurance company), and the income derived from the other Contracting State is derived in connection with, or is incidental to, that trade or business; and

ii) the resident satisfies the requirements of clause ii) of subparagraph f) of paragraph 2.

b) If a resident of a Contracting State derives an item of income from a trade or business activity conducted by that resident in the other Contracting State, or derives an item of income arising in the other Contracting State from a related person, the conditions described in clause i) of subparagraph a) shall be considered to be satisfied with respect to such item only if the trade or business activity carried on by the resident in the first-mentioned Contracting State is substantial in relation to the trade or business activity carried on by the resident or such person in the other Contracting State. A trade or business will be deemed substantial if, for each of the three preceding taxable years, the asset value, the gross income, and the payroll expense that are related to the trade or business in the first-mentioned Contracting State each equals at least 10 percent of the resident's (and any related parties') proportionate share of the asset value, gross income and payroll expense, respectively, related to the activity that generated the income in the other Contracting State, and the average of the three ratios in each such year exceeds 15 percent.

c) For purposes of applying this paragraph, activities conducted by persons connected to a person shall be deemed to be conducted by such person. A person

shall be connected to another if one possesses at least 50 percent of the beneficial interest in the other (or, in the case of a company, at least 50 percent of the aggregate vote and value of the company's shares or of the beneficial equity interest in the company) or another person possesses at least 50 percent of the beneficial interest (or, in the case of a company, at least 50 percent of the aggregate vote and value of the company's shares or of the beneficial equity interest in the company) in each person. In any case, a person shall be considered to be connected to another if, based on all the relevant facts and circumstances, one has control of the other or both are under the control of the same person or persons.

5. Notwithstanding the preceding provisions of this Article, where an enterprise of a Contracting State derives income from the other Contracting State, and that income is attributable to a permanent establishment which that enterprise has in a third jurisdiction, the tax benefits that would otherwise apply under the other provisions of the Convention will not apply to that income if the combined tax that is actually paid with respect to such income in the first-mentioned Contracting State and in the third jurisdiction is less than 60 percent of the tax that would have been payable in the first-mentioned State if the income were earned in that Contracting State by the enterprise and were not attributable to the permanent establishment in the third jurisdiction. Any dividends, interest or royalties to which the provisions of this paragraph apply shall be subject to tax at a rate that shall not exceed 15 percent of the gross amount thereof. Any other income to which the provisions of this paragraph apply will be subject to tax under the provisions of the domestic law of the other Contracting State, notwithstanding any other provision of the Convention.

6. A person that is a resident of one of the Contracting States, who is not entitled to some or all of the benefits of this Convention because of the foregoing paragraphs, may, nevertheless, be granted benefits of this Convention if the competent authority of the Contracting State in which the income in question arises so determines.

7. Where under any provision of this Convention income or gains arising in one of the Contracting States are relieved from tax in that Contracting State and, under the law in force in the other Contracting State, a person, in respect of the said income or gains, is subject to tax by reference to the amount thereof which is remitted to or received in that other Contracting State and not by reference to the full amount thereof, then the relief to be allowed under this Convention in the first-mentioned Contracting State shall apply only to so much of the income or gains as is taxed in the other Contracting State.

8. For the purposes of this Article:

a) the term "recognized stock exchange" means:

i) the NASDAQ System and any stock exchange registered with the U.S. Securities and Exchange Commission as a national securities exchange under the U.S. Securities Exchange Act of 1934;

ii) the Malta Stock Exchange; and

iii) any other stock exchange agreed upon by the competent authorities of the Contracting States;

b) the term "principal class of shares" means the ordinary or common shares of the company, provided that such class of shares represents the majority of the voting power and value of the company. If no single class of ordinary or common shares represents the majority of the aggregate voting power and value of the company, the "principal class of shares" are those classes that in the aggregate represent a majority of the aggregate voting power and value of the company;

c) the term "disproportionate class of shares" means any class of shares of a company resident in one of the Contracting States that entitles the shareholder to disproportionately higher participation, through dividends, redemption payments or otherwise, in the earnings generated in the other State by particular assets or activities of the company;

d) For purposes of this paragraph an equivalent beneficiary is a resident of a member state of the European Union or of a European Economic Area state or of Australia or of a party to the North American Free Trade Agreement but only if that resident:

i)

A) would be entitled to all the benefits of a comprehensive convention for the avoidance of double taxation between any member state of the European Union or a European Economic Area state or any party to the North American Free Trade Agreement or Australia and the State from which the benefits of this Convention are claimed under provisions analogous to subparagraph a), subparagraph b), clause i) of subparagraph c), subparagraph d), or subparagraph e) of paragraph 2 of this Article, provided that if such convention does not contain a comprehensive limitation on benefits article, the person would be a qualified person under subparagraph a), subparagraph b), clause i) of subparagraph c), subparagraph d), or subparagraph e) of paragraph 2 of this Article if such person were a resident of one of the States under Article 4 (Resident) of this Convention; and

B) with respect to income referred to in Articles 10 (Dividends), 11 (Interest) or 12 (Royalties) of this Convention, would be entitled under such convention to a rate of tax with respect to the particular class of income for which benefits are being claimed under this Convention that is at least as low as the rate applicable under this Convention; or

ii) is a resident of a Contracting State that is a qualified person by reason of subparagraph a), subparagraph b), clause i) of subparagraph c), subparagraph d), or subparagraph e) of paragraph 2 of this Article;

e) With respect to dividends, interest or royalties arising in Malta and beneficially owned by a company that is a resident of the United States, a company that is a resident of a member state of the European Union will be treated as satisfying the requirements of clause i) B) of subparagraph d) for purposes of determining whether such United States resident is entitled to benefits under this paragraph if a payment of dividends, interest or royalties arising in Malta and paid directly to such resident of a member state of the European Union would have been exempt from tax pursuant to any directive of the European Union, notwithstanding that the income tax convention between Malta and that other member state of the European Union would provide for a higher rate of tax with respect to such payment than the rate of tax applicable to such United States company under Article 10 (Dividends), 11 (Interest), or 12 (Royalties) of this Convention.

Article 23

RELIEF FROM DOUBLE TAXATION

1. In accordance with the provisions and subject to the limitations of the law of the United States (as it may be amended from time to time without changing the general principle hereof), the United States shall allow to a resident or citizen of the United States as a credit against the United States tax on income applicable to residents and citizens:

a) the income tax paid or accrued to Malta by or on behalf of such resident or citizen; and

b) in the case of a United States company owning at least 10 percent of the voting stock of a company that is a resident of Malta and from which the United States company receives dividends, the income tax paid or accrued to Malta by or on behalf of the payer with respect to the profits out of which the dividends are paid.

For the purposes of this paragraph, the taxes referred to in paragraphs 3 a) and 4 of Article 2 (Taxes Covered) shall be considered income taxes.

2. In accordance with and subject to the provisions of the law of Malta regarding the allowance of a credit against Malta tax in respect of foreign tax:

a) where, in accordance with the provisions of this Convention, there is included in a Malta assessment income from sources within the United States, the United States tax on such income shall be allowed as a credit against the relative Malta tax payable thereon; and

b) where a Maltese company owns at least 10 percent of the voting stock of a company that is a resident of the United States and from which the Maltese company receives dividends that are included in a Malta assessment in accordance with the provisions of this Convention, the income tax paid or accrued to the United States by or on behalf of the payer with respect to the profits out of which the dividends are paid shall, if those profits are included in a Malta assessment, be allowed as a credit against the relative Malta tax payable thereon.

3. For the purposes of applying paragraph 1 of this Article, an item of gross income, as determined under the laws of the United States, derived by a resident of the United States that, under this Convention, may be taxed in Malta shall be deemed to be income

from sources in Malta.

4. Where a United States citizen is a resident of Malta:

a) with respect to items of income that under the provisions of this Convention are exempt from United States tax or that are subject to a reduced rate of United States tax when derived by a resident of Malta who is not a United States citizen, Malta shall allow as a credit against Malta tax, only the tax paid, if any, that the United States may impose under the provisions of this Convention, other than taxes that may be imposed solely by reason of citizenship under the saving clause of paragraph 4 of Article 1 (General Scope);

b) for purposes of applying paragraph 1 to compute United States tax on those items of income referred to in subparagraph a), the United States shall allow as a credit against United States tax the income tax paid to Malta after the credit referred to in subparagraph a); the credit so allowed shall not reduce the portion of the United States tax that is creditable against the Malta tax in accordance with subparagraph a); and

c) for the exclusive purpose of relieving double taxation in the United States under subparagraph b), items of income referred to in subparagraph a) shall be deemed to arise in Malta to the extent necessary to avoid double taxation of such income under subparagraph b).

Article 24

NON-DISCRIMINATION

1. Nationals of a Contracting State shall not be subjected in the other Contracting State to any taxation or any requirement connected therewith that is more burdensome than the taxation and connected requirements to which nationals of that other State in the same circumstances, in particular with respect to residence, are or may be subjected. This provision shall also apply to persons who are not residents of one or both of the Contracting States. However, for the purposes of United States taxation, United States nationals who are subject to tax on a worldwide basis are not in the same circumstances as nationals of Malta who are not residents of the United States.

2. The taxation on a permanent establishment that an enterprise of a Contracting State has in the other Contracting State shall not be less favorably levied in that other State than the taxation levied on enterprises of that other State carrying on the same activities.

3. The provisions of paragraphs 1 and 2 shall not be construed as obliging a Contracting State to grant to residents of the other Contracting State any personal allowances, reliefs, and reductions for taxation purposes on account of civil status or family responsibilities that it grants to its own residents.

4. Except where the provisions of paragraph 1 of Article 9 (Associated Enterprises), paragraph 7 of Article 11 (Interest), or paragraph 6 of Article 12 (Royalties) apply, interest, royalties, and other disbursements paid by a resident of a Contracting State to a resident of the other Contracting State shall, for the purpose of determining the taxable profits of the first-mentioned resident, be deductible under the same conditions as if they had been paid to a resident of the first-mentioned State. Similarly, any debts of a resident of a Contracting State to a resident of the other Contracting State shall, for the purpose of determining the taxable capital of the first-mentioned resident, be deductible under the same conditions as if they had been contracted to a resident of the first-mentioned State.

5. Enterprises of a Contracting State, the capital of which is wholly or partly owned or controlled, directly or indirectly, by one or more residents of the other Contracting State, shall not be subjected in the first-mentioned State to any taxation or any requirement connected therewith that is more burdensome than the taxation and connected requirements to which other similar enterprises of the first-mentioned State are or may be subjected.

6. Nothing in this Article shall be construed as preventing either Contracting State from imposing a tax as described in paragraph 8 of Article 10 (Dividends).

7. The provisions of this Article shall, notwithstanding the provisions of Article 2 (Taxes Covered), apply to taxes of every kind and description imposed by a Contracting State or a political subdivision or local authority thereof.

Article 25

MUTUAL AGREEMENT PROCEDURE

1. Where a person considers that the actions of one or both of the Contracting States result or will result for such person in taxation not in accordance with the provisions of this Convention, it may, irrespective of the remedies provided by the domestic law of those States, and the time limits prescribed in such laws for presenting claims for refund, present its case to the competent authority of either Contracting State.

2. The competent authority shall endeavor, if the objection appears to it to be justified and if it is not itself able to arrive at a satisfactory solution, to resolve the case by mutual agreement with the competent authority of the other Contracting State, with a view to the avoidance of taxation which is not in accordance with the Convention. Any agreement reached shall be implemented notwithstanding any time limits or other procedural limitations in the domestic law of the Contracting States. Assessment and collection procedures shall be suspended during the period that any mutual agreement proceeding is pending.

3. The competent authorities of the Contracting States shall endeavor to resolve by mutual agreement any difficulties or doubts arising as to the interpretation or application of the Convention. They also may consult together for the elimination of double taxation in cases not provided for in the Convention. In particular the competent authorities of the Contracting States may agree:

a) to the same attribution of income, deductions, credits, or allowances of an enterprise of a Contracting State to its permanent establishment situated in the other Contracting State;

b) to the same allocation of income, deductions, credits, or allowances between persons;

c) to the settlement of conflicting application of the Convention, including conflicts regarding:

i) the characterization of particular items of income;

ii) the characterization of persons;

iii) the application of source rules with respect to particular items of income;

iv) the meaning of any term used in the Convention;

v) the timing of particular items of income;

d) to advance pricing arrangements; and

e) to the application of the provisions of domestic law regarding penalties, fines, and interest in a manner consistent with the purposes of the Convention.

4. The competent authorities also may agree to increases in any specific dollar amounts referred to in the Convention to reflect economic or monetary developments.

5. The competent authorities of the Contracting States may communicate with each other directly, including through a joint commission, for the purpose of reaching an agreement in the sense of the preceding paragraphs.

Article 26

EXCHANGE OF INFORMATION AND ADMINISTRATIVE ASSISTANCE

1. The competent authorities of the Contracting States shall exchange such information as may be relevant for carrying out the provisions of this Convention or of the domestic laws of the Contracting States concerning taxes of every kind imposed by a Contracting State to the extent that the taxation thereunder is not contrary to the Convention, including information relating to the assessment or collection of, the enforcement or prosecution in respect of, or the determination of appeals in relation to, such taxes. The exchange of information is not restricted by paragraph 1 of Article 1 (General Scope) or Article 2 (Taxes Covered).

2. Any information received under this Article by a Contracting State shall be treated as secret in the same manner as information obtained under the domestic laws of that State and shall be disclosed only to persons or authorities (including courts and administrative bodies) involved in the assessment, collection, or administration of, the enforcement or prosecution in respect of, or the determination of appeals in relation to, the taxes referred to above, or the oversight of such functions. Such persons or authorities shall use the information only for such purposes. They may disclose the information in public court proceedings or in judicial decisions. The competent authority of the Contracting State that receives information under the provisions of this Article may, with the written consent of the Contracting State that provided the information, also make available that information to be used for other purposes allowed under the provisions of an existing mutual legal assistance treaty between the Contracting States that allows for the exchange of tax information.

3. In no case shall the provisions of the preceding paragraphs be construed so as to impose on a Contracting State the obligation:

a) to carry out administrative measures at variance with the laws and administrative practice of that or of the other Contracting State;

b) to supply information that is not obtainable under the laws or in the normal course of the administration of that or of the other Contracting State;

c) to supply information that would disclose any trade, business, industrial, commercial, or professional secret or trade process, or information the disclosure of which would be contrary to public policy (ordre public).

4. If information is requested by a Contracting State in accordance with this Article, the other Contracting State shall use its information gathering measures to obtain the

requested information, even though that other State may not need such information for its own purposes. The obligation contained in the preceding sentence is subject to the limitations of paragraph 3 but in no case shall such limitation be construed to permit a Contracting State to decline to supply information because it has no domestic interest in such information.

5. In no case shall the provisions of paragraph 3 be construed to permit a Contracting State to decline to supply information requested by the other Contracting State because the information is held by a bank, other financial institution, nominee or person acting in an agency or a fiduciary capacity or because it relates to ownership interests in a person.

6. If specifically requested by the competent authority of a Contracting State, the competent authority of the other Contracting State shall provide information under this Article in the form of depositions of witnesses and authenticated copies of unedited original documents (including books, papers, statements, records, accounts, and writings).

7. The requested State shall allow representatives of the requesting State to enter the requested State to interview individuals and examine books and records with the consent of the persons subject to examination.

8. The competent authorities of the Contracting States may develop an agreement upon the mode of application of this Article, including agreement to ensure comparable levels of assistance to each of the Contracting States, but in no case will the lack of such agreement relieve a Contracting State of its obligations under this Article.

Article 27

MEMBERS OF DIPLOMATIC MISSIONS AND CONSULAR POSTS

Nothing in this Convention shall affect the fiscal privileges of members of diplomatic missions or consular posts under the general rules of international law or under the provisions of special agreements.

Article 28

ENTRY INTO FORCE

1. This Convention shall be subject to ratification in accordance with the applicable procedures of each Contracting State, and instruments of ratification will be exchanged as soon thereafter as possible.

2. This Convention shall enter into force on the date of the exchange of instruments of ratification, and its provisions shall have effect:

a) in respect of taxes withheld at source, for amounts paid or credited on or after the first day of the second month next following the date on which the Convention enters into force;

b) in respect of other taxes, for taxable periods beginning on or after the first day of January next following the date on which the Convention enters into force.

3. Notwithstanding paragraph 2, the provisions of Article 26 (Exchange of Information and Administrative Assistance) shall have effect from the date of entry into force of this Convention, without regard to the taxable period to which the matter relates.

Article 29

TERMINATION

This Convention shall remain in force until terminated by a Contracting State. Either Contracting State may terminate the Convention by giving notice of termination to the other Contracting State through diplomatic channels. In such event, the Convention shall cease to have effect:

1) in respect of taxes withheld at source, for amounts paid or credited after the expiration of the 6 month period beginning on the date on which notice of termination was given; and

2) in respect of other taxes, for taxable periods beginning on or after the expiration of the 6 month period beginning on the date on which notice of termination was given.

IN WITNESS WHEREOF, the undersigned, being duly authorized thereto by their respective Governments, have signed this Convention.

DONE at Valletta, in duplicate, this 8th day of August, 2008.

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA:	FOR THE GOVERNMENT OF MALTA:
MOLLY BORDONARO	TONIO FENECH

August 11, 2008
2008-8-11-11-21-9-5512

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $75,185 million as of the end of that week, compared to $75,704 million as of the end of the prior week.

I. Official reserve assets and other foreign currency assets (approximate market value, in US millions)

	July 25, 2008		
A. Official reserve assets (in US millions unless otherwise specified) [1]	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			75,185
(a) Securities	10,088	11,886	21,974
of which: issuer headquartered in reporting country but located abroad			0
(b) total currency and deposits with:			
(i) other national central banks, BIS and IMF	14,198	5,848	20,046
ii) banks headquartered in the reporting country			0
of which: located abroad			0
(iii) banks headquartered outside the reporting country			0
of which: located in the reporting country			0
(2) IMF reserve position [2]	5,139		
(3) SDRs [2]	9,825		
(4) gold (including gold deposits and, if appropriate, gold swapped) [3]	11,041		
--volume in millions of fine troy ounces	261.499		
(5) other reserve assets (specify)	7,160		
--financial derivatives			
--loans to nonbank nonresidents			
--other (foreign currency assets invested through reverse repurchase agreements)	7,160		
B. Other foreign currency assets (specify)			
--securities not included in official reserve assets			
--deposits not included in official reserve assets			
--loans not included in official reserve assets			
--financial derivatives not included in official reserve assets			
--gold not included in official reserve assets			
--other			

II. Predetermined short-term net drains on foreign currency assets (nominal value)

			Maturity breakdown (residual maturity)		
		Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Foreign currency loans, securities, and deposits					
--outflows (-)	Principal				
	Interest				
--inflows (+)	Principal				
	Interest				
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)					
(a) Short positions (-) [4]		-62,000	-62,000		
(b) Long positions (+)					
3. Other (specify)					
--outflows related to repos (-)					
--inflows related to reverse repos (+)					
--trade credit (-)					
--trade credit (+)					
--other accounts payable (-)					
--other accounts receivable (+)					

III. Contingent short-term net drains on foreign currency assets (nominal value)

		Maturity breakdown (residual maturity, where applicable)		
	Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Contingent liabilities in foreign currency				
(a) Collateral guarantees on debt falling due within 1 year				
(b) Other contingent liabilities				
2. Foreign currency securities issued with embedded options (puttable bonds)				
3. Undrawn, unconditional credit lines provided by:				
(a) other national monetary authorities, BIS, IMF, and other international organizations				
--other national monetary authorities (+)				
--BIS (+)				
--IMF (+)				
(b) with banks and other financial institutions headquartered in the reporting country (+)				
(c) with banks and other financial institutions headquartered outside the reporting country (+)				
Undrawn, unconditional credit lines provided to:				
(a) other national monetary authorities, BIS, IMF, and other international organizations				
--other national monetary authorities (-)				

--BIS (-)				
--IMF (-)				
(b) banks and other financial institutions headquartered in reporting country (-)				
(c) banks and other financial institutions headquartered outside the reporting country (-)				
4. Aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency				
(a) Short positions				
(i) Bought puts				
(ii) Written calls				
(b) Long positions				
(i) Bought calls				
(ii) Written puts				
PRO MEMORIA: In-the-money options [1]				
(1) At current exchange rate				
(a) Short position				
(b) Long position				
(2) + 5 % (depreciation of 5%)				
(a) Short position				
(b) Long position				
(3) - 5 % (appreciation of 5%)				
(a) Short position				
(b) Long position				
(4) +10 % (depreciation of 10%)				
(a) Short position				
(b) Long position				
(5) - 10 % (appreciation of 10%)				
(a) Short position				
(b) Long position				
(6) Other (specify)				
(a) Short position				
(b) Long position				

IV. Memo items

(1) To be reported with standard periodicity and timeliness:	
(a) short-term domestic currency debt indexed to the exchange rate	
(b) financial instruments denominated in foreign currency and settled by other means (e.g., in domestic currency)	
--nondeliverable forwards	
--short positions	
--long positions	
--other instruments	
(c) pledged assets	
--included in reserve assets	
--included in other foreign currency assets	
(d) securities lent and on repo	7,307

--lent or repoed and included in Section I	
--lent or repoed but not included in Section I	
--borrowed or acquired and included in Section I	
--borrowed or acquired but not included in Section I	7,307
(e) financial derivative assets (net, marked to market)	
--forwards	
--futures	
--swaps	
--options	
--other	
(f) derivatives (forward, futures, or options contracts) that have a residual maturity greater than one year, which are subject to margin calls.	
--aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)	
(a) short positions (–)	
(b) long positions (+)	
--aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency	
(a) short positions	
(i) bought puts	
(ii) written calls	
(b) long positions	
(i) bought calls	
(ii) written puts	
(2) To be disclosed less frequently:	
(a) currency composition of reserves (by groups of currencies)	75,185
--currencies in SDR basket	75,185
--currencies not in SDR basket	
--by individual currencies (optional)	

Notes:

1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values.

2/ The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollar terms at the official SDR/dollar exchange rate for the reporting date. The entries for the latest week reflect any necessary adjustments, including revaluation, by the U.S. Treasury to IMF data for the prior month end.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce.

4/ The short positions reflect foreign exchange acquired under reciprocal currency arrangements with certain foreign central banks. The foreign exchange acquired is not included in Section I, "official reserve assets and other foreign currency assets," of the template for reporting international reserves. However, it is included in the broader balance of payments presentation as "U.S. Government assets, other than official reserve assets/U.S. foreign currency holdings and U.S. short-term assets."

August 11, 2008
HP-1112

Statement by Deputy Secretary Robert M. Kimmitt on Support for Georgia's Economy

Washington– Deputy Secretary of the Treasury Robert M. Kimmitt today issued a statement welcoming the statements of support for Georgia's economy by the International Monetary Fund (IMF), World Bank, and the European Bank for Reconstruction and Development (EBRD), as well as their signals of continued engagement with the Government and their clients and banks in the private sector:

"The U.S. Treasury Department welcomes the statements of support for Georgia's economy made earlier today by the IMF, World Bank, and EBRD."

"Given its sound macroeconomic and fiscal policies and excellent progress in transition to a market economy, Georgia is well placed to weather the current crisis. Georgia's economy has been one of the strongest in the region owing to its proven record of reforms, and this reform effort deserves continued international support. The United States has strongly supported Georgia's reform and economic development programs and is prepared to join other countries to support the International Financial Institutions' future engagement to promote a vibrant economy that builds on the existing foundations," said Kimmitt.

-30-

August 12, 2008
HP-1113

Treasury Designates Iranian Nuclear and Missile Entities

Washington, DC--The U.S. Department of the Treasury today designated five entities for their ties to Iran's nuclear and missile programs. All five designees are owned or controlled by, or acting or purporting to act for or on behalf of, entities that have been designated by the United States or the United Nations Security Council.

The entities designated today are the Nuclear Research Center for Agriculture and Medicine (a/k/a Karaj Nuclear Research Center), the Esfahan Nuclear Fuel Research and Production Center (NFRPC), Jabber Ibn Hayan, Safety Equipment Procurement Company (SEP Co.) and Joza Industrial Company.

"Responsible financial institutions and businesses worldwide are taking steps to avoid doing business with Iranian nuclear and missile entities, as well as with the front companies and cut-outs the Iranian regime uses to disguise its activities," said Stuart Levey, Under Secretary for Terrorism and Financial Intelligence. "These five nuclear and missile entities have been used by Iran to hide its illicit conduct and further its dangerous nuclear ambitions."

This action was taken pursuant to Executive Order 13382, which is aimed at freezing the assets of proliferators of weapons of mass destruction and their supporters, and at isolating them from the U.S. financial and commercial systems. Designations under E.O. 13382 are implemented by Treasury's Office of Foreign Assets Control, and they prohibit all transactions between the designees and any U.S. person, and freeze any assets the designees may have under U.S. jurisdiction.

The Nuclear Research Center for Agriculture and Medicine, the NFRPC, and Jabber Ibn Hayan have been designated pursuant to E.O. 13382 because they are owned or controlled by, or acting or purporting to act for or on behalf of the Atomic Energy Organization of Iran (AEOI).

President George W. Bush in June 2005 identified the AEOI in the Annex to E.O. 13382. The AEOI, which directly reports to the Iranian President, is the main Iranian organization for research and development activities in the field of nuclear technology, including Iran's centrifuge enrichment program, and manages Iran's overall nuclear program. The AEOI was designated by the United Nations in the Annex to UN Security Council Resolution 1737 for its role in Iran's nuclear program.

The Nuclear Research Center for Agriculture and Medicine at Karaj is a large AEOI research component. The NFRPC is AEOI's center for the development of nuclear fuel, involved in enrichment-related activities. The NFRPC's uranium conversion facility, in operation since 2005, can produce most of the uranium compounds needed for fuel cycle activities. Uranium conversion is an essential step for the creation of nuclear fuel. Jabber Ibn Hayan, also part of AEOI, is involved in the field of research and development in the nuclear cycle, in addition to providing a wide range of laboratory services for the AEOI nuclear production division.

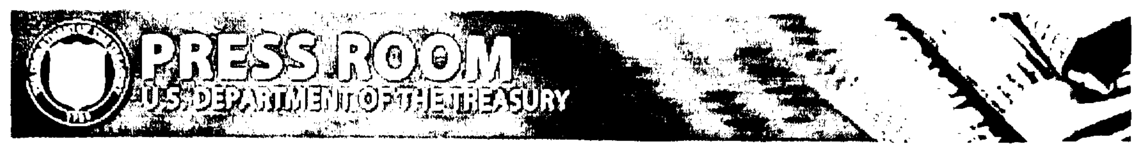
President Bush also identified Iran's Aerospace Industries Organization (AIO) and the Shahid Hemmat Industrial Group (SHIG) in the Annex to E.O. 13382. AIO is the overall manager of Iran's missile program and oversees all of Iran's missile industries. SHIG is responsible for Iran's ballistic missile programs, most notably the Shahab series of medium-range ballistic missiles. AIO and its subordinate elements, such as SHIG, often use front companies to access foreign technology and raw materials for the development of Iran's missile program.

SEP Co. has been designated today for acting, or purporting to act for, or on behalf

of AIO. AIO has been using SEP Co. to procure on its behalf since at least 2003. Joza Industrial Company has also been designated today for acting or purporting to act for, or on behalf of, directly or indirectly, SHIG. In an effort to evade sanctions and obscure its procurement efforts, SHIG utilizes a series of front companies, including the Joza Industrial Company, to purchase goods and materials.

All five of the entities designated today have also been previously designated by the United Nations. The Nuclear Research Center for Agriculture and Medicine and the NFRPC were both designated by the United Nations in the Annex to Resolution 1747 for their involvement in Iran's nuclear activities. Jabber Ibn Hayan, Joza Industrial Company, and SEP Co. were designated by the United Nations in Annex III to Resolution 1803.

-30-



August 14, 2008
HP-1114

Statement by Deputy Secretary Robert M. Kimmitt on Telephone Conversation with Georgian Prime Minister Gurgenidze

Washington – Deputy Secretary of the Treasury Robert M. Kimmitt issued the following statement on his telephone conversation with Georgian Prime Minister Lado Gurgenidze:

"Earlier today, I telephoned Prime Minister Gurgenidze to express the United States' continuing support for the democratically-elected government of Georgia and to reiterate our willingness to join other countries to support deeper engagement by the International Financial Institutions to assist Georgia's economy. Prime Minister Gurgenidze updated me on Georgia's economy and I noted that the Treasury Department continues to believe Georgia's sound macroeconomic and fiscal policies – as well as its excellent progress transitioning to a market economy – make it well-placed to weather the current crisis."

FROM THE OFFICE OF PUBLIC AFFAIRS

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August 15, 2008
HP-1115

Treasury International Capital (TIC) Data for June

Treasury International Capital (TIC) data for June 2008 are released today and posted on the U.S. Treasury web site (www.treas.gov/ti which will report on data for July, is scheduled for September 16, 2008.

Net foreign purchases of long-term securities were $53.4 billion.

- Net foreign purchases of long-term U.S. securities were $62.7 billion. Of this, net purchases by private foreign investors were $4 purchases by foreign official institutions were $14.9 billion.
- U.S. residents purchased a net $9.2 billion of long-term foreign securities.

Net foreign acquisition of long-term securities, taking into account adjustments, is estimated to have been $36.6 billion.

Foreign holdings of dollar-denominated short-term U.S. securities, including Treasury bills, and other custody liabilities decreased $2.2 of Treasury bills increased $6.9 billion.

Banks' own net dollar-denominated liabilities to foreign residents increased $16.7 billion.

Monthly net TIC flows were positive $51.1 billion. Of this, net foreign private flows were $38.0 billion, and net foreign official flows were

-30-

TIC Monthly Reports on Cross-Border Financial Flows

(Billions of dollars, not seasonally adjusted)

				12 Months Through			
		2006	2007	June-07	June-08	Mar-08	Apr-(
	Foreigners' Acquisitions of Long-term Securities						
1	Gross Purchases of Domestic U.S. Securities	21077.1	29730.6	24388.2	33150.2	3066.5	2584
2	Gross Sales of Domestic U.S. Securities	19933.9	28714.7	23097.3	32330.4	2989.3	2478
3	**Domestic Securities Purchased, net** (line 1 less line 2) /1	**1143.2**	**1015.9**	**1290.9**	**819.9**	**77.2**	**105**
4	**Private, net /2**	**946.6**	**828.2**	**1054.4**	**561.6**	**28.7**	**64**
5	Treasury Bonds & Notes, net	125.9	197.9	168.3	232.7	23.8	54
6	Gov't Agency Bonds, net	193.8	107.0	160.6	128.0	2.8	4
7	Corporate Bonds, net	482.2	342.8	520.5	151.2	-8.8	17
8	Equities, net	144.6	180.4	205.0	49.8	11.0	-12
9	**Official, net /3**	**196.6**	**187.7**	**236.5**	**258.3**	**48.4**	**41**
10	Treasury Bonds & Notes, net	69.6	3.0	69.3	73.3	28.0	22
11	Gov't Agency Bonds, net	92.6	119.1	133.5	88.6	15.9	11
12	Corporate Bonds, net	28.6	50.6	35.2	62.3	4.1	7
13	Equities, net	5.8	15.1	-1.4	34.2	0.4	(

14	Gross Purchases of Foreign Securities from U.S. Residents	5515.9	8187.6	6669.0	8544.3	752.5	69
15	Gross Sales of Foreign Securities to U.S. Residents	5766.8	8411.9	6955.3	8685.3	752.6	68
16	**Foreign Securities Purchased, net** (line 14 less line 15) /4	**-250.9**	**-224.3**	**-286.3**	**-141.0**	**0.0**	**10**
17	Foreign Bonds Purchased, net	-144.5	-129.0	-171.4	-66.3	2.9	1
18	Foreign Equities Purchased, net	-106.5	-95.3	-114.9	-74.7	-2.9	-
19	**Net Long-Term Securities Transactions** (line 3 plus line	**892.3**	**791.6**	**1004.6**	**678.9**	**77.1**	**116**
20	**Other Acquisitions of Long-term Securities, net /5**	**-174.6**	**-235.1**	**-206.9**	**-232.6**	**-20.1**	**-12**
21	**Net Foreign Acquisition of Long-Term Securities** (lines 19 and 20):	**717.7**	**556.5**	**797.7**	**446.3**	**57.0**	**103**
22	**Increase in Foreign Holdings of Dollar-denominated Short-U.S. Securities and Other Custody Liabilities: /6**	**146.2**	**197.6**	**58.3**	**258.2**	**7.8**	**-14**
23	**U.S. Treasury Bills**	**-9.0**	**48.8**	**-23.7**	**148.5**	**27.9**	**3**
24	Private, net	16.1	29.3	0.2	83.6	30.9	-1
25	Official, net	-25.0	19.5	-23.9	64.8	-3.0	13
26	**Other Negotiable Instruments and Selected Other Liabilities: /7**	**155.1**	**148.8**	**82.1**	**109.7**	**-20.1**	**-17**
27	Private, net	174.9	72.7	100.3	63.4	-12.8	-4
28	Official, net	-19.8	76.1	-18.2	46.3	-7.3	-13
29	**Change in Banks' Own Net Dollar-Denominated Liabilities**	**198.0**	**-133.8**	**16.0**	**-383.8**	**-117.7**	**-24**
30	**Monthly Net TIC Flows** (lines 21,22,29) /8 **of which**	**1061.8**	**620.4**	**872.1**	**320.7**	**-52.9**	**65**
31	Private, net	923.0	333.6	665.6	25.1	-62.6	36
32	Official, net	138.9	286.8	206.5	295.6	9.7	29

/1 Net foreign purchases of U.S. securities (+)

/2 Includes international and regional organizations

/3 The reported division of net purchases of long-term securities between net purchases by foreign official institutions and r of other foreign investors is subject to a "transaction bias" described in Frequently Asked Questions 7 and 10.a.4 on tl

/4 Net transactions in foreign securities by U.S. residents. Foreign purchases of foreign securities = U.S. sales of foreign se Thus negative entries indicate net U.S. purchases of foreign securities, or an outflow of capital from the United States indicate net U.S. sales of foreign securities.

/5 Minus estimated unrecorded principal repayments to foreigners on domestic corporate and agency asset-backed securitie estimated foreign acquisitions of U.S. equity through stock swaps -
estimated U.S. acquisitions of foreign equity through stock swaps +
increase in nonmarketable Treasury Bonds and Notes Issued to Official Institutions and Other Residents of Foreign C

/6 These are primarily data on monthly changes in banks' and broker/dealers' custody liabilities. Data on custody claims ar quarterly and published in the Treasury Bulletin and the TIC web site.

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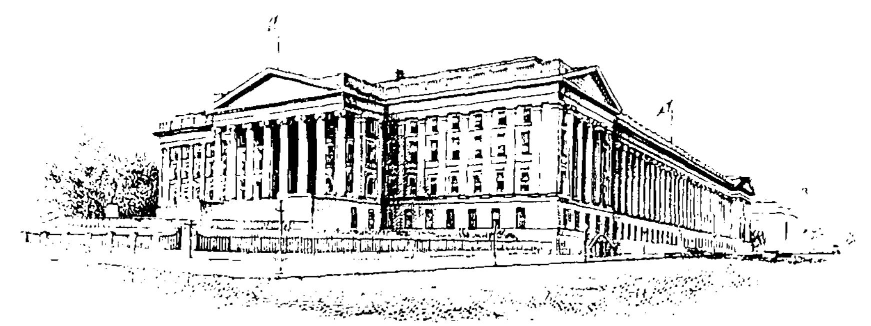
/8 TIC data cover most components of international financial flows, but do not include data on direct investment flows, whi and published by the Department of Commerce's Bureau of Economic Analysis. In addition to the monthly data sum TIC collects quarterly data on some banking and nonbanking assets and liabilities. Frequently Asked Question 1 on t site describes the scope of TIC data collection.

REPORTS

- (PDF) TIC Monthly Reports on Cross-Border Financial Flows (Billions of dollars, not seasonally adjusted)



DEPARTMENT OF THE TREASURY

OFFICE OF PUBLIC AFFAIRS

August 15, 2008
EMBARGOED UNTIL 9:00 AM

Contact: Rob Saliterman
(202) 622-2960

TREASURY INTERNATIONAL CAPITAL DATA FOR JUNE

Treasury International Capital (TIC) data for June 2008 are released today and posted on the U.S. Treasury web site (www.treas.gov/tic). The next release, which will report on data for July, is scheduled for September 16, 2008.

Net foreign purchases of long-term securities were $53.4 billion.

- Net foreign purchases of long-term U.S. securities were $62.7 billion. Of this, net purchases by private foreign investors were $47.8 billion, and net purchases by foreign official institutions were $14.9 billion.

- U.S. residents purchased a net $9.2 billion of long-term foreign securities.

Net foreign acquisition of long-term securities, taking into account adjustments, is estimated to have been $36.6 billion.

Foreign holdings of dollar-denominated short-term U.S. securities, including Treasury bills, and other custody liabilities decreased $2.2 billion. Foreign holdings of Treasury bills increased $6.9 billion.

Banks' own net dollar-denominated liabilities to foreign residents increased $16.7 billion.

Monthly net TIC flows were positive $51.1 billion. Of this, net foreign private flows were $38.0 billion, and net foreign official flows were $13.1 billion.

TIC Monthly Reports on Cross-Border Financial Flows

(Billions of dollars, not seasonally adjusted)

		2006	2007	12 Months Through June-07	12 Months Through June-08	Mar-08	Apr-08	May-08	June-08
	Foreigners' Acquisitions of Long-term Securities								
1	Gross Purchases of Domestic U.S. Securities	21077.1	29730.6	24388.2	33150.2	3066.5	2584.6	2599.2	2794.1
2	Gross Sales of Domestic U.S. Securities	19933.9	28714.7	23097.3	32330.4	2989.3	2478.9	2489.6	2731.4
3	**Domestic Securities Purchased, net** (line 1 less line 2) /1	**1143.2**	**1015.9**	**1290.9**	**819.9**	**77.2**	**105.7**	**109.7**	**62.7**
4	**Private, net /2**	**946.6**	**828.2**	**1054.4**	**561.6**	**28.7**	**64.4**	**93.2**	**47.8**
5	Treasury Bonds & Notes, net	125.9	197.9	168.3	232.7	23.8	54.7	9.4	27.2
6	Gov't Agency Bonds, net	193.8	107.0	160.6	128.0	2.8	4.3	17.1	22.3
7	Corporate Bonds, net	482.2	342.8	520.5	151.2	-8.8	17.5	50.8	0.6
8	Equities, net	144.6	180.4	205.0	49.8	11.0	-12.0	15.9	-2.3
9	**Official, net /3**	**196.6**	**187.7**	**236.5**	**258.3**	**48.4**	**41.3**	**16.4**	**14.9**
10	Treasury Bonds & Notes, net	69.6	3.0	69.3	73.3	28.0	22.3	-3.7	1.1
11	Gov't Agency Bonds, net	92.6	119.1	133.5	88.6	15.9	11.0	11.0	9.1
12	Corporate Bonds, net	28.6	50.6	35.2	62.3	4.1	7.5	9.1	4.1
13	Equities, net	5.8	15.1	-1.4	34.2	0.4	0.4	0.0	0.5
14	Gross Purchases of Foreign Securities from U.S. Residents	5515.9	8187.6	6669.0	8544.3	752.5	698.7	676.7	688.3
15	Gross Sales of Foreign Securities to U.S. Residents	5766.8	8411.9	6955.3	8685.3	752.6	688.2	703.1	697.5
16	**Foreign Securities Purchased, net** (line 14 less line 15) /4	**-250.9**	**-224.3**	**-286.3**	**-141.0**	**0.0**	**10.5**	**-26.4**	**-9.2**
17	Foreign Bonds Purchased, net	-144.5	-129.0	-171.4	-66.3	2.9	10.7	-8.3	-10.8
18	Foreign Equities Purchased, net	-106.5	-95.3	-114.9	-74.7	-2.9	-0.2	-18.1	1.6
19	**Net Long-Term Securities Transactions** (line 3 plus line 16):	**892.3**	**791.6**	**1004.6**	**678.9**	**77.1**	**116.1**	**83.2**	**53.4**
20	**Other Acquisitions of Long-term Securities, net /5**	**-174.6**	**-235.1**	**-206.9**	**-232.6**	**-20.1**	**-12.3**	**-22.6**	**-16.8**
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22	**Increase in Foreign Holdings of Dollar-denominated Short-term U.S. Securities and Other Custody Liabilities: /6**	**146.2**	**197.6**	**58.3**	**258.2**	**7.8**	**-14.0**	**9.3**	**-2.2**
23	**U.S. Treasury Bills**	**-9.0**	**48.8**	**-23.7**	**148.5**	**27.9**	**3.4**	**11.4**	**6.9**
24	Private, net	16.1	29.3	0.2	83.6	30.9	-10.4	7.8	-0.1
25	Official, net	-25.0	19.5	-23.9	64.8	-3.0	13.8	3.7	7.0
26	**Other Negotiable Instruments and Selected Other Liabilities: /7**	**155.1**	**148.8**	**82.1**	**109.7**	**-20.1**	**-17.4**	**-2.1**	**-9.1**
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30	**Monthly Net TIC Flows** (lines 21,22,29) /8	**1061.8**	**620.4**	**872.1**	**320.7**	**-52.9**	**65.8**	**12.3**	**51.1**
	of which								
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32	Official, net	138.9	286.8	206.5	295.6	9.7	29.2	13.8	13.1

/1 Net foreign purchases of U.S. securities (+)

/2 Includes international and regional organizations

/3 The reported division of net purchases of long-term securities between net purchases by foreign official institutions and net purchases of other foreign investors is subject to a "transaction bias" described in Frequently Asked Questions 7 and 10.a.4 on the TIC web site.

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/5 Minus estimated unrecorded principal repayments to foreigners on domestic corporate and agency asset-backed securities + estimated foreign acquisitions of U.S. equity through stock swaps - estimated U.S. acquisitions of foreign equity through stock swaps + increase in nonmarketable Treasury Bonds and Notes Issued to Official Institutions and Other Residents of Foreign Countries.

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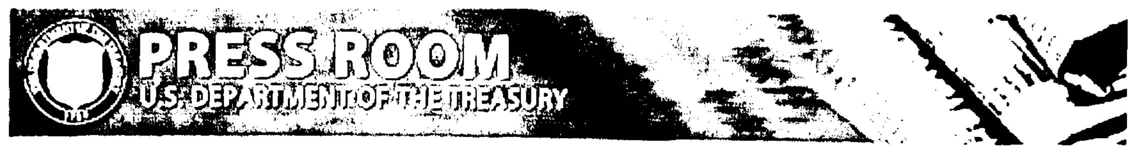

August 15, 2008
HP-1117

Opening Remarks of Assistant Secretary for Terrorist Financing Patrick O'Brien at Treasury's Charity Roundtable

Washington DC--Good Morning. I would like to welcome you all to the Treasury Department for today's Charity Roundtable. It is our hope that today's discussion will build upon the regular dialogue we have had over the years both here in Washington and in community events around the country. Before I go further, I would like to extend my special thanks to Mr. Kareem Shora, National Executive Director of the American-Arab Anti-Discrimination Committee (ADC), and his capable staff for their assistance and leadership in organizing this event.

The United States government is committed to strengthening our relationship with Arab and Muslim-American communities. For our part, the Treasury Department continues to engage with both the charitable sector and affected communities to advance our shared interests in a free, open, tolerant, and charitable society. One that encourages charitable and humanitarian activities, while at the same time protecting those efforts from abuse.

Over the last several years, the Treasury Department has established an important relationship and dialogue with the Arab and Muslim-American communities as we work together to address the threat of terrorist financing in the United States and the Muslim and Arab worlds. This relationship is necessary as we work to protect and preserve the sanctity of charitable giving and zakat from terrorist groups like al Qaida, Hamas, Hizbollah, and others who have purposely usurped the goodwill and donations of Muslims around the world to fuel their terrorist agenda. It is also critical to advancing our collective mission of promoting charitable relief and development around the world to those most in need of our assistance. Although we may not agree on all points, an honest and frank exchange between the federal government and Arab and Muslim-American communities fosters mutual understanding and also serves as a basis for continued cooperation.

The Arab and Muslim-American communities are uniquely situated to advance our common interests in both promoting and protecting charitable activities. Your engagement and leadership has the potential to affect global practices and perceptions that are essential to these interests and winning the long term battle against terrorism.

We anticipate that today will provide an open and informal forum to exchange thoughts and mutual concerns. It is fair to say that our agenda is ambitious and engaging. There is a diversity of interests and concerns that are reflected by speakers from Treasury, the Internal Revenue Service, the FBI, USAID as well as a number of charitable and advocacy groups, civil rights organizations and concerned individuals.

Today's dialogue will be wide-ranging and focused on the following topi

- The nature of the threat of terrorist abuse of charities;
- Basic governance, accountability, and transparency issues which affect charities as well as hearing how the private sector implements such principles;
- Concerns of charities that operate in high-risk areas and measures they may voluntarily implement to minimize risks of abuse;
- Providing guidance to donors on charitable giving; and
- Identifying ongoing and future challenges.

I would like to make a few general observations about the first topic on the agenda – the nature of the threat. Absent a baseline understanding of this matter, the United States and the international community's response would not be well

understood. As has been noted on many occasions, the nature of terrorist financing is dynamic, evolving, and it often varies by the particular region. However, the Treasury Department, working with its domestic partners and international organizations such as the Financial Action Task Force, has made a concerted effort to document the risks and typologies of terrorist exploitation through a number of publications.

Some believe that the terrorist financing threat in the charitable sector is limited to cases of diversion of funds or materials. Diversion occurs when a charity ostensibly raises money for a legitimate goal, but then uses the funds for an illicit purpose. In the broadest sense, this is fraud. However, it is not the only problem we confront in the sector. In addition to raising and moving funds as well as providing operational cover, it is well known that foreign terrorist organizations such as al Qaida, Hamas, and Hizbollah purposefully establish or exploit charities to gain support, recruit new members, and radicalize vulnerable populations. Terrorist groups often supplant a weakened central government and in effect, develop social welfare arms. They run the hospitals, schools, and clinics for these populations. This gives terrorist organizations a seemingly reputable foundation for recruiting new members.

Many of these charities do provide actual services, as well as support terrorism. It is this aspect of the threat the underlines our voluntary guidance covering the vetting of key employees and grantees of charities working in high-risk areas against lists of designated terrorist organizations, entities and individuals. This fact is supported by a number of different sources including law enforcement investigations, academic studies, media reports, and publicly available information that support Treasury Department designations. In this regard, the public information concerning Treasury's designations of specific U.S.-based charities revealed that many of the charitable organizations engaged in actual charitable services. However, they were unfortunately owned or controlled by, or acted for or on behalf of; or provided financial, material, or technological support. This is a violation of U.S. law, namely Executive Order 13224. Organizations such as Benevolence International Foundation and Global Relief Foundation are prime examples of this type of illicit activity. Furthermore, Treasury's recent designation of the Tamil Rehabilitation Organization (TRO) in Sri Lanka and a similar action taken by the Government of Canada illustrates that a wide range of foreign terrorist organizations that exploit charitable services. In fact, almost all of the foreign terrorist organizations maintained by the federal government have some charitable component or function.

The broader exploitation of charities operating in high-risk regions raises serious questions and challenges for the United States, the international community, and charities operating in high-risk areas. Going forward, some key challenges include: adoption of best practices, utilizing alternative relief measures, and improving private sector relief efforts. Let me just take a minute to briefly outline these areas.

Adoption of Anti-Terrorist Best Practices

All charities working in high-risk areas should consider adopting specific anti-terrorist measures. As guidance, Treasury published the Anti-Terrorist Financing Guidelines: Voluntary Best Practices for U.S.- Based Charities in consultation with a number of charitable groups. In light of the risk of exploitation in certain regions and the need to comply with U.S law, these measures, among other things, recommend that a charity collect information on its grantees as well as key employees and then check such information against lists maintained by the Department of the Treasury. It is important to note that such measures are risk-sensitive and recognize that charities may sometimes operate under exigent circumstances. However, we understand that there has been significant discussion both within the charitable sector and affected communities regarding the feasibility, potential burden, and the effect of such measures, and hope we can examine these concerns during today's roundtable. Going forward, Treasury will continue to work with interested parties to further refine its guidance in this area, including through the Treasury Guidelines Working Group forum.

Alternative Relief

In some circumstances, effectively and safely operating in regions where there are known terrorist activities may require creating alternative distribution means. Essentially, this type of partnership allows individual U.S. donors to tap into the

government resources and distribution networks, thereby leveraging counterterrorism mechanisms only available to the government. The aim is straightforward – to provide a safe and effective way for individuals to contribute to critical regions where aid is desperately needed, such as the West Bank and Gaza. Such partnerships also have the potential to weaken the hold that foreign terrorist organizations have on vulnerable populations by harnessing a competitive force – the generosity of the American people. Dr. Ziad Asali, the American Charities for Palestine, and other government partners who work with USAID are doing just that. It is our hope that this type of collaboration will take root and serve as a model for other areas of concern as well as encompass other funding streams including that of the international community.

Private Sector Efforts

Of course, the first line of defense against terrorist exploitation of the charitable sector lies with charities themselves. On its own initiative, a Muslim-American advocacy group has started to educate its constituency and bolster the capacity of member charities. Muslim Advocates has taken an important first step by partnering with the Better Business Bureau Wise Giving Alliance to develop a training and certification program encompassing transparency, accountability, and governance related issues. We strongly support this effort and it is our hope that this type of program will be embraced by other groups and that the original scope will be expanded to also cover terrorist financing issues and preventive measures for charities working in high-risk regions.

Conclusion

In closing, I hope today's Charity Roundtable discussion helps us all better understand how we can work together to advance our common interests in promoting and protecting charity. The continued dialogue and work between the federal government and Arab and Muslim-American communities is a critical element in our collective effort to combat those aiming to corrupt our charitable institutions and destroy the liberties we enjoy every day as Americans. We look forward to continuing our work together on these issues, and I thank you for your participation, concern, and leadership in moving this dialogue forward.

-30-

August 18, 2008
2008-8-18-18-7-21-16182

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $74,791 million as of the end of that week, compared to $75,185 million as of the end of the prior week.

I. Official reserve assets and other foreign currency assets (approximate market value, in US millions)

	August 1, 2008		
A. Official reserve assets (in US millions unless otherwise specified) [1]	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			74,791
(a) Securities	10,057	11,925	21,982
of which: issuer headquartered in reporting country but located abroad			0
(b) total currency and deposits with:			
(i) other national central banks, BIS and IMF	15,364	5,865	21,229
ii) banks headquartered in the reporting country			0
of which: located abroad			0
(iii) banks headquartered outside the reporting country			0
of which: located in the reporting country			0
(2) IMF reserve position [2]	4,926		
(3) SDRs [2]	9,765		
(4) gold (including gold deposits and, if appropriate, gold swapped) [3]	11,041		
--volume in millions of fine troy ounces	261.499		
(5) other reserve assets (specify)	5,848		
--financial derivatives			
--loans to nonbank nonresidents			
--other (foreign currency assets invested through reverse repurchase agreements)	5,848		
B. Other foreign currency assets (specify)			
--securities not included in official reserve assets			
--deposits not included in official reserve assets			
--loans not included in official reserve assets			
--financial derivatives not included in official reserve assets			
--gold not included in official reserve assets			
--other			

II. Predetermined short-term net drains on foreign currency assets (nominal value)

			Maturity breakdown (residual maturity)		
		Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Foreign currency loans, securities, and deposits					
--outflows (-)	Principal				
	Interest				
--inflows (+)	Principal				
	Interest				
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)					
(a) Short positions (-) [4]		-62,000	-62,000		
(b) Long positions (+)					
3. Other (specify)					
--outflows related to repos (-)					
--inflows related to reverse repos (+)					
--trade credit (-)					
--trade credit (+)					
--other accounts payable (-)					
--other accounts receivable (+)					

III. Contingent short-term net drains on foreign currency assets (nominal value)

		Maturity breakdown (residual maturity, where applicable)		
	Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Contingent liabilities in foreign currency				
(a) Collateral guarantees on debt falling due within 1 year				
(b) Other contingent liabilities				
2. Foreign currency securities issued with embedded options (puttable bonds)				
3. Undrawn, unconditional credit lines provided by:				
(a) other national monetary authorities, BIS, IMF, and other international organizations				
--other national monetary authorities (+)				
--BIS (+)				
--IMF (+)				
(b) with banks and other financial institutions headquartered in the reporting country (+)				
(c) with banks and other financial institutions headquartered outside the reporting country (+)				
Undrawn, unconditional credit lines provided to:				
(a) other national monetary authorities, BIS, IMF, and other international organizations				
--other national monetary authorities (-)				

--BIS (-)				
--IMF (-)				
(b) banks and other financial institutions headquartered in reporting country (-)				
(c) banks and other financial institutions headquartered outside the reporting country (-)				
4. Aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency				
(a) Short positions				
(i) Bought puts				
(ii) Written calls				
(b) Long positions				
(i) Bought calls				
(ii) Written puts				
PRO MEMORIA: In-the-money options				
(1) At current exchange rate				
(a) Short position				
(b) Long position				
(2) + 5 % (depreciation of 5%)				
(a) Short position				
(b) Long position				
(3) - 5 % (appreciation of 5%)				
(a) Short position				
(b) Long position				
(4) +10 % (depreciation of 10%)				
(a) Short position				
(b) Long position				
(5) - 10 % (appreciation of 10%)				
(a) Short position				
(b) Long position				
(6) Other (specify)				
(a) Short position				
(b) Long position				

IV. Memo items

(1) To be reported with standard periodicity and timeliness:	
(a) short-term domestic currency debt indexed to the exchange rate	
(b) financial instruments denominated in foreign currency and settled by other means (e.g., in domestic currency)	
--nondeliverable forwards	
--short positions	
--long positions	
--other instruments	
(c) pledged assets	
--included in reserve assets	
--included in other foreign currency assets	
(d) securities lent and on repo	5.967

--lent or repoed and included in Section I	
--lent or repoed but not included in Section I	
--borrowed or acquired and included in Section I	
--borrowed or acquired but not included in Section I	5,967
(e) financial derivative assets (net, marked to market)	
--forwards	
--futures	
--swaps	
--options	
--other	
(f) derivatives (forward, futures, or options contracts) that have a residual maturity greater than one year, which are subject to margin calls.	
--aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)	
(a) short positions (–)	
(b) long positions (+)	
--aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency	
(a) short positions	
(i) bought puts	
(ii) written calls	
(b) long positions	
(i) bought calls	
(ii) written puts	
(2) To be disclosed less frequently:	
(a) currency composition of reserves (by groups of currencies)	74,791
--currencies in SDR basket	74,791
--currencies not in SDR basket	
--by individual currencies (optional)	

Notes:

1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values.

2/ The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollar terms at the official SDR/dollar exchange rate for the reporting date. The entries for the latest week reflect any necessary adjustments, including revaluation, by the U.S. Treasury to IMF data for the prior month end.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce.

4/ The short positions reflect foreign exchange acquired under reciprocal currency arrangements with certain foreign central banks. The foreign exchange acquired is not included in Section I, "official reserve assets and other foreign currency assets," of the template for reporting international reserves. However, it is included in the broader balance of payments presentation as "U.S. Government assets, other than official reserve assets/U.S. foreign currency holdings and U.S. short-term assets."

August 19, 2008
2008-8-19-13-37-57-27319

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $73,178 million as of the end of that week, compared to $74,791 million as of the end of the prior week.

I. Official reserve assets and other foreign currency assets (approximate market value, in US millions)

	August 8, 2008		
A. Official reserve assets (in US millions unless otherwise specified) [1]	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			73,178
(a) Securities	9,773	11,663	21,436
of which: issuer headquartered in reporting country but located abroad			0
(b) total currency and deposits with:			
(i) other national central banks, BIS and IMF	14,863	5,732	20,595
ii) banks headquartered in the reporting country			0
of which: located abroad			0
(iii) banks headquartered outside the reporting country			0
of which: located in the reporting country			0
(2) IMF reserve position [2]	4,845		
(3) SDRs [2]	9,604		
(4) gold (including gold deposits and, if appropriate, gold swapped) [3]	11,041		
--volume in millions of fine troy ounces	261.499		
(5) other reserve assets (specify)	5,657		
--financial derivatives			
--loans to nonbank nonresidents			
--other (foreign currency assets invested through reverse repurchase agreements)	5,657		
B. Other foreign currency assets (specify)			
--securities not included in official reserve assets			
--deposits not included in official reserve assets			
--loans not included in official reserve assets			
--financial derivatives not included in official reserve assets			
--gold not included in official reserve assets			
--other			

II. Predetermined short-term net drains on foreign currency assets (nominal value)

			Maturity breakdown (residual maturity)		
		Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Foreign currency loans, securities, and deposits					
--outflows (-)	Principal				
	Interest				
--inflows (+)	Principal				
	Interest				
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)					
(a) Short positions (-) [4]		-62,000	-62,000		
(b) Long positions (+)					
3. Other (specify)					
--outflows related to repos (-)					
--inflows related to reverse repos (+)					
--trade credit (-)					
--trade credit (+)					
--other accounts payable (-)					
--other accounts receivable (+)					

III. Contingent short-term net drains on foreign currency assets (nominal value)

		Maturity breakdown (residual maturity, where applicable)		
	Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Contingent liabilities in foreign currency				
(a) Collateral guarantees on debt falling due within 1 year				
(b) Other contingent liabilities				
2. Foreign currency securities issued with embedded options (puttable bonds)				
3. Undrawn, unconditional credit lines provided by:				
(a) other national monetary authorities, BIS, IMF, and other international organizations				
--other national monetary authorities (+)				
--BIS (+)				
--IMF (+)				
(b) with banks and other financial institutions headquartered in the reporting country (+)				
(c) with banks and other financial institutions headquartered outside the reporting country (+)				
Undrawn, unconditional credit lines provided to:				
(a) other national monetary authorities, BIS, IMF, and other international organizations				
--other national monetary authorities (-)				

--BIS (-)				
--IMF (-)				
(b) banks and other financial institutions headquartered in reporting country (-)				
(c) banks and other financial institutions headquartered outside the reporting country (-)				
4. Aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency				
(a) Short positions				
(i) Bought puts				
(ii) Written calls				
(b) Long positions				
(i) Bought calls				
(ii) Written puts				
PRO MEMORIA: In-the-money options				
(1) At current exchange rate				
(a) Short position				
(b) Long position				
(2) + 5 % (depreciation of 5%)				
(a) Short position				
(b) Long position				
(3) - 5 % (appreciation of 5%)				
(a) Short position				
(b) Long position				
(4) +10 % (depreciation of 10%)				
(a) Short position				
(b) Long position				
(5) - 10 % (appreciation of 10%)				
(a) Short position				
(b) Long position				
(6) Other (specify)				
(a) Short position				
(b) Long position				

IV. Memo items

(1) To be reported with standard periodicity and timeliness:	
(a) short-term domestic currency debt indexed to the exchange rate	
(b) financial instruments denominated in foreign currency and settled by other means (e.g., in domestic currency)	
--nondeliverable forwards	
--short positions	
--long positions	
--other instruments	
(c) pledged assets	
--included in reserve assets	
--included in other foreign currency assets	
(d) securities lent and on repo	5,776

--lent or repoed and included in Section I	
--lent or repoed but not included in Section I	
--borrowed or acquired and included in Section I	
--borrowed or acquired but not included in Section I	5,776
(e) financial derivative assets (net, marked to market)	
--forwards	
--futures	
--swaps	
--options	
--other	
(f) derivatives (forward, futures, or options contracts) that have a residual maturity greater than one year, which are subject to margin calls.	
--aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)	
(a) short positions (–)	
(b) long positions (+)	
--aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency	
(a) short positions	
(i) bought puts	
(ii) written calls	
(b) long positions	
(i) bought calls	
(ii) written puts	
(2) To be disclosed less frequently:	
(a) currency composition of reserves (by groups of currencies)	73,178
--currencies in SDR basket	73,178
--currencies not in SDR basket	
--by individual currencies (optional)	

Notes:

1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values.

2/ The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollar terms at the official SDR/dollar exchange rate for the reporting date. The entries for the latest week reflect any necessary adjustments, including revaluation, by the U.S. Treasury to IMF data for the prior month end.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce.

4/ The short positions reflect foreign exchange acquired under reciprocal currency arrangements with certain foreign central banks. The foreign exchange acquired is not included in Section I, "official reserve assets and other foreign currency assets," of the template for reporting international reserves. However, it is included in the broader balance of payments presentation as "U.S. Government assets, other than official reserve assets/U.S. foreign currency holdings and U.S. short-term assets."

August 19, 2008
2008-8-19-13-54-2-27500

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $72,237 million as of the end of that week, compared to $73,178 million as of the end of the prior week.

I. Official reserve assets and other foreign currency assets (approximate market value, in US millions)

	August 15, 2008		
A. Official reserve assets (in US millions unless otherwise specified) [1]	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			72,237
(a) Securities	9,567	11,624	21,191
of which: issuer headquartered in reporting country but located abroad			0
(b) total currency and deposits with:			
(i) other national central banks, BIS and IMF	14,072	5,712	19,784
ii) banks headquartered in the reporting country			0
of which: located abroad			0
(iii) banks headquartered outside the reporting country			0
of which: located in the reporting country			0
(2) IMF reserve position [2]	4,773		
(3) SDRs [2]	9,463		
(4) gold (including gold deposits and, if appropriate, gold swapped) [3]	11,041		
--volume in millions of fine troy ounces	261.499		
(5) other reserve assets (specify)	5,985		
--financial derivatives			
--loans to nonbank nonresidents			
--other (foreign currency assets invested through reverse repurchase agreements)	5,985		
B. Other foreign currency assets (specify)			
--securities not included in official reserve assets			
--deposits not included in official reserve assets			
--loans not included in official reserve assets			
--financial derivatives not included in official reserve assets			
--gold not included in official reserve assets			
--other			

II. Predetermined short-term net drains on foreign currency assets (nominal value)

			Maturity breakdown (residual maturity)		
		Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Foreign currency loans, securities, and deposits					
--outflows (-)	Principal				
	Interest				
--inflows (+)	Principal				
	Interest				
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)					
(a) Short positions (-) [4]		-67,000	-67,000		
(b) Long positions (+)					
3. Other (specify)					
--outflows related to repos (-)					
--inflows related to reverse repos (+)					
--trade credit (-)					
--trade credit (+)					
--other accounts payable (-)					
--other accounts receivable (+)					

III. Contingent short-term net drains on foreign currency assets (nominal value)

		Maturity breakdown (residual maturity, where applicable)		
	Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Contingent liabilities in foreign currency				
(a) Collateral guarantees on debt falling due within 1 year				
(b) Other contingent liabilities				
2. Foreign currency securities issued with embedded options (puttable bonds)				
3. Undrawn, unconditional credit lines provided by:				
(a) other national monetary authorities, BIS, IMF, and other international organizations				
--other national monetary authorities (+)				
--BIS (+)				
--IMF (+)				
(b) with banks and other financial institutions headquartered in the reporting country (+)				
(c) with banks and other financial institutions headquartered outside the reporting country (+)				
Undrawn, unconditional credit lines provided to:				
(a) other national monetary authorities, BIS, IMF, and other international organizations				
--other national monetary authorities (-)				

--BIS (-)				
--IMF (-)				
(b) banks and other financial institutions headquartered in reporting country (-)				
(c) banks and other financial institutions headquartered outside the reporting country (-)				
4. Aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency				
(a) Short positions				
(i) Bought puts				
(ii) Written calls				
(b) Long positions				
(i) Bought calls				
(ii) Written puts				
PRO MEMORIA: In-the-money options				
(1) At current exchange rate				
(a) Short position				
(b) Long position				
(2) + 5 % (depreciation of 5%)				
(a) Short position				
(b) Long position				
(3) - 5 % (appreciation of 5%)				
(a) Short position				
(b) Long position				
(4) +10 % (depreciation of 10%)				
(a) Short position				
(b) Long position				
(5) - 10 % (appreciation of 10%)				
(a) Short position				
(b) Long position				
(6) Other (specify)				
(a) Short position				
(b) Long position				

IV. Memo items

(1) To be reported with standard periodicity and timeliness:	
(a) short-term domestic currency debt indexed to the exchange rate	
(b) financial instruments denominated in foreign currency and settled by other means (e.g., in domestic currency)	
--nondeliverable forwards	
--short positions	
--long positions	
--other instruments	
(c) pledged assets	
--included in reserve assets	
--included in other foreign currency assets	
(d) securities lent and on repo	6,108

--lent or repoed and included in Section I	
--lent or repoed but not included in Section I	
--borrowed or acquired and included in Section I	
--borrowed or acquired but not included in Section I	6,108
(e) financial derivative assets (net, marked to market)	
--forwards	
--futures	
--swaps	
--options	
--other	
(f) derivatives (forward, futures, or options contracts) that have a residual maturity greater than one year, which are subject to margin calls.	
--aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)	
(a) short positions (–)	
(b) long positions (+)	
--aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency	
(a) short positions	
(i) bought puts	
(ii) written calls	
(b) long positions	
(i) bought calls	
(ii) written puts	
(2) To be disclosed less frequently:	
(a) currency composition of reserves (by groups of currencies)	72,237
--currencies in SDR basket	72,237
--currencies not in SDR basket	
--by individual currencies (optional)	

Notes:

1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values.

2/ The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollar terms at the official SDR/dollar exchange rate for the reporting date. The entries for the latest week reflect any necessary adjustments, including revaluation, by the U.S. Treasury to IMF data for the prior month end.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce.

4/ The short positions reflect foreign exchange acquired under reciprocal currency arrangements with certain foreign central banks. The foreign exchange acquired is not included in Section I, "official reserve assets and other foreign currency assets," of the template for reporting international reserves. However, it is included in the broader balance of payments presentation as "U.S. Government assets, other than official reserve assets/U.S. foreign currency holdings and U.S. short-term assets."

August 20, 2008
hp-1118

Statement By G-7 Finance Ministers on Georgia

G-7 Finance Ministers today issued the following statement on Georgia:

"G-7 Finance Ministers welcome the international mediation efforts to end the hostilities and to bring about a political solution to the conflict in Georgia. The loss of life, humanitarian suffering and wider destruction over recent days is considerable, and we welcome commitments to assist with the urgent humanitarian needs.

"We, the G-7, stand ready to support Georgia in order to promote the continued health of the Georgian economy, maintain confidence in Georgia's financial system and support economic reconstruction.

"In this regard we welcome the commitment by Georgia and the International Monetary Fund to work together to reinforce the soundness of Georgia's economic reform program. We also call on the Georgian authorities, other countries, the World Bank, European Bank for Reconstruction and Development, Asian Development Bank, European Investment Bank, and European Commission to promptly identify and support reconstruction needs and the restoration of services that will build a base for future economic growth.

"Georgia has solid economic fundamentals as a result of economic reforms and sound policies, and we are committed to helping Georgia continue on this path."

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August 26, 2008
2008-8-26-14-1-33-3617

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $72,619 million as of the end of that week, compared to $72,237 million as of the end of the prior week.

I. Official reserve assets and other foreign currency assets (approximate market value, in US millions)

	August 22, 2008		
A. Official reserve assets (in US millions unless otherwise specified) [1]	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			72,619
(a) Securities	9,624	11,692	21,316
of which: issuer headquartered in reporting country but located abroad			0
(b) total currency and deposits with:			
(i) other national central banks, BIS and IMF	13,954	5,744	19,698
ii) banks headquartered in the reporting country			0
of which: located abroad			0
(iii) banks headquartered outside the reporting country			0
of which: located in the reporting country			0
(2) IMF reserve position [2]	4,795		
(3) SDRs [2]	9,506		
(4) gold (including gold deposits and, if appropriate, gold swapped) [3]	11,041		
--volume in millions of fine troy ounces	261.499		
(5) other reserve assets (specify)	6,262		
--financial derivatives			
--loans to nonbank nonresidents			
--other (foreign currency assets invested through reverse repurchase agreements)	6,262		
B. Other foreign currency assets (specify)			
--securities not included in official reserve assets			
--deposits not included in official reserve assets			
--loans not included in official reserve assets			
--financial derivatives not included in official reserve assets			
--gold not included in official reserve assets			
--other			

II. Predetermined short-term net drains on foreign currency assets (nominal value)

			Maturity breakdown (residual maturity)		
		Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Foreign currency loans, securities, and deposits					
--outflows (-)	Principal				
	Interest				
--inflows (+)	Principal				
	Interest				
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)					
(a) Short positions (-) [4]		-67,000	-67,000		
(b) Long positions (+)					
3. Other (specify)					
--outflows related to repos (-)					
--inflows related to reverse repos (+)					
--trade credit (-)					
--trade credit (+)					
--other accounts payable (-)					
--other accounts receivable (+)					

III. Contingent short-term net drains on foreign currency assets (nominal value)

		Maturity breakdown (residual maturity, where applicable)		
	Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Contingent liabilities in foreign currency				
(a) Collateral guarantees on debt falling due within 1 year				
(b) Other contingent liabilities				
2. Foreign currency securities issued with embedded options (puttable bonds)				
3. Undrawn, unconditional credit lines provided by:				
(a) other national monetary authorities, BIS, IMF, and other international organizations				
--other national monetary authorities (+)				
--BIS (+)				
--IMF (+)				
(b) with banks and other financial institutions headquartered in the reporting country (+)				
(c) with banks and other financial institutions headquartered outside the reporting country (+)				
Undrawn, unconditional credit lines provided to:				
(a) other national monetary authorities, BIS, IMF, and other international organizations				
--other national monetary authorities (-)				

--BIS (-)				
--IMF (-)				
(b) banks and other financial institutions headquartered in reporting country (-)				
(c) banks and other financial institutions headquartered outside the reporting country (-)				
4. Aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency				
(a) Short positions				
(i) Bought puts				
(ii) Written calls				
(b) Long positions				
(i) Bought calls				
(ii) Written puts				
PRO MEMORIA: In-the-money options				
(1) At current exchange rate				
(a) Short position				
(b) Long position				
(2) + 5 % (depreciation of 5%)				
(a) Short position				
(b) Long position				
(3) - 5 % (appreciation of 5%)				
(a) Short position				
(b) Long position				
(4) +10 % (depreciation of 10%)				
(a) Short position				
(b) Long position				
(5) - 10 % (appreciation of 10%)				
(a) Short position				
(b) Long position				
(6) Other (specify)				
(a) Short position				
(b) Long position				

IV. Memo items

(1) To be reported with standard periodicity and timeliness:	
(a) short-term domestic currency debt indexed to the exchange rate	
(b) financial instruments denominated in foreign currency and settled by other means (e.g., in domestic currency)	
--nondeliverable forwards	
--short positions	
--long positions	
--other instruments	
(c) pledged assets	
--included in reserve assets	
--included in other foreign currency assets	
(d) securities lent and on repo	6,391

--lent or repoed and included in Section I	
--lent or repoed but not included in Section I	
--borrowed or acquired and included in Section I	
--borrowed or acquired but not included in Section I	6,391
(e) financial derivative assets (net, marked to market)	
--forwards	
--futures	
--swaps	
--options	
--other	
(f) derivatives (forward, futures, or options contracts) that have a residual maturity greater than one year, which are subject to margin calls	
--aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)	
(a) short positions (–)	
(b) long positions (+)	
--aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency	
(a) short positions	
(i) bought puts	
(ii) written calls	
(b) long positions	
(i) bought calls	
(ii) written puts	
(2) To be disclosed less frequently:	
(a) currency composition of reserves (by groups of currencies)	72,619
--currencies in SDR basket	72,619
--currencies not in SDR basket	
--by individual currencies (optional)	

Notes:

1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values.

2/ The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollar terms at the official SDR/dollar exchange rate for the reporting date. The entries for the latest week reflect any necessary adjustments, including revaluation, by the U.S. Treasury to IMF data for the prior month end.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce.

4/ The short positions reflect foreign exchange acquired under reciprocal currency arrangements with certain foreign central banks. The foreign exchange acquired is not included in Section I, "official reserve assets and other foreign currency assets," of the template for reporting international reserves. However, it is included in the broader balance of payments presentation as "U.S. Government assets, other than official reserve assets/U.S. foreign currency holdings and U.S. short-term assets."

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August 28, 2008
HP-1119

Treasury Targets Rising Colombian Narcotics Traffickers

Washington, DC--The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today designated two Colombian individuals, Jesus Maria Alejandro Sanchez Jimenez and Rafael Angel Sanchez Rua, as Specially Designated Narcotics Traffickers (SDNTs) pursuant to Executive Order 12978. OFAC also designated as SDNTs two other individuals and four entities located in Colombia. Sanchez Jimenez and Sanchez Rua are among those who have inherited the drug trafficking organization once led by SDNT principal Carlos Mario Jimenez Naranjo (alias "*Macaco*"), who is now in U.S. custody.

"The recent extradition of Carlos Mario Jimenez Naranjo represents a success in the U.S. and Colombian governments' efforts against narcotics trafficking. It also demonstrates the Colombian government's commitment and leadership in this effort," said OFAC Director Adam J. Szubin. "Today's designation exposes two of the individuals who have replaced Jimenez Naranjo, who headed one of the most powerful and ruthless criminal groups in Colombia."

Carlos Mario Jimenez Naranjo was extradited to the United States on May 7, 2008. He faces federal drug trafficking charges, among other charges, in the U.S. District Court for the District of Columbia and the U.S. District Court for the Southern District of Florida.

Jesus Maria Alejandro Sanchez Jimenez, also known as "*El Primo*" and "*Scubi*," is from Pereira, Colombia and is a cousin of Jimenez Naranjo. Sanchez Jimenez helped manage Jimenez Naranjo's drug trafficking operations while the latter was in a Colombian prison awaiting extradition to the United States. Sanchez Jimenez has grown more powerful following the recent assassination in Argentina of his close associate, Hector Edilson Duque Ceballos (alias "*Monoteto*"), who was also a lieutenant in Jimenez Naranjo's drug trafficking organization. Rafael Angel Sanchez Rua is from Cartago, Colombia and is a long-time drug trafficking partner of Jimenez Naranjo. Sanchez Rua is involved in the transportation of Colombian cocaine to Europe through Venezuela. In the late 1990s, Sanchez Rua was arrested by Colombian authorities on arms smuggling charges. The current whereabouts of Jesus Maria Alejandro Sanchez Jimenez and Rafael Angel Sanchez Rua are unknown.

Today's OFAC action also targets entities and individuals that hold assets on behalf of Jesus Maria Alejandro Sanchez Jimenez and Rafael Angel Sanchez Rua. *Ganaderia Arizona*, controlled by Sanchez Jimenez, is a prize-winning cattle farm located in Caucasia, Colombia with an office in Medellin. Sanchez Rua controls three companies in or near Cartago, Colombia: *Almacen y Compraventa Los 3 Oros*, an agricultural store; *Granja Porcicola La Fortaleza*, a commercial pig farm; and *Motel Momentos E.U.*, an hourly motel. OFAC also designated today Luz Piedad Restrepo Encizo and Marisol Viedma Abonce, who act for or on behalf of Sanchez Rua.

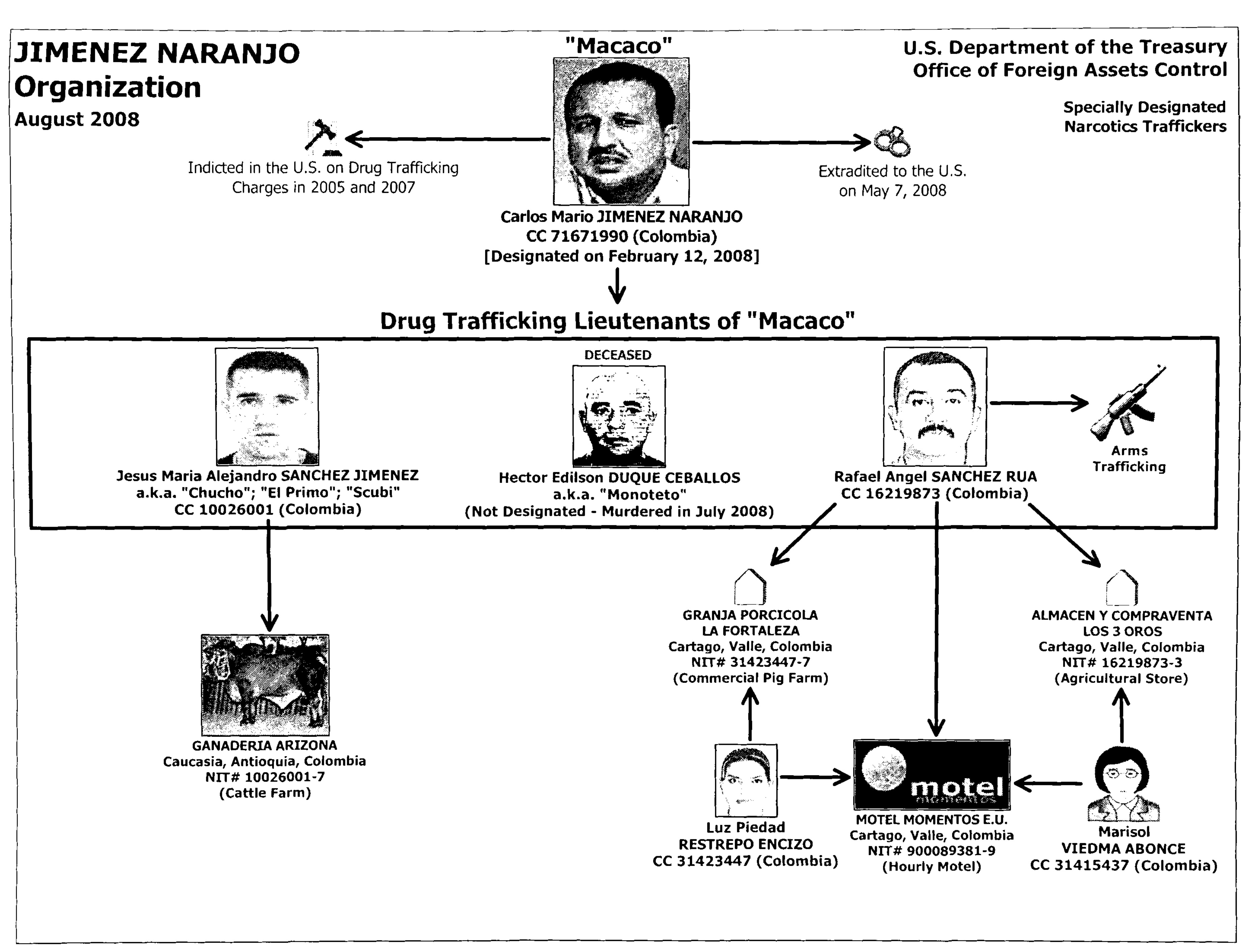
This designation is part of the ongoing interagency effort by the Departments of the Treasury, Justice, State and Homeland Security to implement Executive Order 12978 of October 21, 1995, which applies financial sanctions against Colombia's drug cartels. Today's designation action freezes any assets the designees may have that are subject to U.S. jurisdiction and prohibits all financial and commercial transactions by any U.S. person with the designated companies and individuals.

A detailed look at the program against Colombian drug organizations is provided in OFAC's March 2007 *Impact Report on Economic Sanctions Against Colombian*

Drug Cartels.

REPORTS

- chart


JIMENEZ NARANJO
Organization
August 2008
"Macaco"
U.S. Department of the Treasury
Office of Foreign Assets Control
Specially Designated
Narcotics Traffickers
Indicted in the U.S. on Drug Trafficking
Charges in 2005 and 2007
Extradited to the U.S.
on May 7, 2008
Carlos Mario JIMENEZ NARANJO
CC 71671990 (Colombia)
[Designated on February 12, 2008]
Drug Trafficking Lieutenants of "Macaco"
DECEASED
Jesus Maria Alejandro SANCHEZ JIMENEZ
a.k.a. "Chucho"; "El Primo"; "Scubi"
CC 10026001 (Colombia)
Hector Edilson DUQUE CEBALLOS
a.k.a. "Monoteto"
(Not Designated - Murdered in July 2008)
Rafael Angel SANCHEZ RUA
CC 16219873 (Colombia)
Arms
Trafficking
GRANJA PORCICOLA
LA FORTALEZA
Cartago, Valle, Colombia
NIT# 31423447-7
(Commercial Pig Farm)
ALMACEN Y COMPRAVENTA
LOS 3 OROS
Cartago, Valle, Colombia
NIT# 16219873-3
(Agricultural Store)
GANADERIA ARIZONA
Caucasia, Antioquia, Colombia
NIT# 10026001-7
(Cattle Farm)
motel
Luz Piedad
RESTREPO ENCIZO
CC 31423447 (Colombia)
MOTEL MOMENTOS E.U.
Cartago, Valle, Colombia
NIT# 900089381-9
(Hourly Motel)
Marisol
VIEDMA ABONCE
CC 31415437 (Colombia)

August 28, 2008
HP-1120

Treasury Department Selects Pizer as
Deputy Assistant Secretary for Environment and Energy

Washington – Undersecretary for International Affairs David H. McCormick today announced the selection of William A. (Billy) Pizer to be Deputy Assistant Secretary for Environment and Energy. He will lead a new office created by Secretary Paulson to develop, coordinate, and execute the Treasury Department's role in the domestic and international environment and energy agenda of the United States. Among other things, the office will oversee international financial mechanisms to support U.S. and global environmental goals, such as the multi-billion dollar Clean Technology Fund established in July, the Tropical Forest Conservation Act, and the Global Environmental Facility, as well as contribute to the development of domestic and international policy options to address climate change.

Pizer spent the past 12 years at Resources for the Future, the nonpartisan research organization, most recently as Senior Fellow and Research Director, where he directed, published, and communicated research on the design of effective environmental policy. He has also served as Senior Economist at the National Commission on Energy Policy and Senior Staff Economist at the White House Council of Economic Advisers. He received a B.S. in Physics from the University of North Carolina and a Ph.D. in Economics from Harvard University.

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August 28, 2008
HP-1121

US Treasury Awards $54.2 Million to Benefit Organizations Serving Economically Distressed Communities Nationwide

Port Angeles, Wash. – Director Donna J. Gambrell, of the U.S. Department of the Treasury's Community Development Financial Institutions (CDFI) Fund, visited Port Angeles, Wash. today to announce awards totaling $54,181,733 for 89 organizations serving economically distressed communities across the nation. The awards are being made through the fiscal year 2008 round of the CDFI Program. The award recipient organizations are headquartered in 38 states and the District of Columbia.

"Port Angeles is a long way from the nation's capital, but we selected this location to make our FY 2008 national award announcement to highlight how CDFIs are successful at implementing innovative approaches to rural economic development," said CDFI Fund Director Gambrell. "By embracing new traditions of sustainability and economic diversification, CDFIs are helping to map the future of rural revitalization and growth."

Treasury held the national award announcement at the Incubator at Lincoln Center in Port Angeles to highlight the three Pacific Northwest-based award recipients: Shorebank Enterprise Cascadia (Ilwaco, WA); Washington Community Alliance for Self-Help (Seattle, WA); and Innovative Housing, Inc. (Portland, OR). In addition, the announcement focuses on the work of many CDFIs in support of the nation's rural communities, bringing residents greater access to affordable credit, capital and financial services. Many CDFIs focus on a "triple bottom line" where the success of their investments is measured not just by financial return but also through community impacts and environmental benefits in the communities they serve.

The awardees were selected after a competitive review of 225 applications received by the CDFI Fund from organizations across the nation that requested, in total, more than $205 million in funding under the FY 2008 round of the CDFI Program.

Since inception, the CDFI Fund has made almost 1,500 awards for over $625 million through the CDFI Program.

Background

Through the CDFI Program, the CDFI Fund invests in and builds the capacity of existing private, for-profit and nonprofit community-based lending organizations known as Community Development Financial Institutions (CDFIs) that serve rural and urban low-income people and communities across the nation that lack adequate access to affordable financial products and services.

The CDFI Program consists of two types of monetary awards: Financial Assistance and Technical Assistance. The program is funded through an annual appropriation from the United States Congress. The CDFI Fund receives applications on an annual basis and awards funds through a competitive process. Since inception, the CDFI Fund has awarded over $625 million through the CDFI Program. In FY 2008, 66 CDFIs received $52 million in Financial Assistance or a combination of Financial Assistance and Technical Assistance awards and 23 organizations received $2 million in only Technical Assistance awards.

Financial Assistance

Financial Assistance awards allow the CDFI Fund to achieve economic and community development impact by investing in CDFIs that demonstrate the

financial and managerial capacity to provide affordable financial products and services to low-income communities and populations. Financial Assistance awards are made only to certified CDFIs (meaning, they have been certified by the CDFI Fund prior to applying for funds), which includes both mature CDFIs and small and emerging CDFIs.

Financial Assistance awards are made in the form of equity investments, loans, deposits, or grants, depending on the form of the applicant's matching funds. Financial Assistance awards must be matched with non-federal funds of the same type, on a dollar-for-dollar basis. Through the match requirement, CDFIs leverage private capital to respond to demand for affordable financial products and services in economically distressed markets and by low-income people. CDFIs respond to this demand by providing loans, investments, training, technical assistance, and basic financial services such as checking and savings accounts.

Technical Assistance

Through Technical Assistance awards, in the form of grants, the CDFI Fund assists start-up and existing CDFIs to build their organizational capacity to serve their target markets. Both certified and non-certified CDFIs are eligible to apply for Technical Assistance awards; non-certified organizations must meet CDFI certification requirements within three years.

Technical Assistance awards can be used for multiple purposes, including purchasing equipment, materials, supplies, and consulting and contracting services. A Technical Assistance award can also be used to pay for certain personnel salaries/benefits and to train staff or board members. Established CDFIs often use Technical Assistance awards to build their capacity to provide new products, serve current markets in new ways, or enhance the efficiency of their operations. Newer CDFIs often use their Technical Assistance awards to undertake market studies, develop underwriting policies, and purchase computer equipment.

For more information on the CDFI Program, please visit www.cdfifund.gov.

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August 28, 2008
HP-1122

Report to Congress on Implementation of the International Monetary Fund's 2007 Decision on Bilateral Surveillance Over Members' Policies

Washington – Today, the Treasury Department released the attached Report to Congress on Implementation of the International Monetary Fund's 2007 Decision on Bilateral Surveillance Over Members' Policies.

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- Reports

REPORT TO CONGRESS ON IMPLEMENTATION OF THE INTERNATIONAL MONETARY FUND'S 2007 DECISION ON BILATERAL SURVEILLANCE OVER MEMBERS' POLICIES

August 2008

This report has been prepared consistent with the Explanatory Statement in the Committee Print of the House Committee on Appropriations regarding the Consolidated Appropriations Act, 2008.[1,2] The report focuses on the International Monetary Fund's (IMF) implementation of the June 2007 *Decision on Bilateral Surveillance over Members' Policies*. The report provides progress to date in the IMF's implementation of the revised policy. Further updates, including on selected country cases, will be provided in forthcoming submissions of the *Semiannual Report on International Economic and Exchange Rate Policies*.

Summary Points

- The IMF was founded against the backdrop of the beggar-thy-neighbor competitive exchange rate practices of the 1930s with a mandate to promote a strong and cooperative international monetary system and exercise firm surveillance over members' exchange rate policies.

- IMF staff has consistently demonstrated a high level of expertise and technical proficiency in analyzing countries' fiscal, monetary, and financial sector policies. This work has been critical in helping the international community address many challenges, such as the 1980s debt crises, the transition of former Soviet economies, and emerging market financial crises.

- The IMF's focus on exchange rate policy analysis, however, had not received the priority it merited. Exchange rate analysis is inherently complex. Given the IMF's cooperative character, some members have been concerned about stigmatizing countries by identifying harmful exchange rate policies. Statements about exchange rates can also be market-sensitive, and reports on policy discussions to the Board and to the public have often been seen as inconsistent with the Fund's role as a confidential and trusted advisor.

- As a result of these and other factors (discussed below), it is the view of the U.S. Treasury Department that the IMF had historically fallen short in exercising firm surveillance over members' exchange rate policies, and ultimately in fulfilling certain of its basic responsibilities to the international monetary system.

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[1] This report was prepared by staff of the Bureau of International Affairs at the U.S. Department of the Treasury. The principal drafter was Lisa Ortiz. The report benefits from comments from Robert Kaproth, Clay Berry, Patricia Pollard, and Mark Sobel.

[2] Title V, Division J of the Explanatory Statement of the Committee Print of the House Committee on Appropriations on H.R. 2764 (Consolidated Appropriations Act, 2008, P.L. 110-161) states:

> The Secretary of the Treasury is directed to report to the Appropriations Committees not later than 120 days after enactment of this Act on the following: the implementation of the IMF Decision on Bilateral Surveillance Over Members Policies, announced on June 15, 2007, which establishes a new system for IMF bilateral surveillance on exchange rate policies of member countries; and which member countries are in violation of the Decision including those that are manipulating exchange rates for the purpose of securing fundamental exchange rate misalignment in the form of an undervalued exchange rate with the purpose to increase net exports.

- In order to demonstrate that surveillance over exchange rate policies would be restored to the heart of the Fund's systemic responsibilities, the IMF Executive Board, with the strong support of the United States, adopted a revised decision on foreign exchange surveillance in June 2007.

- The new decision stressed that bilateral surveillance should focus on whether a country's policies promote "external stability".[3] It added a new principle, "Principle D", which states that member countries should avoid exchange rate policies that result in external instability. It further defined for the first time the concept of "manipulation", modernized the "triggers" for increased IMF attention to a country's exchange rate policies, and included "fundamental misalignment" as a key trigger.[4]

- One year after its adoption, the implementation of the new decision can be viewed as mixed. On the positive side, exchange rate analysis has now returned to the core of the IMF's daily work. Article IV papers generally focus on exchange rate matters in greater detail, and there has been progress on making assessments of exchange rate levels, consistent with a country's economic fundamentals. IMF Board discussions delve to a much greater extent into exchange rate issues.

- However, while the quality of exchange rate assessments is improving, it does not yet uniformly meet a standard of excellence. Furthermore, the IMF management, staff, and Executive Board have not tackled potentially harmful exchange rate practices and shied away from the necessary and essential task of making judgments about "fundamental misalignment", especially in several key cases. While the consensus-based nature of the IMF is critical for its cooperative character, when the Fund's powers of persuasion have not resulted in meaningful change after a prolonged period, it is especially imperative that the Fund speak out forcefully and publicly about harmful country exchange rate practices.

- Recently, Managing Director Strauss-Kahn informed the Board of Directors that he intends to initiate a process of "ad hoc consultations" in cases where he has significant concerns a member may not be observing a Principle for the Guidance of Members' Exchange Rate Policies, or when an exchange rate may be fundamentally misaligned. The "ad hoc consultation" process will be a useful and welcome tool if IMF management, staff, and the Executive Board are prepared to work intensively with particular countries to apply the new Decision in a vigorous and forceful manner.

- For the IMF to retain its central role in the international financial system, it must strengthen its efforts to exercise clear surveillance over IMF members' exchange rate policies and it must not shy away from the job of making tough judgments, especially when these policies are undertaken by large countries and have systemic implications. The IMF should also be fully transparent about the steps it is taking to bring about needed changes.

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[3] External stability, and other relevant topics, are defined in the IMF Guidance on Operational Aspects of the 2007 Surveillance Decision, available at http://www.imf.org/external/pp/longres.aspx?id=4276. Broadly, external stability is defined as a balance of payments position that does not, and is not likely to, give rise to disruptive exchange rate movements.

[4] See Appendix A for an explanation of Principles A, B, and C.

The IMF's Role in Surveillance

The IMF was founded in 1944 against the backdrop of the destructive mercantilist economic policies of the 1930s, including highly protectionist trade policies and beggar-thy-neighbor competitive exchange rate depreciations. World leaders looked to the establishment of institutions such as the IMF to prevent a return to such insular policies. Thus, the founders of the IMF envisaged it as the central institution for the international monetary system, with the mandate to promote multilateral cooperation, foster strong global growth, advance orderly exchange rate arrangements, avoid competitive exchange rate depreciation, lessen disequilibria in the international balance of payments, and enhance a multilateral system of payments. From the start, exchange rate issues were at the core of the Fund's fundamental responsibilities in the international monetary system.

Between 1944 and 1971 the global economy functioned on a dollar-gold exchange standard -- the Bretton Woods system. Under this system the majority of currencies were fixed in value to the US dollar and the dollar was fixed in value to gold. Eventually, however, the world's continual demand for dollars required that the United States run an ever shrinking current account surplus, eventually leading to deficit, in order to meet that demand, and the size of the deficit in turn became sufficiently large to weaken foreign confidence in dollar holdings, while imposing significant costs on the United States. U.S. economic policies in the 1960s aggravated these trends. In the early 1970s, the United States abandoned the Bretton Woods system and over the course of the decade, an international monetary system, increasingly based on floating rates of major economies, emerged.[5]

To continue overseeing the system, in the 1970s, the IMF overhauled its Articles of Agreement. Under the new Article IV, member countries agreed to collaborate with the IMF and with one another to promote the stability of the global system of exchange rates. In particular, IMF member countries have the right to select an exchange rate regime of their choosing but also an obligation not to manipulate their exchange rate for the purposes of preventing effective balance of payments adjustment or gaining an unfair competitive advantage in international trade. In return, the IMF is charged with overseeing the international monetary system to ensure its effective operation and monitoring each member's compliance with its policy obligations. This involves both bilateral and multilateral surveillance of exchange rates.

More specifically, obligations over **bilateral** surveillance were operationalized in the landmark 1977 Executive Board *Decision on Surveillance of Members' Exchange Rate Policies* that consisted of: (1) Principles for the Guidance of Members' Exchange Rate Policies (PGMs), (2) Principles of Fund Surveillance over Exchange Rate Policies, including indicators to be used in gauging whether members are abiding by the PGMs, and (3) Procedures for Surveillance.

In fulfillment of its responsibilities, the IMF's Executive Board conducts Article IV consultations with each member country, typically once a year, or every two years in some cases. IMF Management, or a country, may also delay the Article IV consultation for a reasonable period. During the Article IV process, an IMF staff team meets a country's economic officials at

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[5] As discussed later in the report, a variety of exchange rate systems, including pure floats, pegs, crawling pegs and the use of currency boards have emerged over time. See Appendix II of the *Semiannual Report on International Economic and Exchange Rate Policies* for a more in-depth discussion of fixed and floating exchange rate arrangements http://www.treasury.gov/offices/international-affairs/economic-exchange-rates/.

the technical, senior policy, and typically the Ministerial/Central Bank Governor level. IMF staff views are then set forth in a staff report that summarizes economic developments and prospects, as well as discussions with the national authorities. The staff report is discussed by the IMF Executive Board. Publication of both the summary of the IMF Executive Board meeting and the staff paper are voluntary but presumed, though the country in question has the right to delete "market sensitive" information, and may decline to permit publication altogether.

The key instruments of the IMF's **multilateral** surveillance are two semi-annual publications produced by the Fund – the *World Economic Outlook* (WEO) and *Global Financial Stability Report (GFSR)*. The former is focused on the world economy as a whole and the latter on the financial sector and capital markets.[6] In addition, broad developments in multilateral exchange rates are reviewed periodically by the Executive Board, e.g., through discussions of the WEO and the GFSR and of exchange rate and financial market developments.

Thus, bilateral and multilateral surveillance make up the two prongs of the IMF's surveillance approach. They are intended to complement each other and reinforce the Fund's ability to conduct sound and effective worldwide surveillance.

Why Was a New Foreign Exchange Surveillance Decision Needed?

In June 2007, the IMF Executive Board adopted a new *Decision on Bilateral Surveillance over Members' Policies*, replacing guidance that had been in place since 1977. Several factors made it necessary to update the 1977 decision.

Since 1977, the international monetary system has changed profoundly.

- Private capital markets have grown exponentially, and private capital supplanted official resources in meeting countries' gross external financing needs.
- The former Soviet bloc countries transitioned to market economies following the fall of the Iron Curtain.
- In 1999, a majority of European Union member countries adopted the euro as their currency.
- Outside the industrial countries, many emerging markets have put in place sound economic policies and institutions, achieving strong growth and income gains, and become increasingly integrated into the global financial system.
- The emerging market financial crises at the turn of the century resulted in many countries exiting from overvalued and pegged exchange rates, followed by a period of reserve re-accumulation.

[6] The *World Economic Outlook*, published twice a year, presents IMF staff economists' analyses of global economic developments during the near and medium term. Chapters give an overview of the world economy; consider issues affecting industrial countries, developing countries, and economies in transition; and address topics of pressing current interest. The *Global Financial Stability Report* (GFSR) was created to provide a frequent assessment of global financial markets and to address emerging market financing in a global context. Thus, it focuses on current conditions in global financial markets, highlighting issues of financial imbalances, and of a structural nature, that could pose a risk to financial market stability and sustained market access by emerging market borrowers.

- The international monetary system is characterized now by the widespread use of floating exchange rates for major economies, in contrast with their more limited use in the 1970s.

In practice, while the IMF's surveillance work on members' fiscal, monetary, and financial sector policies has been technically excellent, the same could not be said for its exchange rate surveillance. This reflects many factors.

As noted, the IMF Articles of Agreement allow members to choose their exchange rate regime and there is no one-size-fits-all regime. Regardless of the exchange rate regime, a key question is whether the underlying economic policies of a country are sustainable.[7]

Further to this point, rendering conclusions about exchange rate practices and regimes is inherently complex. The interaction between the exchange rate and domestic policies can run both ways. In a fixed exchange rate regime, the exchange rate is the central target of monetary policy. In a floating regime, the exchange rate is an outcome from other policies. Exchange rate changes can be influenced as much by developments abroad as at home. Countries' exchange rate regimes can differ depending on whether an economy is relatively closed or open to trade and financial flows, the extent of pass-through from exchange rate changes to domestic inflation, the flexibility of labor and other factor markets, the concentration of trade, and/or the sophistication, credibility, and quality of a country's institutions.

Also, imbalances can be adjusted through domestic policy measures, exchange rate adjustment, or some combination thereof.[8] There is no absolutely precise way to calculate equilibrium exchange rates (though such calculations do provide useful information, and can be utilized to form judgments in conjunction with other information such as current account positions, saving/investment patterns, reserves, and a country's reliance on external demand). Further, exiting from a peg can be a difficult and potentially destabilizing undertaking.

In conducting Article IV reviews, the IMF has often seen itself as trusted advisor to countries, and sought to use its persuasive powers and candor in helping countries make necessary policy adjustments. This has tended to limit the Fund's public discussion of exchange rate policies, including the exchange rate level consistent with equilibrium.

Against this background, over time, the IMF's bilateral surveillance work increasingly centered on a country's underlying policies. In particular, the IMF heavily analyzed countries' fiscal, monetary, and more recently, financial sector policies. This analysis was and remains fully appropriate and the Fund staff has performed it excellently, with strong technical expertise.

But, unfortunately, exchange rate analysis was increasingly given less prominence in the IMF's Article IV work. In turn, the Fund – the Management, staff, and the Executive Board – failed to meaningfully debate and render decisive opinions about exchange rate analytics, even though the exercise of firm surveillance over members' exchange rate policies lies at the very heart of the Fund's global responsibilities and the basic rationale for the founding of the IMF.

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[7] See U.S. Treasury, "Report to the Committees on Appropriations on Clarification of Statutory Provisions Addressing Currency Manipulation"; March 11, 2005.
[8] See Tim Adams, "Working with the IMF to Strengthen Exchange Rate Surveillance", February 2, 2006.

From the standpoint of the IMF's internal governance, the 1977 Decision was, in practice, no longer read by IMF staff, or countries, as offering operational guidance on exchange rate policies. For example, the 1977 Decision was silent on the dangers of an overvalued exchange rate, despite the experience with many emerging market financial crises since the mid-1990s. Similarly, the Fund had failed to engage rigorously on exchange rate matters, despite having an explicit mandate and procedures to do so. Although IMF staff work had remained current with changing economic conditions, the 1977 Decision had not been amended to account for the profound changes in the international monetary system over the last thirty years.

A major report by the IMF's Independent Evaluation Office (IEO) found, in April 2007, that the IMF was simply not as effective as it needed to be in both its analysis and advice on exchange rates, and in its dialogue with member countries.[9] In particular, it found: a lack of understanding of the role of the IMF in exchange rate surveillance; a failure by member countries to understand and commit to their obligations to exchange rate surveillance; a strong sense amongst some member countries of a lack of evenhandedness in surveillance; a failure by management and the Executive Board to provide adequate direction and incentive for high-quality analysis and advice on exchange rate issues; and the absence of an effective dialogue between the IMF and many of its members on exchange rate issues.

Apart from its analytic work, the Fund still retained a variety of important tools and approaches at its disposal that could have been used to highlight strongly undesirable exchange rate practices. In 1979, the IMF developed a "special consultation" mechanism under which the Managing Director of the IMF could consult with member countries whose exchange rate policies might not be in line with the Article IV principles. However, a fear of stigmatizing countries highly constrained its use and special consultations were only undertaken twice over three decades.[10]

Over time, it became clear that the Fund had drifted away from its core responsibility on exchange rate surveillance. Further, the Fund had failed to engage rigorously on exchange rates, despite having an explicit mandate and procedures to do so.

In this context, IMF management decided that it would be useful to completely update the 1977 Decision in order to reflect the changes that had occurred in the international monetary system and to give renewed relevance to the Decision as fundamental policy guidance for IMF staff, and for IMF members.

The New Surveillance Framework

The 2007 *Decision on Bilateral Surveillance over Members' Policies* replaced the 1977 *Decision on Surveillance over Exchange Rate Policies* as the guiding document on surveillance. The new decision was strongly backed by the U.S. Treasury Department in an effort to refocus the Fund on its core mandate and thereby help to ensure the IMF's continued value added to the international community.[11]

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[9] *IEO Report on the Evaluation of the IMF Exchange Rate Policy Advice, 1999-2005*, (SM/07/132), April 18, 2007.
[10] Special consultations were undertaken with Sweden and South Korea. Although the concept of special consultations was further refined in 1993 in order to broaden its application and promote greater use, the approach was not used.
[11] See, for example, remarks by Under Secretary for International Affairs Tim Adams at the American Enterprise Institute Seminar, *Working with the IMF to Strengthen Exchange Rate Surveillance*, February 2, 2006.

In addition to formalizing the *de facto* coverage of fiscal, monetary and financial sector policies in the conduct of bilateral surveillance, the new IMF surveillance framework reaffirmed the central role of exchange rate work in the Fund's daily life. Specifically, it stressed that bilateral surveillance should be focused on: (1) assessing whether a country's policies promote external stability; (2) what is and is not acceptable in bilateral exchange rate policies; and (3) stressing that surveillance should be a collaborative process between the Fund and its members, which takes into account country-specific circumstances and has a multilateral, medium-term perspective. More importantly, the 2007 Decision brought several specific improvements over the 1977 Decision:

- It defined for the first time the concept of "manipulation" by breaking it into two parts. Manipulation exists when there is: (a) fundamental misalignment of the exchange rate[12]; and (b) intent to manipulate the exchange rate for the purposes of gaining an unfair advantage in international trade.

- It modernized the "triggers" for increased IMF attention to a country's exchange rate policies by dividing them into "policies" and "outcomes" and by including fundamental misalignment and excessive accumulation of foreign assets as two key triggers.

- It added a new Principle D, which states that member countries should avoid exchange rate policies that result in "external instability."[13]

Indicators of Exchange Rate Misalignment

A key feature of the 2007 Decision was a clarification of relevant indicators to serve as triggers in exchange rate surveillance. Indicators are an essential component of effective exchange rate surveillance. They can provide a useful warning about potential problems and spur discussion of exchange rate issues that might otherwise go undetected. These indicators, therefore, serve a critical role by eliminating subjectivity and, hence, part of the political difficulty associated with effective exchange rate surveillance. The Decision includes seven indicators to signal when observance of the Principles should be looked at more closely.

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[12] Fundamental misalignment occurs when the real effective exchange rate (REER) deviates from its equilibrium level. Equilibrium is the level of the REER that is consistent with an underlying current account balance (the balance adjusted for temporary factors) that is in line with economic fundamentals. Fundamental misalignment may result from a country's exchange rate policies, from domestic polices that affect the exchange rate, or from market imperfections. Given the difficulty in measuring the equilibrium REER only misalignments that were significant would be considered fundamental misalignments (see the next section for more discussion). Further, as previously noted, given that misalignments cannot be precisely measured, it is important to integrate other indicators into analysis and in forming judgments.

[13] See Appendix A for an explanation of Principles A, B, and C.

Indicators

Policies

(i) Protracted large scale intervention in one direction in the exchange market;
(ii) Official or quasi-official borrowing that either is unsustainable or brings unduly high liquidity risks, or excessive and prolonged official or quasi-official accumulation of foreign assets, for balance of payments purposes;
(iii) (a) The introduction, substantial intensification, or prolonged maintenance, for balance of payments purposes, of restrictions on, or incentives for, current transactions or payments or
(b) the introduction or substantial modification for balance of payments purposes of restrictions on, or incentives for, the inflow or outflow of capital;
(iv) The pursuit, for balance of payments purposes, of monetary and other financial policies that provide abnormal encouragement or discouragement to capital flows;

Outcomes

(v) Fundamental exchange rate misalignment;
(vi) Large and prolonged current account deficits or surpluses; and
(vii) Large external sector vulnerabilities, including liquidity risks, arising from private capital flows

Rendering Exchange Rate Judgments

In helping to formulate its judgments about exchange rate misalignments, the IMF has maintained a semi-annual review, known as the Consultative Group on Exchange Rates (CGER) (discussed in Annex B). CGER incorporates three different models of the equilibrium exchange rate. The models are complementary but reflect important differences that are designed to capture relevant aspects of exchange rate determination. The methodologies are publicly available.[14]

A key drawback of the CGER methodology for use in bilateral surveillance is its limited country coverage. CGER currently provides internal estimates of exchange rate misalignment for only 27 currencies. Although these countries represent the majority of global economic output, there are important gaps in country coverage. For example no major oil exporting country is included.

As noted previously, there is no precise way to identify equilibrium exchange rates and deviations from them. Equilibrium exchange rate calculations are based on models, which make various assumptions. However, equilibrium exchange rate models offer useful information, especially when various models reach generally similar conclusions in direction and magnitude, (but even when they do not). Further, as noted, when such model results are coupled with other available data, composite judgments can be reached.[15,16] In the final analysis, rendering

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[14] See, "Methodology for CGER Exchange Rate Assessments," November 8, 2006. http://www.imf.org/external/np/pp/eng/2006/110806.pdf.
[15] See Ashby McCown, Patricia Pollard, John Weeks, "Equilibrium Exchange Rate Models and Misalignments:; Treasury Occasional Paper 7, March 2007; and Mark Sobel, "Symposium of the Bretton Woods Committee on China"; March 14, 2008.

judgments about exchange rates – such as a finding of "fundamental misalignment" – is inherently complex, but it is the Fund's basic responsibility to do so.

Progress in Implementation

The Fund is making progress in implementing the 2007 Decision in several areas, but considerably more needs to be done.

A key test for the IMF is to improve the quality of and focus on exchange rate analysis in bilateral surveillance through its Article IV work. On this front, the tremendous technical strengths of the Fund staff are already on exhibit.

Article IV papers focus to a much greater extent on exchange rate analysis and staff is more consistently examining exchange rate issues in its papers. Nearly all Article IV papers now include a clear assessment of whether the exchange rate level is consistent with fundamentals. There also has been a substantial increase in the number of detailed technical analyses of exchange rate issues. In addition, Board discussions now entail far greater debate about exchange rate issues. Some examples of the Fund's improved work are to be seen in the following Article IV reports, available on the IMF website:

- The 2008 reports for the Euro Area and the United States present the results of the three CGER methodologies supplemented by staff's own analysis. CGER estimates indicate an overvaluation of the real exchange rate of the euro in the range of 5 to 20 percent; the staff report indicated the overvaluation is at least 10 percent. For the United States, the CGER and staff analysis indicate that the real exchange value of the dollar is modestly overvalued. Staff also used a new analytic technique developed by economists at the Federal Reserve – based on price levels rather than relative prices – to measure the real effective exchange rate (REER).[17] This technique observes that a shift in the pattern of trade to lower-cost countries, as has been the case for the United States, will result in further real appreciation.

- Chile is an emerging market economy with an independently floating exchange rate that is included in the CGER model. Staff analysis indicates that an improvement in its terms of trade account for much of the real appreciation of the peso over the past few years, indicating that the peso is roughly in equilibrium.[18]

- Bulgaria's exchange rate is not included in CGER but staff uses similar techniques to estimate the current account norm and equilibrium REER.[19] The analysis accounts for the effects of Bulgaria's status as a transition economy and a new member of the European Union on the path of the current account. Staff found that the REER was not misaligned but noted that Bulgaria's current account deficit is not sustainable. Staff believes the deficit is a

[16] See Treasury Semi-Annual Report on International Economic and Exchange Rate Policies, Appendix 1: Pattern of Indicators; November 2005 through June 2007.
[17] See Charles P. Thomas, Jaime Marquez, and Sean Fahle, "Measuring U.S. International Relative Prices: A Warp View of the World, Board of Governors of the Federal Reserve System: International Finance discussion Paper No. 917, January 2008.
[18] As in the U.S. Article IV report, staff includes a WARP measure of the real effective exchange rate to capture Chile's increasing trade with countries with lower price levels.
[19] A detailed analysis of the real exchange rate is in chapter 2 of the Selected Issues Paper that accompanies the staff report. <<http://www.imf.org/external/pubs/ft/scr/2008/cr0857.pdf>>

result of a temporary investment boom that will diminish over the medium-term. Staff cautioned that this scenario depends on maintaining prudent fiscal policies. Romania provides another example of detailed analysis of a similarly situated EU accession country.

- Botswana is a resource-dependent developing economy with a crawling peg exchange rate regime. Staff used several approaches to assess Botswana's REER and adapted one especially for an economy dependent on exports of non-renewable resources. Staff analysis highlights the role of the 2004 devaluation and subsequent move to a crawling peg regime in reversing the overvaluation of the REER.

- Hong Kong is a global financial center whose currency is pegged to the U.S. dollar but allowed to fluctuate within a narrow trading band. Although not included in CGER, staff adapted the CGER methodology to analyze the REER. In the macro balance and equilibrium real exchange rate approaches, staff accounted for Hong Kong's status as a financial center by only including countries in the model where the financial sector accounts for a large share of the economy. The REER was considered in line with fundamentals.

The progress being made on this front is not fully evident from a public review of IMF documentation. As noted previously, Article IV publication is voluntary but presumed. Further, the publication policy for Article IV documents allows countries to delete "market-sensitive" items from reports, and exchange rate analysis can be perceived as market-sensitive.

Despite this progress, the IMF's efforts to implement the new surveillance decision have fallen short in other key respects. First, difficult cases have been repeatedly and unnecessarily delayed for considerable periods due to debates about the meaning of the 2007 Decision. For example, the scheduled 2007 Article IV review for China has yet to be completed.

Second, the Fund has been reluctant to draw clear and crisp judgments about exchange rate issues in general when members may not be observing the Principles for the Guidance of Members' Exchange Rate Policies, even when a finding of "fundamental misalignment" might be warranted. When exchange rate practices give rise to serious questions for sustainability, and particularly when these practices are undertaken by large countries and have systemic implications, it is the Fund's job as the lynchpin of the international monetary system to shine a spotlight on the issue. While the consensus-based nature of the IMF is critical for its cooperative character, when the Fund's powers of persuasion and candor have not resulted in meaningful change after a prolonged period, it is imperative that the Fund speak out forcefully and publicly about harmful country exchange rate practices.

New Guidance on Operational Aspects to Implement the 2007 Decision

The Fund has recently reviewed the first year of experience with the new 2007 decision and in turn: a) issued guidance to help IMF staff apply many of the operational concepts in the 2007 Decision; and b) developed a new procedure for holding "ad hoc consultations" with selected members.

In practice staff has until recently largely been left on its own to determine the procedures for assessing the exchange rate. Given the wide diversity of country circumstances, questions have arisen as to how to implement the new Decision in a consistent manner across the membership. However, the Fund in August 2008 circulated new guidance for Fund staff intended to educate

staff on proper implementation of the Decision. In particular, the Guidance includes *Frequently Asked Questions* on *external stability, current account assessments, exchange rate assessments, fundamental misalignment, capital account-based external instability*, and *principles for the guidance of members' exchange rate policies*. Collectively, the guidance is intended to clarify how the Decision is to be applied by providing a common set of terminology, definitions, and approaches. The Fund has published these guidelines on its external website. [http://www.imf.org/external/pp/longres.aspx?id=4276]

In an attempt to improve the candor of discussion on exchange rate issues, Fund Management has proposed creating a process of "ad hoc consultations" in cases where *management has significant concerns that either (i) a member may not be observing a Principle for the Guidance of Members' Exchange Rate Policies or (ii) a member's exchange rate may be fundamentally misaligned, even if this misalignment does not stem from exchange rate policies (e.g., in cases where a member lets its exchange rate float completely freely).*[20] These ad hoc consultations will normally conclude within six months, may be undertaken at any time, and will provide a framework for enabling the Fund to reach final conclusions on the specific findings under the Decision and whether a country's currency is fundamentally misaligned. The Executive Board must approve an ad hoc consultation before it can be carried out. In addition, the initiation of an ad hoc consultation will be made public.

By employing ad hoc consultations, Fund management hopes to involve the Board early in the consultative process and increase the transparency of exchange rate discussions with member countries. However, given the Fund's reluctance in the past to undertake "special consultations", the challenge before the Fund now is to vigorously use the proposed new "ad hoc consultations" approach to fulfill the IMF's systemic responsibilities and to implement the full extent of the 2007 Decision. Meeting this challenge will be a critical factor in judging the Fund's efforts to modernize and reform itself and to maintain its relevance and legitimacy.

On balance, increased attention to exchange rates in Board discussions and Article IV staff reports along with an increased focus on refining the Fund's analytics, such as the CGER methodology, are all positive steps. These developments, consistent with the 2007 Decision, are helping to strengthen attention to exchange rate issues and enhance the focus of surveillance.

However, the vital task of making tough judgments and increasing candor and clarity on external stability and exchange rate issues has not yet met with the same success. In particular, this task has been impeded by the resistance of some countries fearing stigmatization, uncertainty among Fund staff about how the 2007 Decision is to be applied, and more general concerns in some instances among Management, staff and the Board about broader relationships with countries. The Fund must take further steps to overcome these impediments, succeed in accomplishing this vital task, and fulfill the mission given to it by its founders.

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[20] International Monetary Fund "Guidance on Operational Aspects of the 2007 Surveillance Decision," July 11, 2008.

APPENDIX A

Components of the 1977 Decision on Bilateral Surveillance over Members' Policies

Principles for the Guidance of Members' Exchange Rate Policies (PGMs):

- A. "A member shall avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members."
- B. "A member should intervene in the exchange rate market if necessary to counter disorderly conditions, which may be characterized *inter alia* by disruptive short-term movements in the exchange value of its currency."
- C. "Members should take into account in their intervention policies the interests of other members, including those of the countries in whose currencies they intervene."

Note: Principle A repeats the obligation in Article IV (Section 1.iii), while B and C provide guidance on assessing the consistency of a member's exchange rate policies with its obligations under Article IV.

Principles of Fund Surveillance over Exchange Rate Policies:

- Indicators to be used in gauging whether members are abiding by the PGMs:
  - Protracted large scale intervention in one direction in the exchange market;
  - An unsustainable level of official or quasi-official borrowing, or excessive and prolonged short-term official or quasi official lending, for balance of payments purposes;
  - (a) the introduction, substantial intensification, or prolonged maintenance, for balance of payments purposes, of restrictions on, or incentives for, current transactions or payments, or (b) the introduction or substantial modification for balance of payments purposes of restrictions on, or incentives for, the inflow or outflow of capital;
  - The pursuit, for balance of payments purposes, of monetary and other domestic policies that provide abnormal encouragement or discouragement to capital flows;
  - Behavior of the exchange rate that appears to be unrelated to underlying economic and financial conditions including factors affecting competitiveness and long-term capital movements; and
  - Unsustainable flows of private capital

Procedures for Surveillance[21]

[21] James M. Boughton, Silent Revolution: The International Monetary Fund 1979-1989, International Monetary Fund, 2001.

- Members are required to notify the Fund of any changes in their exchange arrangements, such as changes in pegs, intervention policies, etc.
- Periodic (normally annual) consultations are to be held under the provisions of Article IV.
- The Board is to periodically review "broad developments in exchange rates," principally in the context of the *World Economic Outlook* (WEO).
- The Managing Director is to maintain close contacts with members regarding exchange arrangements and policies.
- The Managing Director may initiate special consultation discussions with members under specified conditions.

ANNEX B

CGER Exchange Rate Methodology and Assessments

The current CGER methodology is based on three distinct but complementary approaches to assessing real effective exchange rate misalignment for 27 currencies.[22] The three approaches are: Macroeconomic Balance Approach, Equilibrium Real-Exchange Rate Approach, and External Sustainability. This annex provides a brief explanation of these approaches and how they are combined to provide an overall assessment of misalignment.

Macroeconomic Balance Approach (MB)

The MB approach compares the underlying current account balance with the current account norm. The underlying current account balance is the balance that is expected to occur once cyclical factors have been eliminated. These data are calculated as part of the medium-term forecasts in the IMF's *World Economic Outlook* (WEO). The current account norm is derived from a model estimating the relationship between economic fundamentals thought to affect the current account (fiscal balance, demographics, relative economic growth, net foreign assets, oil prices, economic crises and whether the country is a regional financial center). The model incorporates data for 54 countries over a 30 year period. The estimated relationships are then applied to the medium-term values of these economic variables (from the WEO database) to derive the current account norm for each country. Any difference between the underlying current account balance and the current account norm requires an adjustment of the real effective exchange rate. The extent of the adjustment depends both on the size of the difference and the ease with which a change in the exchange rate affects the current account balance. The less responsive the current account is to the exchange rate the greater the change in the exchange rate required to eliminate any imbalance.

After the estimates of the required adjustments in each of the 27 REER's in the CGER model are made, these are compared and adjustments are made if needed to ensure multilateral consistency.

Equilibrium Real-Exchange Rate Approach (ERER)

The ERER approach compares the current REER with an estimated equilibrium real effective exchange rate. The estimated real exchange rate is based on a model examining the relationship between the real exchange rate and economic fundamentals thought to affect the real exchange rate (net foreign assets, productivity differentials, commodity terms of trade, government consumption, trade restrictions and price controls). The estimated relationships are then applied to the medium-term values of these economic variables to derive the equilibrium real exchange rate for each country. The extent of misalignment of the exchange rate is determined by the difference between the current REER and the estimated equilibrium real effective exchange rate. As in the MB approach, the estimates are adjusted to ensure multilateral consistency.

External Stability Approach (ES)

[22] The three-model approach was implemented by the IMF's Consultative Group on Exchange Rates in 2006. The methodology was also extended to cover major emerging market economies. The CGER methodology is described in detail in: Jaewoo Lee, Gian Maria Milesi-Ferretti, Jonathan Ostry, Alessandro Prati, and Luca Antonio Ricci, "Exchange Rate Assessments: CGER Methodologies," IMF Occasional Paper 261, 2008.

The ES approach determines the current account balance as a percent of GDP that would stabilize a country's net foreign asset position at some benchmark level. This estimate for the current account is compared with the medium-term current account balance as a percent of GDP (from the WEO database). Any difference in the two ratios necessitates an adjustment in the REER. As in the MB approach the extent of the adjustment depends both on the size of the difference in the current account ratios and the ease with which a change in the exchange rate affects the current account balance. Adjustments in the REERs are made to ensure multilateral consistency.

Overall Assessment of Misalignment

In many cases the three approaches provide similar answers. In cases where the results differ the overall assessment may be based on a weighted average of the three approaches. The weight given to each approach may differ across countries reflecting how well each model is thought to apply to a particular country. Given the uncertainty surrounding the estimations, results indicating only small adjustments in the REER are needed are not taken as an indication of misalignment.

Economic Areas Covered by CGER

Advanced Economies: Australia, Canada, Japan, Sweden, Switzerland, United Kingdom, United States, and Euro area. Emerging Market Economies: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Hungary, India, Indonesia, Israel, South Korea, Malaysia, Mexico, Pakistan, Poland, Russia, South Africa, Thailand, and Turkey.

August 29, 2008
hp-1123

Treasury Distributes 2.404 Million Additional Stimulus Checks Since End of Mass Disbursement

Washington--The Treasury Department announced today that it has distributed 2.404 million stimulus payments, totaling $1.5 billion since mass disbursement of payments ended July 11. As of the end of August, a total of 114.809 million payments have been distributed totaling $93.389 billion.

While mass disbursement of stimulus checks ended July 11, small batches of payments continue to be sent out to American households. The Treasury Department will announce updates monthly until the end of the year. The Treasury Department also reminds Americans, especially those seniors and veterans who do not normally file a tax return, to file a return by the October 15th filing deadline to receive a stimulus payment this year.

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August 29, 2008
hp-1124

First Annual Report on the Latin America Small Business Lending Initiative

First Annual Report on the Latin America Small Business Lending Initiative

REPORTS

- First Annual Report on the Latin America Small Business Lending Initiative (PDF)

First Annual Report on the Latin America Small Business Lending Initiative August 2008

I. Overview

This report summarizes the first year of implementation of the Latin America Small Business Lending Initiative (the "Initiative"), launched by U.S. Treasury Secretary Paulson in June 2007 to expand and improve the access of small businesses in Latin America and the Caribbean to commercial financing. The effort is intended to accelerate the job creation and poverty-reduction that small businesses provide. Expanding small business ownership helps create more sustainable, stable economies with broader economic opportunities.

The three-part initiative is jointly supported by the U.S. Treasury Department, the Inter-American Development Bank (IDB), and the Overseas Private Investment Corporation (OPIC). Each of these entities has complementary roles to play in the Initiative. The first pillar attempts to bridge the information gap that often prevents banks from lending to small companies through the introduction of new lending models tailored to small firms. Banks need the tools to assess the value and risk of lending to smaller companies that do not have traditional collateral structures or formal financial statements. In order to help build capacity for banks to quickly and accurately assess the credit quality of small companies, the Multilateral Investment Fund (MIF), an arm of the IDB, has provided technical cooperation grants to local banks to strengthen their capacity in lending to the small business sector. This assistance includes consulting services related to credit officer training, material development, software and computer equipment, and credit scoring systems.

The second pillar involves sharing the initial risk of lending to new, small businesses to help banks address the uncertainty about lending to this market segment. The Inter-American Investment Corporation (IIC) and OPIC are providing loans and guarantees to banks that commit to initiating or expanding their small business lending. OPIC offers risk-sharing guarantees and loans to eligible banks to catalyze financing for small and medium enterprises (SMEs) through three vehicles: (1) Credit guarantees for U.S. bank loans to banks in Latin America to support "on-lending" (when one bank borrows from another bank and uses those funds to make smaller loans) to small businesses; (2) Guarantees on bond issues to allow local financial institutions, including microfinance institutions, to raise funds to finance SME loans in the local capital markets; and (3) Guarantees to local banks on portfolios of small business loans in which OPIC and the local banks would share risk of loss. The IIC provides a similar menu of options to financial institutions in Latin America for on-lending to SMEs and provides technical advice based on its more than ten years of lending to the sector. The IIC can target institutions which do not qualify for OPIC support.

The third pillar is focused on improving the regulatory environment to support small business lending. In many cases, bank regulatory authorities perceive small businesses to be high risk borrowers and impose heavy collateral and/or provisionary requirements. The introduction of best practice regulatory models will help ensure prudentially sound lending while avoiding requirements more suited to lending to larger firms. The Treasury Department's Office of Technical Assistance identifies legislative and regulatory obstacles to small business lending in

targeted Latin American countries and recommends the design and implementation of regulations and oversight of credit providers to small businesses. In addition, the MIF will engage at a regional level through the Latin American Association of Supervisors of Banks of the Americas (ASBA) to facilitate cross-border seminars and workshops to define and promote the adoption of best practices in SME and micro-lending among its members.

The Initiative was designed to show measureable results in the form of an increasing volume of lending by commercial banks to small business, and a decrease in the average loan size in order to reach the smallest businesses of the region where the poverty reduction and employment gains are multiplied. The participating banks have agreed to report on lending indicators in order to measure the impact of the Initiative.

II. ONE YEAR LATER

Since its launch, the Initiative has been very active in advancing the three goals originally established by Secretary Paulson:

i) Introduce new lending models that fit the unique characteristics of smaller firms.

In September 2007, the MIF committed $10 million in technical assistance grants to the Initiative and has since been actively promoting the Initiative among financial institutions in Latin America and the Caribbean. The first agreement was signed in November 2007 with BanCentro in Nicaragua for $500,000 (with an additional $500,000 contribution by BanCentro) to develop new financial products for small businesses, expand BanCentro's small business loan portfolio, strengthen capacity of its human resources in the analysis and management of risks specific to the small business sector and adopt international best practices in implementing and expanding its small business program. Another $500,000 grant was approved by the MIF in July 2008, with a matching counterpart contribution, to provide technical assistance to Banco Agromercantil and support it in its efforts to increase its operations with small businesses in Guatemala.

Next Steps

In the first quarter of 2008, the MIF started to receive applications from financial institutions throughout the region, and is currently analyzing requests from banks in Mexico, Central America and the Caribbean. Pending their approval, four to six new technical assistance projects could begin operations in late 2008. MIF grants will be used to help banks strengthen their capacity to lend to the small business sector. The MIF estimates that it will approve around $3 million in grants in 2008, with matching funds from the recipient banks. In addition, the MIF is preparing a study on best practices in developing small business lending products and will host and present the study results in an October 2008 workshop in Paraguay. The five countries in the MIF study are Ecuador, Guatemala, Mexico, Peru, and Trinidad & Tobago. The MIF is also creating a web site to link consultants with expertise in micro and small business development services with private banks in the region.

ii) Assume a portion of the risk associated with small business lending.

In September 2007, OPIC launched its participation in the Initiative by committing $150 million to provide financing and guarantees for small business loans in Latin America and the Caribbean. Already, OPIC has approved $53 million in loans to banks in Honduras, Costa Rica, Ecuador, and Paraguay to expand their operations in the small business sector. Typically, OPIC assumes between 50-80% of the commercial risk attached to each loan and in some cases provides additional inconvertibility of currency coverage as well. IIC has signed six deals for a total of $14.5 million.

Institution	*Country/Institution*	*Project Size (\$mil) 2/*	*Projected # Loans*	*Average Loan Size*
OPIC	Honduras	$15.0	2,300	$25,600
OPIC	Costa Rica	$18.8	135	$140,000 1/
OPIC	Ecuador	$10.0	22,000	$3,000
OPIC	Interbanco (Paraguay)	$1.2	20	$59,000
OPIC	BBVA (Paraguay)	$5.7	107	$53,000
OPIC	Banco Regional (Paraguay)	$2.1	27	$77,000
IIC	Edyficar (Peru)	$5.0		
IIC	Demerara Bank (Guyana)	$2.0		
IIC	Costa Rica	$2.0		
IIC	Mexico	$3.0		
IIC	Credipyme (Mexico)	$1.0		
IIC	Microfin (Uruguay)	$1.5		
TOTAL		**$67.2**		

1/ Under the terms of this loan agreement, the local bank is required to allocate at least 50 percent of OPIC proceeds for loans under $100,000 to SMEs. The other 50 percent is allocated for a combination of SME and mortgage lending.
2/ Counts funds dedicated specifically to the Initiative.

Next Steps / Loan Pipeline

OPIC has $100 million in loans in the pipeline to banks in Central America. A portion, to be determined, of each loan will be dedicated to small business lending. OPIC continues to generate interest from both "upscalers" – existing micro-finance institutions seeking to move into the small business sector – and "downscalers" – large commercial banks seeking to do the same. IIC has six transactions in its pipeline for a total of $15.0 million. The potential transactions are in the Dominican Republic, Guatemala, Nicaragua, Honduras, Paraguay and Mexico.

iii) Ensure that small business lending is not unnecessarily constrained by burdensome regulations or bureaucracy.

To kick off its program, OTA along with the MIF and OPIC presented the Initiative to the Latin American Bankers Association (FELABAN) in November 2007 which was well received. In early February, 2008, a U.S. Treasury/ OTA team undertook a mission to **Peru** to meet and discuss the legal and regulatory constraints to small business lending with the supervisory authority, local banks, non-bank financial institutions, and a number of small business entrepreneurs. The findings of the mission were then shared with the participants in the U.S. Treasurer's Financial Inclusion Conference in mid-February, 2008. Also in February 2008, OTA met with officials from **El Salvador, Guatemala and Honduras** to discuss technical assistance in designing and implementing regulations, and oversight of credit providers to small business borrowers.

The MIF met with Latin American bank regulators in early 2008 to identify the critical challenges that they confront in setting up prudential frameworks for an evolving financing landscape. Specific areas of collaboration and follow-up actions were identified.

Next Steps

The U.S. Treasury/ OTA team has now been invited by the monetary authorities of three Central American countries (El Salvador, Guatemala, and Honduras) to undertake technical assistance missions during the latter half of 2008. Peru has also indicated its desire to have a second U.S. Treasury/ OTA mission. The team will meet the central bank, ministry of finance, financial supervisory authority, local banks, non-bank financial institutions, and a number of small business entrepreneurs in each of these countries to discuss the legal and regulatory constraints to small business lending. Based on its analysis, the team will prepare detailed recommendations for consideration by the authorities. Wherever possible, U.S. Treasury/ OTA missions to Latin American under the Initiative will be timed to coincide with MIF and OPIC missions to the target countries in order to maximize synergy among the three agencies. OTA will also contact the authorities in countries where commercial banks are receiving MIF technical assistance under the Initiative to explore additional opportunities.

CLEARANCE SHEET

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Clay Lowery, Assistant Secretary for IA – ok – 8/21/08

Exec Sec – Jaime Areizaga – ok – 8/26/08

GC – Jennifer Carros, Attorney Advisor – ok – 8/27/08

Public Affairs – Robert Saliterman -

August 29, 2008
hp1125

Preliminary Annual Report on U.S. Holding of Foreign Securities

Preliminary data from an annual survey of U.S. portfolio holdings of foreign securities at year-end 2007 are released today and posted on the U.S. Treasury web site at ([illegible] html). Final survey results, which will include additional detail as well as revisions to the data, will be reported on October 31, 2008.

The survey was undertaken jointly by the U.S. Treasury Department, the Federal Reserve Bank of New York, and the Board of Governors of the Federal Reserve System.

A complementary survey measuring foreign holdings of U.S. securities also is conducted annually. Data from the most recent such survey, which reports on securities held on June 30, 2008, are currently being processed. Preliminary results are expected to be reported on February 27, 2009.

Overall Preliminary Results

The survey measured U.S. holdings at year-end 2007 of approximately $7.2 trillion, with $5.2 trillion held in foreign equities, $1.6 trillion in foreign long-term debt securities (original term-to-maturity in excess of one year), and $0.4 trillion held in foreign short-term debt securities. The previous such survey, conducted as of year-end 2006, measured U.S. holdings of $6.0 trillion, with $4.3 trillion held in foreign equities, $1.3 trillion in foreign long-term debt securities, and $0.4 trillion held in foreign short-term debt securities.

Table 1. U.S. holdings of foreign securities, by type of security, as of survey dates

(Billions of dollars)

Type of Security	Dec. 31, 2006	Dec. 31, 2007
Long-term Securities	5,623	6,855
Equity	4,329	5,248
Long-term debt	1,294	1,607
Short-term debt securities	368	357
Total	5,991	7,212

U.S. Portfolio Investment by Country

Table 2. U.S. holdings of foreign securities, by country of issuer and type of security, for the countries attracting the most U.S. portfolio investment, as of December 31, 2007

(Billions of dollars, except as noted)

	Country	Total	Equity	Long-Term Debt	Short-Term Debt
1	United Kingdom	1,142	715	286	141
2	Japan	594	529	60	4
3	Canada	586	379	185	22
4	Cayman Islands	544	232	271	41
5	France	448	348	83	17
6	Germany	426	329	89	8
7	Switzerland	288	281	4	3
8	Bermuda	273	256	17	*
9	Netherlands	235	154	76	5
10	Australia	223	138	73	11
11	Brazil	189	173	16	*
12	Spain	146	107	38	2
13	Korea, South	140	129	10	*
14	Ireland	132	49	50	33
15	Hong Kong	121	120	2	*
16	Italy	120	97	22	1
17	Sweden	112	57	29	26
18	Mexico	110	85	24	*
19	China[2]	97	96	1	*
20	Luxembourg	95	40	44	11
21	Finland	94	90	4	*
22	Netherlands Antilles	89	88	1	*
23	India	85	82	3	*
24	Taiwan	81	81	*	0
25	Russia	81	74	7	*
	Rest of world	761	519	211	30
	Total	7,212	5,248	1,607	357

The stock of foreign securities for December 31, 2007 reported in this survey may not, for a number of reasons, correspond to the stock of foreign securities on December 31, 2006, plus cumulative flows reported in Treasury's transactions reporting system. The final report on U.S. holdings of foreign securities as of end-year 2007 will contain an analysis of the relation between the stock and flow data.

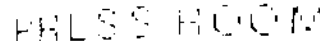
September 2, 2008
HP-1126

Treasury Assistant Secretary Swagel to Hold Monthly Economic Briefing

Assistant Secretary for Economic Policy Phillip Swagel will hold a media briefing to review economic indicators from the last month as well as discuss the state of the U.S. Economy. The event is open to the media:

- **Who** Assistant Secretary for Economic Policy Phillip Swagel
- **What** Economic Media Briefing
- **When** Friday, September 5, 10:00 a.m. EDT
- **Where** Treasury Department
  Media Room (4121)
  1500 Pennsylvania Avenue, NW
  Washington, D.C.
- Note Media without Treasury press credentials should contact Frances Anderson at (202) 622-2960, or Frances.Anderson@do.treas.gov with the following information: full name, Social Security number, and date of birth.

-30-



September 2, 2008
2008-9-2-17-2-6-11737

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $72,510 million as of the end of that week, compared to $72, 619 million as of the end of the prior week.

I. Official reserve assets and other foreign currency assets (approximate market value, in US millions)

	August 29, 2008		
A. Official reserve assets (in US millions unless otherwise specified) [1]	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			72,510
(a) Securities	9,549	11,821	21,370
of which: issuer headquartered in reporting country but located abroad			0
(b) total currency and deposits with:			
(i) other national central banks, BIS and IMF	13,615	5,807	19,422
ii) banks headquartered in the reporting country			0
of which: located abroad			0
(iii) banks headquartered outside the reporting country			0
of which: located in the reporting country			0
(2) IMF reserve position [2]	4,774		
(3) SDRs [2]	9,465		
(4) gold (including gold deposits and, if appropriate, gold swapped) [3]	11,041		
--volume in millions of fine troy ounces	261.499		
(5) other reserve assets (specify)	6,438		
--financial derivatives			
--loans to nonbank nonresidents			
--other (foreign currency assets invested through reverse repurchase agreements)	6,438		
B. Other foreign currency assets (specify)			
--securities not included in official reserve assets			
--deposits not included in official reserve assets			
--loans not included in official reserve assets			
--financial derivatives not included in official reserve assets			
--gold not included in official reserve assets			
--other			

II. Predetermined short-term net drains on foreign currency assets (nominal value)

			Maturity breakdown (residual maturity)		
		Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Foreign currency loans, securities, and deposits					
--outflows (-)	Principal				
	Interest				
--inflows (+)	Principal				
	Interest				
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)					
(a) Short positions (-) [4]		-62,000	-62,000		
(b) Long positions (+)					
3. Other (specify)					
--outflows related to repos (-)					
--inflows related to reverse repos (+)					
--trade credit (-)					
--trade credit (+)					
--other accounts payable (-)					
--other accounts receivable (+)					

III. Contingent short-term net drains on foreign currency assets (nominal value)

		Maturity breakdown (residual maturity, where applicable)		
	Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Contingent liabilities in foreign currency				
(a) Collateral guarantees on debt falling due within 1 year				
(b) Other contingent liabilities				
2. Foreign currency securities issued with embedded options (puttable bonds)				
3. Undrawn, unconditional credit lines provided by:				
(a) other national monetary authorities, BIS, IMF, and other international organizations				
--other national monetary authorities (+)				
--BIS (+)				
--IMF (+)				
(b) with banks and other financial institutions headquartered in the reporting country (+)				
(c) with banks and other financial institutions headquartered outside the reporting country (+)				
Undrawn, unconditional credit lines provided to:				
(a) other national monetary authorities, BIS, IMF, and other international organizations				
--other national monetary authorities (-)				

--BIS (-)				
--IMF (-)				
(b) banks and other financial institutions headquartered in reporting country (-)				
(c) banks and other financial institutions headquartered outside the reporting country (-)				
4. Aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency				
(a) Short positions				
(i) Bought puts				
(ii) Written calls				
(b) Long positions				
(i) Bought calls				
(ii) Written puts				
PRO MEMORIA: In-the-money options				
(1) At current exchange rate				
(a) Short position				
(b) Long position				
(2) + 5 % (depreciation of 5%)				
(a) Short position				
(b) Long position				
(3) - 5 % (appreciation of 5%)				
(a) Short position				
(b) Long position				
(4) +10 % (depreciation of 10%)				
(a) Short position				
(b) Long position				
(5) - 10 % (appreciation of 10%)				
(a) Short position				
(b) Long position				
(6) Other (specify)				
(a) Short position				
(b) Long position				

IV. Memo items

(1) To be reported with standard periodicity and timeliness:	
(a) short-term domestic currency debt indexed to the exchange rate	
(b) financial instruments denominated in foreign currency and settled by other means (e.g., in domestic currency)	
--nondeliverable forwards	
--short positions	
--long positions	
--other instruments	
(c) pledged assets	
--included in reserve assets	
--included in other foreign currency assets	
(d) securities lent and on repo	6,567

--lent or repoed and included in Section I	
--lent or repoed but not included in Section I	
--borrowed or acquired and included in Section I	
--borrowed or acquired but not included in Section I	6,567
(e) financial derivative assets (net, marked to market)	
--forwards	
--futures	
--swaps	
--options	
--other	
(f) derivatives (forward, futures, or options contracts) that have a residual maturity greater than one year, which are subject to margin calls.	
--aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)	
(a) short positions (–)	
(b) long positions (+)	
--aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency	
(a) short positions	
(i) bought puts	
(ii) written calls	
(b) long positions	
(i) bought calls	
(ii) written puts	
(2) To be disclosed less frequently:	
(a) currency composition of reserves (by groups of currencies)	72,510
--currencies in SDR basket	72,510
--currencies not in SDR basket	
--by individual currencies (optional)	

Notes:

1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values.

2/ The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollar terms at the official SDR/dollar exchange rate for the reporting date. The entries for the latest week reflect any necessary adjustments, including revaluation, by the U.S. Treasury to IMF data for the prior month end.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce.

4/ The short positions reflect foreign exchange acquired under reciprocal currency arrangements with certain foreign central banks. The foreign exchange acquired is not included in Section I, "official reserve assets and other foreign currency assets," of the template for reporting international reserves. However, it is included in the broader balance of payments presentation as "U.S. Government assets, other than official reserve assets/U.S. foreign currency holdings and U.S. short-term assets."

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

September 5, 2008
HP-1127

Remarks by Special Envoy for China and the Strategic Economic Dialogue
Alan F. Holmer
at the Symposium on Building the Financial System of the 21st Century
Shanghai, China

I would like to begin by thanking and acknowledging the leadership contribution of these outstanding organizations – the China Development Research Forum and Harvard University Law School – in this your fifth annual symposium. It is an honor for me to present this keynote address.

Your joint efforts these past five years have contributed to a deepening understanding of key issues in China's social and economic development. While there is a lot of information in the U.S. about China, and a lot of information in China about the U.S., there is not enough authentic understanding about our different perspectives, motivations, and histories. Moreover, there is also not enough true wisdom about how we should engage with each other on this hugely consequential relationship. This year's Symposium – the insights that will be shared and the relationships that will form – will help expand that understanding and wisdom as China presses ahead with its economic reform agenda.

Today I will discuss the importance of the U.S.-China relationship and the work of the Strategic Economic Dialogue (SED); the financial market turmoil in the U.S. and global markets; and some of the lessons we have learned from recent experiences. I will also describe why recent events should encourage China to proceed with further financial sector reform.

Importance of the U.S.-China Relationship

Possibly the most important economic question of the 21st century for the United States is whether we get the economic relationship with China "right." Our interests increasingly overlap on virtually every issue – from trade, to national security, to climate change – and in virtually every region – from North Korea to Iran to the Sudan.

Our economies are intricately linked, with China being our third largest export market. In the past decade, U.S. exports to China have increased 350 percent, six times faster than the growth of our exports to the rest of the world. And yet the United States' largest trade deficit is with China. For those in the U.S. who oppose free trade and open markets, China has become a symbol of the threat of globalization, and some argue the U.S. should limit China's access to the U.S. market.

And yet such an approach would ignore the benefits of openness. I have been deeply involved in international economic issues for over 25 years, beginning in the administration of President Reagan – nearly as long as China's "reform and opening" period. One of the clearest lessons I have learned is that those countries, including the United States, that open themselves to competition, reform their economies, and welcome foreign investment benefit their citizens greatly. Direct investment in another country, such as in manufacturing plants or service companies, is the ultimate vote of confidence in that country's economy.

There is no better example of this principle than the experience of China.

Strategic Economic Dialogue

Because of the importance of our bilateral relationship, President Bush and President Hu launched the Strategic Economic Dialogue (SED) in September of

2006. The Special Representatives of the two Presidents are Vice Premier Wang Qishan for China and Treasury Secretary Hank Paulson for the U.S. Our joint approach has proven effective and has achieved important, tangible results, despite the challenges. For a review of the U.S. perspective on our strategic economic engagement, I refer you to an article by Secretary Paulson in the current issue of Foreign Affairs.

Addressing Long-Term, Strategic Issues

In the SED we have grappled with the most significant, challenging, and strategic issues in our bilateral economic relationship. This includes managing financial and macroeconomic cycles; sustaining strong and stable economic growth; achieving energy security and environmental cooperation; maintaining open markets for trade and investment; encouraging innovation; and other critical issues. Among the results of our Cabinet-level meetings in June was the signing of a Ten Year Framework Agreement on Energy and Environmental Cooperation and the launch of negotiations of a Bilateral Investment Treaty.

Addressing More Pressing Current Issues

We have also been able to use the SED to address pressing issues that threatened our economic relationship. For example, when product safety issues placed consumers and the "China brand" at risk, our two countries engaged in a rigorous effort to achieve two Memoranda of Agreement: one on food and feed, another on medicines and medical devices. We have also kept the relationship on an even keel and avoided enactment of legislation in the U.S. Congress that would have been harmful and counterproductive.

Strengthening Communication: Macroeconomic Challenges of Higher Food and Fuel Prices and Financial Market Turmoil

Close communication between the United States and China is especially critical at a time when both our countries face the daunting global challenges of rising commodity prices and financial market turmoil, which have impacted both Americans and Chinese. At the June meeting of the SED, our policy responses to these negative economic developments were the subject of lively and candid discussion. Because the global economy gains much from strong U.S. and Chinese economies, collaboration and consultation between our two countries' economic leaders is a national and a global responsibility.

It is important that our countries harness market forces to address our macroeconomic challenges. In particular, at a time of strong global demand for commodities and other resources that are in short supply, both our countries must allow prices to adjust so that consumption levels reflect the current realities of the global economic market. China's recent decision to raise fuel prices is an important step towards reducing domestic energy consumption. We urge China to continue its reforms in the energy sector.

The SED has expanded our areas of shared understanding on macroeconomic policy matters. And even in areas where we and the Chinese disagree on the causes of our recent economic ailments and how best to cure them, it has been invaluable for each side to understand the motivations, priorities and concerns of the other.

Establishing a culture of collaboration

Perhaps most importantly, we have established new habits of cooperation and a culture of collaboration with our colleagues in China, across all economic ministries, and at both political and career levels. Our relations are more productive today than ever before. The SED has established an impressive body of work since it was established two years ago. We will continue to build on those achievements as we plan for the Fifth Round of the SED to be held before the end of the year. There is simply no substitute for active engagement and communication.

U.S. Financial Market Turmoil

The current turmoil in U.S. and global financial markets stemmed from a long period

of benign macroeconomic and financial conditions that encouraged widespread complacency about risk. Investors in search of higher yields created significant demand for structured credit products but, in many cases, did not conduct adequate due diligence.

Meanwhile, demand for housing in the U.S. began to slow in 2004, and credit standards loosened significantly, particularly for subprime mortgages. At the same time, the pace of financial innovation gathered momentum and the trend toward securitization of assets accelerated. Financial innovation clearly brought enormous benefits to investors and consumers, and contributed to domestic and global economic growth. We also see, however, that the resulting dramatic increase in leverage and complexity of financial instruments brought new risks to financial markets – not only to the United States but to other interconnected markets around the world.

The looser credit standards, combined with the complacency described earlier, inevitably contributed to an unexpected rise in mortgage delinquencies. This, in turn, triggered a global reassessment of risk beginning in August 2007, followed by significant de-leveraging. The dramatic swing in sentiment, subsequent market volatility and heightened uncertainty ratcheted up demand for cash and liquidity. Many structured finance markets seized up, causing markets for asset-backed commercial paper to contract substantially.

U.S. Domestic Actions

The Bush Administration has responded vigorously, both on the domestic and the international fronts. Here at home, the Administration's response includes near-term as well as longer-term measures. The goals are straightforward: minimize the impact on the real economy; maintain efficient and liquid markets; ensure continued availability of credit; and enhance risk management. Our domestic approach includes three sets of actions to help accomplish these goals.

First, the Administration has acted aggressively to support the economy as it weathers the housing correction and financial market challenges. The housing correction will undoubtedly take time to run its course. The fiscal stimulus package, signed into law by President Bush in February of 2008, provides economic stimulus payments to over 130 million American households and temporary tax incentives for businesses. This year's $150 billion infusion will help American families and businesses weather the considerable headwinds facing the U.S. economy.

Our housing market initiatives also seek to increase the availability of affordable mortgage financing, prevent avoidable foreclosures, and minimize the economic disruption of the housing correction. They include temporary authorities for Treasury to support Fannie Mae and Freddie Mac and the creation of a strong, independent regulator to address the risks that these entities pose. Two other key initiatives include FHA Secure and the HOPE NOW Alliance, launched in the fall of 2007 at the encouragement of the Treasury. To date, the HOPE NOW Alliance has helped over two million homeowners avoid foreclosures since July 2007.

Second, U.S. policymakers have also initiated a number of medium-term efforts to strengthen market discipline and address weaknesses in markets, institutions, and regulatory policies. Secretary Paulson chairs the President's Working Group on Financial Markets – the PWG – an interagency policy coordination group that includes the Fed, the SEC, and the CFTC. In March of this year, the PWG released a policy statement on financial market turmoil, addressing issues including credit ratings, securitization, mortgage origination, investor due diligence, and OTC derivatives, and designed to mitigate systemic risk, restore investor confidence, and facilitate stable economic growth.

Treasury also presented a Blueprint for a reformed regulatory structure, to be considered after the present market difficulties are past. The Blueprint lays out a vision for a more flexible, efficient, and effective regulatory framework. This new structure is designed for the world we live in, one that is more flexible, that can better adapt to change, that will allow us to more effectively deal with inevitable market disruptions, and that will better protect investors and consumers.

Lessons of Financial Market Turmoil for China

China has weathered the recent global financial turmoil relatively well, but will need to achieve stronger growth in domestic consumption to offset weaknesses in external demand and achieve its goal of more stable and balanced economic growth over the long term. The sharp fall in Chinese equity prices since last October appears just as much due to domestic factors as to linkages with global stock markets.

There is growing concern that the recent bout of turbulence in global financial markets is viewed by some in China as a reason to slow or pause financial sector reform. I hope Chinese policymakers will ask the more pertinent question: What lessons should China's leaders draw from recent events as they consider the pace and potential benefits of financial sector reform?

Here I will outline only four of the many lessons to be learned from the turmoil, all of which are relevant to the challenges China faces as well.

Recognize Problems and Address Them Quickly. Though the impacts of the global market turmoil have been far reaching, these effects have been mitigated somewhat by a swift and transparent response. Treasury Secretary Paulson has led the U.S. government effort to ensure a comprehensive, timely and appropriate response to the turmoil. He and other authorities have urged banks to recognize promptly and report losses, and raise additional capital as needed. Many global financial institutions have done just that – reporting subprime-related losses of over $569 billion and raising additional capital of more than $381 billion. China's regulators are also taking steps to ensure that financial institutions are recognizing impaired assets quickly and provisioning for them appropriately. Taking such steps will be key to ensuring that markets and supervisors are fully aware of the risks facing China's financial institutions, and that the banks themselves are able to take prompt steps to mitigate those risks.

Ensure Disclosure/Transparency in Financial Institutions. Another lesson from recent events is the related failure to provide and obtain information. Prompt and consistent communication between financial institutions and market participants is critical to avoid suspicion and build market confidence.

In China, banking regulators took steps to have Chinese banks disclose quickly exposures to subprime securities. Consistent efforts to ensure that financial institutions communicate news – both good and bad – to the markets will win market confidence over time and promote greater market stability.

Ensure Supervisory Coordination. The issues that have arisen during this bout of turbulence have spanned several supervisory authorities within the United States. Frequent and sustained regulatory coordination has been necessary to address effectively the problems that have been exposed. Strengthening coordination of regulatory authorities within China can help implement China's reform agenda and prepare the authorities to have a coordinated response to any problems that arise in the financial sector. In addition, as Chinese banks move ahead with implementation of Basel II, which places a premium on strong supervisory authorities, it will be essential that China's supervisors further enhance their capabilities and coordination.

Allow monetary policy to focus on price and financial stability. Moving toward a more flexible currency regime in which monetary policy does not have to target the exchange rate would allow monetary policy in China to become a much more effective and valuable tool for countering inflation and ensuring continued financial stability.

Why Financial Reform is Important for China

China has made enormous progress in financial sector reform in the past decade, from the banking sector to the stock, foreign exchange, and bond markets. These reforms have been important for laying the foundation to address the key challenges ahead in China's financial sector development. Financial regulation and supervision must be developed in tandem. But policymakers in China must also recognize that there will be significant costs if China slows the development and reform of its financial sector. Important gains for China and its people would be left unrealized. An ambitious reform agenda will advance China's economic goals in four important ways by:

- Rebalancing the sources of China's growth to ensure that it is more harmonious, more energy and environmentally efficient, and provides greater welfare for Chinese households;
- Creating effective macroeconomic policy tools to ensure stable, non-inflationary growth;
- Supporting China's transition to a market-driven and innovation-based economy; and,
- Assisting in dealing with demographic challenges.

First, as China's economy becomes more sophisticated, an efficient, well-developed financial sector is essential to channeling capital to the new ideas, businesses, and entrepreneurs that will power future growth. As China's economy becomes more complex, so too will its need for financial services. A more developed financial sector is necessary to fund the industries -- and fuel the growth -- of tomorrow.

A more developed financial sector is also essential to shift to a growth model that can be sustained in the future, one less dependent on industrial activity and exports, and one more oriented towards services and household demand. Key to this is reducing the need for very high saving rates. A greater diversity of financial instruments for saving, risk diversification, and consumer borrowing would relieve some of the need for precautionary saving.

A higher risk adjusted return from a broader array of financial assets would allow Chinese households to achieve their financial goals – such as buying a house, educating children, or achieving a secure retirement – without having to set aside large portions of their current income. A more developed financial sector will also provide Chinese enterprises with options beyond reinvesting earnings primarily in expanding their own capacity. This will enhance the efficiency of capital allocation and dampen the volatility of investment cycles.

More developed financial markets will help bring greater stability to China's economy by giving the authorities the macroeconomic tools – flexible and more powerful monetary policy in particular – to assure stable growth and prices. Deeper, interconnected bond markets would give the central bank greater ability to guide market interest rates and credit throughout the economy to ensure continued strong, stable, and non-inflationary growth.

Finally, a robust financial sector will help to enable China to deal with the demographic challenges that lie ahead, including population aging and the provision of healthcare. A deep and sophisticated financial sector will be critical to strengthening the social safety net and providing tools such as health care insurance and retirement investment vehicles necessary to cope with growing demographic pressures.

Greater foreign participation will contribute substantially to financial sector reform, and, for that reason, it has been a top priority for the Strategic Economic Dialogue (SED). We recognize the concerns of some in China who believe that opening the doors to foreign financial firms could jeopardize the position of domestic firms. Nonetheless, we believe that increased foreign participation would expand the breadth and depth of opportunities for all firms in the market, including domestic Chinese firms. This is not a zero-sum game. It's true that foreign firms stand to benefit from expanded opportunities in China. But such firms will also enhance the diversity of financial products in China, improve allocation of capital, spur innovation, and expedite the development of world class financial sector talent within China, all of which will benefit China's economy, its people, and financial centers like Shanghai.

Conclusion

The economic and geopolitical landscape of the 21st century will be greatly influenced by the way in which the United States and China work together. Nowhere is our work more important than in the financial sector, the central nervous system of any economy.

In the SED, we will continue to focus on the long-term, strategic, transformational issues; work diligently on immediate and concrete shared objectives; strengthen our new habits of cooperation and a culture of collaboration; and keep our relationship

on an even keel. In this way China and the United States will write the next chapter of our strategic economic engagement.

-30-

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September 7, 2008
hp-1129

Statement by Secretary Henry M. Paulson, Jr. on Treasury and Federal Housing Finance Agency Action to Protect Financial Markets and Taxpayers

Washington, DC-- Good morning. I'm joined here by Jim Lockhart, Director of the new independent regulator, the Federal Housing Finance Agency, FHFA.

In July, Congress granted the Treasury, the Federal Reserve and FHFA new authorities with respect to the GSEs, Fannie Mae and Freddie Mac. Since that time, we have closely monitored financial market and business conditions and have analyzed in great detail the current financial condition of the GSEs – including the ability of the GSEs to weather a variety of market conditions going forward. As a result of this work, we have determined that it is necessary to take action.

Since this difficult period for the GSEs began, I have clearly stated three critical objectives: providing stability to financial markets, supporting the availability of mortgage finance, and protecting taxpayers – both by minimizing the near term costs to the taxpayer and by setting policymakers on a course to resolve the systemic risk created by the inherent conflict in the GSE structure.

Based on what we have learned about these institutions over the last four weeks – including what we learned about their capital requirements – and given the condition of financial markets today, I concluded that it would not have been in the best interest of the taxpayers for Treasury to simply make an equity investment in these enterprises in their current form.

The four steps we are announcing today are the result of detailed and thorough collaboration between FHFA, the U.S. Treasury, and the Federal Reserve.

We examined all options available, and determined that this comprehensive and complementary set of actions best meets our three objectives of market stability, mortgage availability and taxpayer protection.

Throughout this process we have been in close communication with the GSEs themselves. I have also consulted with Members of Congress from both parties and I appreciate their support as FHFA, the Federal Reserve and the Treasury have moved to address this difficult issue.

Before I turn to Jim to discuss the action he is taking today, let me make clear that these two institutions are unique. They operate solely in the mortgage market and are therefore more exposed than other financial institutions to the housing correction. Their statutory capital requirements are thin and poorly defined as compared to other institutions. Nothing about our actions today in any way reflects a changed view of the housing correction or of the strength of other U.S. financial institutions.

***

I support the Director's decision as necessary and appropriate and had advised him that conservatorship was the only form in which I would commit taxpayer money to the GSEs.

I appreciate the productive cooperation we have received from the boards and the management of both GSEs. I attribute the need for today's action primarily to the inherent conflict and flawed business model embedded in the GSE structure, and to the ongoing housing correction. GSE managements and their Boards are

responsible for neither. New CEOs supported by new non-executive Chairmen have taken over management of the enterprises, and we hope and expect that the vast majority of key professionals will remain in their jobs. I am particularly pleased that the departing CEOs, Dan Mudd and Dick Syron, have agreed to stay on for a period to help with the transition.

I have long said that the housing correction poses the biggest risk to our economy. It is a drag on our economic growth, and at the heart of the turmoil and stress for our financial markets and financial institutions. Our economy and our markets will not recover until the bulk of this housing correction is behind us. Fannie Mae and Freddie Mac are critical to turning the corner on housing. Therefore, the primary mission of these enterprises now will be to proactively work to increase the availability of mortgage finance, including by examining the guaranty fee structure with an eye toward mortgage affordability.

To promote stability in the secondary mortgage market and lower the cost of funding, the GSEs will modestly increase their MBS portfolios through the end of 2009. Then, to address systemic risk, in 2010 their portfolios will begin to be gradually reduced at the rate of 10 percent per year, largely through natural run off, eventually stabilizing at a lower, less risky size.

Treasury has taken three additional steps to complement FHFA's decision to place both enterprises in conservatorship. First, Treasury and FHFA have established Preferred Stock Purchase Agreements, contractual agreements between the Treasury and the conserved entities. Under these agreements, Treasury will ensure that each company maintains a positive net worth. These agreements support market stability by providing additional security and clarity to GSE debt holders – senior and subordinated – and support mortgage availability by providing additional confidence to investors in GSE mortgage backed securities. This commitment will eliminate any mandatory triggering of receivership and will ensure that the conserved entities have the ability to fulfill their financial obligations. It is more efficient than a one-time equity injection, because it will be used only as needed and on terms that Treasury has set. With this agreement, Treasury receives senior preferred equity shares and warrants that protect taxpayers. Additionally, under the terms of the agreement, common and preferred shareholders bear losses ahead of the new government senior preferred shares.

These Preferred Stock Purchase Agreements were made necessary by the ambiguities in the GSE Congressional charters, which have been perceived to indicate government support for agency debt and guaranteed MBS. Our nation has tolerated these ambiguities for too long, and as a result GSE debt and MBS are held by central banks and investors throughout the United States and around the world who believe them to be virtually risk-free. Because the U.S. Government created these ambiguities, we have a responsibility to both avert and ultimately address the systemic risk now posed by the scale and breadth of the holdings of GSE debt and MBS.

Market discipline is best served when shareholders bear both the risk and the reward of their investment. While conservatorship does not eliminate the common stock, it does place common shareholders last in terms of claims on the assets of the enterprise.

Similarly, conservatorship does not eliminate the outstanding preferred stock, but does place preferred shareholders second, after the common shareholders, in absorbing losses. The federal banking agencies are assessing the exposures of banks and thrifts to Fannie Mae and Freddie Mac. The agencies believe that, while many institutions hold common or preferred shares of these two GSEs, only a limited number of smaller institutions have holdings that are significant compared to their capital.

The agencies encourage depository institutions to contact their primary federal regulator if they believe that losses on their holdings of Fannie Mae or Freddie Mac common or preferred shares, whether realized or unrealized, are likely to reduce their regulatory capital below "well capitalized." The banking agencies are prepared to work with the affected institutions to develop capital restoration plans consistent with the capital regulations.

Preferred stock investors should recognize that the GSEs are unlike any other financial institutions and consequently GSE preferred stocks are not a good proxy

for financial institution preferred stock more broadly. By stabilizing the GSEs so they can better perform their mission, today's action should accelerate stabilization in the housing market, ultimately benefiting financial institutions. The broader market for preferred stock issuance should continue to remain available for well-capitalized institutions.

The second step Treasury is taking today is the establishment of a new secured lending credit facility which will be available to Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. Given the combination of actions we are taking, including the Preferred Share Purchase Agreements, we expect the GSEs to be in a stronger position to fund their regular business activities in the capital markets. This facility is intended to serve as an ultimate liquidity backstop, in essence, implementing the temporary liquidity backstop authority granted by Congress in July, and will be available until those authorities expire in December 2009.

Finally, to further support the availability of mortgage financing for millions of Americans, Treasury is initiating a temporary program to purchase GSE MBS. During this ongoing housing correction, the GSE portfolios have been constrained, both by their own capital situation and by regulatory efforts to address systemic risk. As the GSEs have grappled with their difficulties, we've seen mortgage rate spreads to Treasuries widen, making mortgages less affordable for homebuyers. While the GSEs are expected to moderately increase the size of their portfolios over the next 15 months through prudent mortgage purchases, complementary government efforts can aid mortgage affordability. Treasury will begin this new program later this month, investing in new GSE MBS. Additional purchases will be made as deemed appropriate. Given that Treasury can hold these securities to maturity, the spreads between Treasury issuances and GSE MBS indicate that there is no reason to expect taxpayer losses from this program, and, in fact, it could produce gains. This program will also expire with the Treasury's temporary authorities in December 2009.

Together, this four part program is the best means of protecting our markets and the taxpayers from the systemic risk posed by the current financial condition of the GSEs. Because the GSEs are in conservatorship, they will no longer be managed with a strategy to maximize common shareholder returns, a strategy which historically encouraged risk-taking. The Preferred Stock Purchase Agreements minimize current cash outlays, and give taxpayers a large stake in the future value of these entities. In the end, the ultimate cost to the taxpayer will depend on the business results of the GSEs going forward. To that end, the steps we have taken to support the GSE debt and to support the mortgage market will together improve the housing market, the US economy and the GSEs' business outlook.

Through the four actions we have taken today, FHFA and Treasury have acted on the responsibilities we have to protect the stability of the financial markets, including the mortgage market, and to protect the taxpayer to the maximum extent possible.

And let me make clear what today's actions mean for Americans and their families. Fannie Mae and Freddie Mac are so large and so interwoven in our financial system that a failure of either of them would cause great turmoil in our financial markets here at home and around the globe. This turmoil would directly and negatively impact household wealth: from family budgets, to home values, to savings for college and retirement. A failure would affect the ability of Americans to get home loans, auto loans and other consumer credit and business finance. And a failure would be harmful to economic growth and job creation. That is why we have taken these actions today.

While we expect these four steps to provide greater stability and certainty to market participants and provide long-term clarity to investors in GSE debt and MBS securities, our collective work is not complete. At the end of next year, the Treasury temporary authorities will expire, the GSE portfolios will begin to gradually run off, and the GSEs will begin to pay the government a fee to compensate taxpayers for the on-going support provided by the Preferred Stock Purchase Agreements. Together, these factors should give momentum and urgency to the reform cause. Policymakers must view this next period as a "time out" where we have stabilized the GSEs while we decide their future role and structure.

Because the GSEs are Congressionally-chartered, only Congress can address the inherent conflict of attempting to serve both shareholders and a public mission. The new Congress and the next Administration must decide what role government in

general, and these entities in particular, should play in the housing market. There is a consensus today that these enterprises pose a systemic risk and they cannot continue in their current form. Government support needs to be either explicit or non-existent, and structured to resolve the conflict between public and private purposes. And policymakers must address the issue of systemic risk. I recognize that there are strong differences of opinion over the role of government in supporting housing, but under any course policymakers choose, there are ways to structure these entities in order to address market stability in the transition and limit systemic risk and conflict of purposes for the long-term. We will make a grave error if we don't use this time out to permanently address the structural issues presented by the GSEs.

In the weeks to come, I will describe my views on long term reform. I look forward to engaging in that timely and necessary debate.

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REPORTS

- FHFA Director Lockhart Remarks on Housing GSE Actions
- Fact Sheet: FHFA Conservatorship
- Fact Sheet: Treasury Preferred Stock Purchase Agreement
- Fact Sheet: Treasury MBS Purchase Program
- Fact Sheet: Treasury GSE Credit Facility
- Freddie Mac Warrant to Purchase Common Stock
- Freddie Mac Certificate
- Freddie Mac Senior Preferred Stock Purchase Agreement
- Fannie Mae Warrant to Purchase Common Stock
- Fannie Mae Certificate
- Fannie Mae Senior Preferred Stock Purchase Agreement

FEDERAL HOUSING FINANCE AGENCY

STATEMENT

Contact: Corinne Russell (202) 414-6921
Stefanie Mullin (202) 414-6376

For Immediate Release
September 7, 2008

****EMBARGOED UNTIL 11 a.m. ****

STATEMENT OF FHFA DIRECTOR JAMES B. LOCKHART

Good Morning

Fannie Mae and Freddie Mac share the critical mission of providing stability and liquidity to the housing market. Between them, the Enterprises have $5.4 trillion of guaranteed mortgage-backed securities (MBS) and debt outstanding, which is equal to the publicly held debt of the United States. Their market share of all new mortgages reached over 80 percent earlier this year, but it is now falling. During the turmoil last year, they played a very important role in providing liquidity to the conforming mortgage market. That has required a very careful and delicate balance of mission and safety and soundness. A key component of this balance has been their ability to raise and maintain capital. Given recent market conditions, the

balance has been lost. Unfortunately, as house prices, earnings and capital have continued to deteriorate, their ability to fulfill their mission has deteriorated. In particular, the capacity of their capital to absorb further losses while supporting new business activity is in doubt.

Today's action addresses safety and soundness concerns. FHFA's rating system is called GSE Enterprise Risk or G-Seer. It stands for Governance, Solvency, Earnings and Enterprise Risk which includes credit, market and operational risk. There are pervasive weaknesses across the board, which have been getting worse in this market.

Over the last three years OFHEO, and now FHFA, have worked hard to encourage the Enterprises to rectify their accounting, systems, controls and risk management issues. They have made good progress in many areas, but market conditions have overwhelmed that progress.

The result has been that they have been unable to provide needed stability to the market. They also find themselves unable to meet their affordable housing mission. Rather than letting these conditions fester and worsen and put our markets in jeopardy, FHFA, after painstaking review, has decided to take action now.

Key events over the past six months have demonstrated the increasing challenge faced by the companies in striving to balance mission and safety and soundness, and the ultimate disruption of that balance that led to today's announcements. In the first few months of this year, the secondary market showed significant deterioration, with buyers demanding much higher prices for mortgage backed securities.

In February, in recognition of the remediation progress in financial reporting, we removed the portfolio caps on each company, but they did not have the capital to use that flexibility.

In March, we announced with the Enterprises an initiative to increase mortgage market liquidity and market confidence. We reduced the OFHEO-directed capital requirements in return for their commitments to raise significant capital and to maintain overall capital levels well in excess of requirements.

In April, we released our Annual Report to Congress, identifying each company as a significant supervisory concern and noting, in particular, the deteriorating mortgage credit environment and the risks it posed to the companies.

In May OFHEO lifted its 2006 Consent Order with Fannie Mae after the company completed the terms of that order. Subsequently, Fannie Mae successfully raised $7.4 billion of new capital, but Freddie Mac never completed the capital raise promised in March.

Since then credit conditions in the mortgage market continued to deteriorate, with home prices continuing to decline and mortgage delinquency rates reaching alarming levels. FHFA intensified its reviews of each company's capital planning and capital position, their earnings forecasts and the effect of falling house prices and increasing delinquencies on the credit quality of their mortgage book.

In getting to today, the supervision team has spent countless hours reviewing with each company various forecasts, stress tests, and projections, and has evaluated the performance of their internal models in these analyses. We have had many meetings with each company's management teams, and have had frank exchanges regarding loss projections, asset valuations, and capital adequacy. More recently, we have gone the extra step of inviting the Federal Reserve and the OCC to have some of their senior mortgage credit experts join our team in these assessments.

The conclusions we reach today, while our own, have had the added benefit of their insight and perspective.

After this exhaustive review, I have determined that the companies cannot continue to operate safely and soundly and fulfill their critical public mission, without significant action to address our concerns, which are:

- the safety and soundness issues I mentioned, including current capitalization;
- current market conditions;
- the financial performance and condition of each company;
- the inability of the companies to fund themselves according to normal practices and prices; and
- the critical importance each company has in supporting the residential mortgage market in this country,

Therefore, in order to restore the balance between safety and soundness and mission, FHFA has placed Fannie Mae and Freddie Mac into conservatorship. That is a statutory process designed to stabilize a troubled institution with the

objective of returning the entities to normal business operations. FHFA will act as the conservator to operate the Enterprises until they are stabilized.

The Boards of both companies consented yesterday to the conservatorship. I appreciate the cooperation we have received from the boards and the management of both Enterprises. These individuals did not create the inherent conflict and flawed business model embedded in the Enterprises' structure.

The goal of these actions is to help restore confidence in Fannie Mae and Freddie Mac, enhance their capacity to fulfill their mission, and mitigate the systemic risk that has contributed directly to the instability in the current market. The lack of confidence has resulted in continuing spread widening of their MBS, which means that virtually none of the large drop in interest rates over the past year has been passed on to the mortgage markets. On top of that, Freddie Mac and Fannie Mae, in order to try to build capital, have continued to raise prices and tighten credit standards.

FHFA has not undertaken this action lightly. We have consulted with the Chairman of the Board of Governors of the Federal Reserve System, Ben Bernanke, who was appointed a consultant to FHFA under the new legislation. We

have also consulted with the Secretary of the Treasury, not only as an FHFA Oversight Board member, but also in his duties under the law to provide financing to the GSEs. They both concurred with me that conservatorship needed to be undertaken now.

There are several key components of this conservatorship:

First, Monday morning the businesses will open as normal, only with stronger backing for the holders of MBS, senior debt and subordinated debt.

Second, the Enterprises will be allowed to grow their guarantee MBS books without limits and continue to purchase replacement securities for their portfolios, about $20 billion per month without capital constraints.

Third, as the conservator, FHFA will assume the power of the Board and management.

Fourth, the present CEOs will be leaving, but we have asked them to stay on to help with the transition.

Fifth, I am announcing today I have selected Herb Allison to be the new CEO of Fannie Mae and David Moffett the CEO of Freddie Mac. Herb has been the Vice Chairman of Merrill Lynch and for the last eight years chairman of TIAA-CREF. David was the Vice Chairman and CFO of US Bancorp. I appreciate the willingness of these two men to take on these tough jobs during these challenging times. Their compensation will be significantly lower than the outgoing CEOs. They will be joined by equally strong non-executive chairmen.

Sixth, at this time any other management action will be very limited. In fact, the new CEOs have agreed with me that it is very important to work with the current management teams and employees to encourage them to stay and to continue to make important improvements to the Enterprises.

Seventh, in order to conserve over $2 billion in capital every year, the common stock and preferred stock dividends will be eliminated, but the common and all preferred stocks will continue to remain outstanding. Subordinated debt interest and principal payments will continue to be made.

Eighth, all political activities -- including all lobbying -- will be halted immediately. We will review the charitable activities.

Lastly and very importantly, there will be the financing and investing relationship with the U.S. Treasury, which Secretary Paulson will be discussing. We believe that these facilities will provide the critically needed support to Freddie Mac and Fannie Mae and importantly the liquidity of the mortgage market.

One of the three facilities he will be mentioning is a secured liquidity facility which will be not only for Fannie Mae and Freddie Mac, but also for the 12 Federal Home Loan Banks that FHFA also regulates. The Federal Home Loan Banks have performed remarkably well over the last year as they have a different business model than Fannie Mae and Freddie Mac and a different capital structure that grows as their lending activity grows. They are joint and severally liable for the Bank System's debt obligations and all but one of the 12 are profitable. Therefore, it is very unlikely that they will use the facility.

During the conservatorship period, FHFA will continue to work expeditiously on the many regulations needed to implement the new law. Some of the key regulations will be minimum capital standards, prudential safety and soundness standards and portfolio limits. It is critical to complete these regulations so that any new investor will understand the investment proposition.

This decision was a tough one for the FHFA team as they have worked so hard to help the Enterprises remain strong suppliers of support to the secondary mortgage markets. Unfortunately, the antiquated capital requirements and the turmoil in housing markets over-whelmed all the good and hard work put in by the FHFA teams and the Enterprises' managers and employees. Conservatorship will give the Enterprises the time to restore the balances between safety and soundness and provide affordable housing and stability and liquidity to the mortgage markets. I want to thank the FHFA employees for their work during this intense regulatory process. They represent the best in public service. I would also like to thank the employees of Fannie Mae and Freddie Mac for all their hard work. Working together we can finish the job of restoring confidence in the Enterprises and with the new legislation build a stronger and safer future for the mortgage markets, homeowners and renters in America.

Thank you and I will now turn it back to Secretary Paulson.

FEDERAL HOUSING FINANCE AGENCY

FACT SHEET

Contact: Corinne Russell (202) 414-6921
Stefanie Mullin (202) 414-6376

******EMBARGOED UNTIL 11AM******

QUESTIONS AND ANSWERS ON CONSERVATORSHIP

Q: What is a conservatorship?

A: A conservatorship is the legal process in which a person or entity is appointed to establish control and oversight of a Company to put it in a sound and solvent condition. In a conservatorship, the powers of the Company's directors, officers, and shareholders are transferred to the designated Conservator.

Q: What is a Conservator?

A: A Conservator is the person or entity appointed to oversee the affairs of a Company for the purpose of bringing the Company back to financial health.

In this instance, the Federal Housing Finance Agency ("FHFA") has been appointed by its Director to be the Conservator of the Company in accordance with the Federal Housing Finance Regulatory Reform Act of 2008 (Public Law 110-289) and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 U.S.C. 4501, et seq., as amended) to keep the Company in a safe and solvent financial condition.

Q: How is a Conservator appointed?

A: By statute, the FHFA is appointed Conservator by its Director after the Director determines, in his discretion, that the Company is in need of reorganization or rehabilitation of its affairs.

Q: What are the goals of this conservatorship?

A: The purpose of appointing the Conservator is to preserve and conserve the Company's assets and property and to put the Company in a sound and solvent condition. The goals of the conservatorship are to help restore confidence in the Company, enhance its capacity to fulfill its mission, and mitigate the systemic risk that has contributed directly to the instability in the current market.

There is no reason for concern regarding the ongoing operations of the Company. The Company's operation will not be impaired and business will continue without interruption.

Q: When will the conservatorship period end?

A: Upon the Director's determination that the Conservator's plan to restore the Company to a safe and solvent condition has been completed successfully, the Director will issue an order terminating the conservatorship. At present, there is no exact time frame that can be given as to when this conservatorship may end.

Q: What are the powers of the Conservator?

A: The FHFA, as Conservator, may take all actions necessary and appropriate to (1) put the Company in a sound and solvent condition and (2) carry on the Company's business and preserve and conserve the assets and property of the Company.

Q: What happens upon appointment of a Conservator?

A: Once an "Order Appointing a Conservator" is signed by the Director of FHFA, the Conservator immediately succeeds to the (1) rights, titles, powers, and privileges of the Company, and any stockholder, officer, or director of such the Company with respect to the Company and its assets, and (2) title to all books, records and assets of the Company held by any other custodian or third-party. The Conservator is then charged with the duty to operate the Company.

Q: What does the Conservator do during a conservatorship?

A: The Conservator controls and directs the operations of the Company. The Conservator may (1) take over the assets of and operate the Company with all the powers of the shareholders, the directors, and the officers of the Company and conduct all business of the Company; (2) collect all obligations and money due to the Company; (3) perform all functions of the Company which are consistent with the Conservator's appointment; (4) preserve and conserve the assets and property of the Company; and (5) contract for assistance in fulfilling any function, activity, action or duty of the Conservator.

Q: How will the Company run during the conservatorship?

A: The Company will continue to run as usual during the conservatorship. The Conservator will delegate authorities to the Company's management to move forward with the business operations. The Conservator encourages all Company employees to continue to perform their job functions without interruption.

Q: Will the Company continue to pays its obligations during the conservatorship?

A: Yes, the Company's obligations will be paid in the normal course of business during the Conservatorship. The Treasury Department, through a secured lending credit facility and a Senior Preferred Stock Purchase Agreement, has significantly enhanced the ability of the Company to meet its obligations. The Conservator does not anticipate that there will be any disruption in the Company's pattern of payments or ongoing business operations.

Q: What happens to the Company's stock during the conservatorship?

A: During the conservatorship, the Company's stock will continue to trade. However, by statute, the powers of the stockholders are suspended until the conservatorship is terminated. Stockholders will continue to retain all rights in the stock's financial worth; as such worth is determined by the market.

Q: Is the Company able to buy and sell investments and complete financial transactions during the conservatorship?

A: Yes, the Company's operations continue subject to the oversight of the Conservator.

Q: What happens if the Company is liquidated?

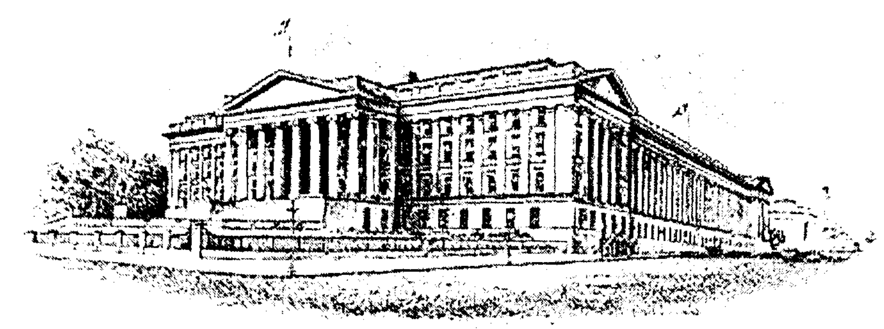
A: Under a conservatorship, the Company is not liquidated.

Q: Can the Conservator determine to liquidate the Company?

A: The Conservator cannot make a determination to liquidate the Company, although, short of that, the Conservator has the authority to run the company in whatever way will best achieve the Conservator's goals (discussed above). However, assuming a statutory ground exists and the Director of FHFA determines that the financial condition of the company requires it, the Director does have the discretion to place any regulated entity, including the Company, into receivership. Receivership is a statutory process for the liquidation of a regulated entity. There are no plans to liquidate the Company.

Q: Can the Company be dissolved?

A: Although the company can be liquidated as explained above, by statute the charter of the Company must be transferred to a new entity and can only be dissolved by an Act of Congress.



U.S. Treasury Department Office of Public Affairs

EMBARGOED UNTIL 11 a.m. (EDT), September 7, 2008
CONTACT Brookly McLaughlin, (202) 622-2920

Fact Sheet: Treasury Senior Preferred Stock Purchase Agreement

Fannie Mae and Freddie Mac debt and mortgage backed securities outstanding today amount to about $5 trillion, and are held by central banks and investors around the world. Investors have purchased securities of these government sponsored enterprises in part because the ambiguities in their Congressional charters created a perception of government backing. These ambiguities fostered enormous growth in GSE debt outstanding, and the breadth of these holdings pose a systemic risk to our financial system. Because the U.S. government created these ambiguities, we have a responsibility to both avert and ultimately address the systemic risk now posed by the scale and breadth of the holdings of GSE debt and mortgage backed securities.

To address our responsibility to support GSE debt and mortgage backed securities holders, Treasury entered into a Senior Preferred Stock Purchase Agreement with each GSE which ensures that each enterprise maintains a positive net worth. This measure adds to market stability by providing additional security to GSE debt holders – senior and subordinated-- and adds to mortgage affordability by providing additional confidence to investors in GSE mortgage-backed securities. This commitment also eliminates any mandatory triggering of receivership.

These agreements are the most effective means of averting systemic risk and contain terms and conditions to protect the taxpayer. They are more efficient than a one-time equity injection, in that Treasury will use them only as needed and on terms that the Treasury deems appropriate.

These agreements provide significant protections for the taxpayer, in the form of senior preferred stock with a liquidation preference, an upfront $1 billion issuance of senior preferred stock with a 10% coupon from each GSE, quarterly dividend payments, warrants representing an ownership stake of 79.9% in each GSE going forward, and a quarterly fee starting in 2010.

Terms of the Agreements:

- The agreements are contracts between the Department of the Treasury and each GSE. They are indefinite in duration and have a capacity of $100 billion each, an amount chosen to demonstrate a strong commitment to the GSEs' creditors and mortgage backed security holders. This number is unrelated to the Treasury's analysis of the current financial conditions of the GSEs.

- If the Federal Housing Finance Agency determines that a GSE's liabilities have exceeded its assets under generally accepted accounting principles, Treasury will contribute cash capital to the GSE in an amount equal to the difference between liabilities and assets. An amount equal to

each such contribution will be added to the senior preferred stock held by Treasury, which will be senior to all other preferred stock, common stock or other capital stock to be issued by the GSE. These agreements will protect the senior and subordinated debt and the mortgage backed securities of the GSEs. The GSE's common stock and existing preferred shareholders will bear any losses ahead of the government.

- In exchange for entering into these agreements with the GSEs, Treasury will immediately receive the following compensation:
  - $1 billion of senior preferred stock in each GSE
  - Warrants for the purchase of common stock of each GSE representing 79.9% of the common stock of each GSE on a fully-diluted basis at a nominal price

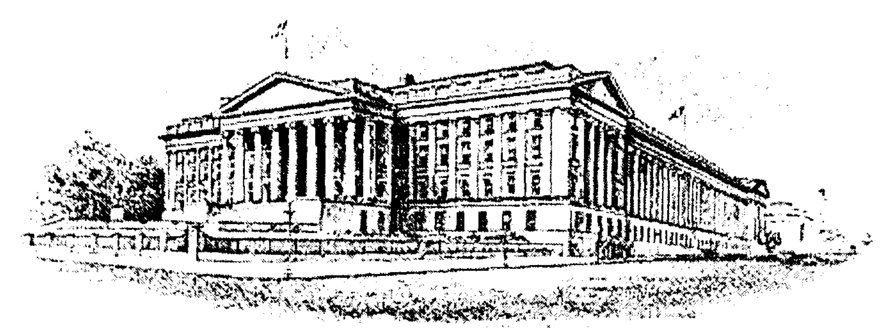
- The senior preferred stock shall accrue dividends at 10% per year. The rate shall increase to 12% if, in any quarter, the dividends are not paid in cash, until all accrued dividends have been paid in cash.

- The senior preferred stock shall not be entitled to voting rights. In a conservatorship, voting rights of all stockholders are vested in the Conservator.

- Beginning March 31, 2010, the GSEs shall pay the Treasury on a quarterly basis a periodic commitment fee that will compensate the Treasury for the explicit support provided by the agreement. The Secretary of the Treasury and the Conservator shall determine the periodic commitment fee in consultation with the Chairman of the Federal Reserve. This fee may be paid in cash or may be added to the senior preferred stock.

- The following covenants apply to the GSEs as part of the agreements.
  - Without the prior consent of the Treasury, the GSEs shall not:
    - Make any payment to purchase or redeem its capital stock, or pay any dividends, including preferred dividends (other than dividends on the senior preferred stock)
    - Issue capital stock of any kind
    - Enter into any new or adjust any existing compensation agreements with "named executive officers" without consulting with Treasury
    - Terminate conservatorship other than in connection with receivership
    - Sell, convey or transfer any of its assets outside the ordinary course of business except as necessary to meet their obligation under the agreements to reduce their portfolio of retained mortgages and mortgage backed securities
    - Increase its debt to more than 110% of its debt as of June 30, 2008
    - Acquire or consolidate with, or merge into, another entity.

- Each GSE's retained mortgage and mortgage backed securities portfolio shall not exceed $850 billion as of December 31, 2009, and shall decline by 10% per year until it reaches $250 billion.



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL, 11 a.m., (EDT), September 7, 2008
CONTACT Brookly McLaughlin, (202) 622-2920

FACT SHEET:
GSE MORTGAGE BACKED SECURITIES PURCHASE PROGRAM

Treasury announced a program today to help improve the availability of mortgage credit to American homebuyers and mitigate pressures on mortgage rates. To promote the stability of the mortgage market, Treasury will purchase Government Sponsored Enterprise (GSE) mortgage-backed securities (MBS) in the open market. By purchasing these guaranteed securities, Treasury seeks to broaden access to mortgage funding for current and prospective homeowners as well as to promote market stability.

Scope of Program. Treasury is committed to investing in agency MBS with the size and timing subject to the discretion of the Treasury Secretary. The scale of the program will be based on developments in the capital markets and housing markets.

- Congress granted Treasury authority to purchase MBS in the Housing and Economic Recovery Act of 2008. The authority expires on December 31, 2009.
- Treasury will begin later this month by investing in new GSE MBS, which are credit-guaranteed by the GSEs. Additional purchases will be made as deemed appropriate.
- Treasury can hold this portfolio of MBS to maturity and, based on mortgage market conditions, Treasury may make adjustments to the portfolio.

Management. Treasury will designate independent asset managers as financial agents to undertake the purchase and management of a portfolio of GSE MBS on behalf of Treasury.

- The portfolios will be managed with clear investment guidelines and investment objectives.
- The primary objectives of this portfolio will be to promote market stability, ensure mortgage availability, and protect the taxpayer.

Risk. Treasury is committed to protecting taxpayers and will ensure that measures are in place to reduce the potential for investment loss.

- Under most likely scenarios, taxpayers will benefit from this program - both indirectly through the increased availability and lower cost of mortgage financing, and directly through potential returns on Treasury's portfolio of MBS.

Budget Implications. Given that Treasury can hold these securities to maturity, the spreads between Treasury's cost of borrowing and GSE MBS indicate that there is no reason to expect taxpayer losses from this program.

- Treasury financing of purchases of GSE MBS will be deemed as outlays and are subject to the statutory debt limit.
- However, Treasury will be receiving an income producing asset (a portfolio of GSE MBS) in return for its invested funds.
- Treasury will make available information on purchases through this program in the Monthly Treasury Statement (http://fms.treas.gov/mts/index.html).

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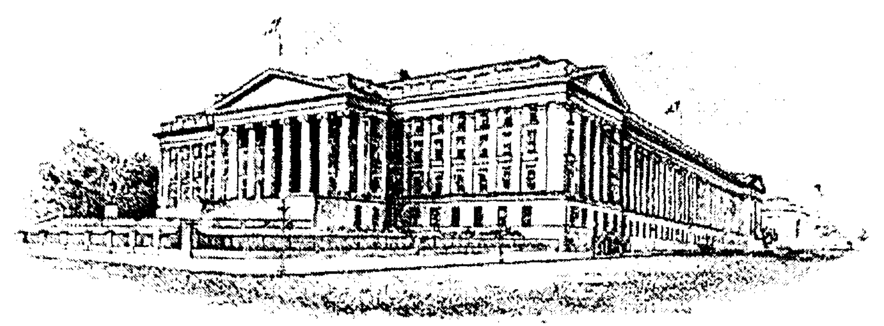

U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL, 11 a.m., (EDT), September 7, 2008
CONTACT Brookly McLaughlin, (202) 622-2920

FACT SHEET:
GOVERNMENT SPONSORED ENTERPRISE CREDIT FACILITY

The Government Sponsored Enterprise Credit Facility (GSECF) announced today by Treasury to ensure credit availability to the housing GSEs is a lending facility that will provide secured funding on an as needed basis under terms and conditions established by the Treasury Secretary to protect taxpayers. Fannie Mae, Freddie Mac, and the Federal Home Loan Banks are eligible to borrow under this program if needed.

The facility will offer liquidity if needed until December 31, 2009. The Housing and Economic Recovery Act of 2008 provided Treasury with the authority to establish this facility.

Funding. Funding will be provided directly by Treasury from its general fund held at the Federal Reserve Bank of New York (FRBNY) in exchange for eligible collateral from the GSEs which will be limited to guaranteed mortgage backed securities issued by Freddie Mac and Fannie Mae as well as advances made by the Federal Home Loan Banks. All such assets pledged against loans will be accepted with appropriate collateral margins as determined by Treasury.

- The FRBNY will act as Treasury's fiscal agent to advance funds to the GSEs and to administer collateral arrangements.
- Any lending through the GSECF will be directly debited from Treasury's general account and credited to the borrowing GSE's account, both held at the FRBNY.
- Loan requests will require approval from Treasury and verification by the FRBNY that adequate collateral has been pledged.
- Similar to other borrowing done by Treasury, information on any borrowing will be publicly reported at the end of the following day in the Daily Treasury Statement. (http://www.fms.treas.gov/dts/)
- Any additional borrowing by Treasury necessitated by this program would be subject to the debt limit.

Loan Duration and Size. Loans will be for short-term durations and would in general be expected to be for less than one month but no shorter than one week.

- Specific maturities will be determined based on individual loan requests.
- The term of a loan may not be extended, but a maturing loan may be replaced with a new loan under the same borrowing procedures as the initial loan.

- Loans may be pre-paid with two days notice, and loans may be called before their scheduled maturity date.
- Loan amounts will be based on available collateral.
- Loans will not be made with a maturity date beyond December 31, 2009.

Rate. The rate on a loan request ordinarily will be based on the daily LIBOR fix for a similar term of the loan plus 50 basis points (LIBOR +50 bp). The rate is set at the discretion of the Treasury Secretary with the objective of protecting the taxpayer, and is subject to change.

Collateral. All loans will be collateralized and collateral is limited to mortgage backed securities issued by Freddie Mac and Fannie Mae and advances made by the Federal Home Loan Banks.

- The collateral will be valued and managed by Treasury's fiscal agent, the FRBNY, based on a range of pricing services.

FEDERAL HOME LOAN MORTGAGE CORPORATION
WARRANT TO PURCHASE COMMON STOCK

NO. _____ September 7, 2008

VOID AFTER SEPTEMBER 7, 2028

THIS CERTIFIES THAT, for value received, the United States Department of the Treasury, with its principal office at 1500 Pennsylvania Avenue, NW, Washington, DC 20220 (the "Holder"), is entitled to purchase at the Exercise Price (defined below) from Federal Home Loan Mortgage Corporation, a government-sponsored enterprise of the United States of America, with its principal office at 8200 Jones Branch Drive, McLean, Virginia 22102 (the "Company"), shares of common stock, no par value, of the Company, as provided herein.

1. Definitions. As used herein, the following terms shall have the following respective meanings:

"Affiliate" shall mean, as to any specified Person, any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control," when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise and the terms "affiliated," "controlling" and "controlled" have meanings correlative to the foregoing.

"Business Day" shall mean each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York, New York are authorized or obligated by law or executive order to close.

"Common Stock" shall mean the common stock, no par value, of the Company, and all other stock of any class or classes (however designated) of the Company from time to time outstanding, the holders of which have the right, without limitation as to amount, either to all or to a share of the balance of current dividends or liquidating distributions after the payment of dividends and distributions on any shares entitled to preference.

"Exercise Period" shall mean the time period commencing with the date hereof and ending at 5:00 p.m. New York time on the 20th anniversary of the date hereof.

"Exercise Price" shall mean one one-thousandth of a cent ($0.00001) per share.

"Exercise Shares" shall mean the shares of the Common Stock issuable upon exercise of this Warrant, subject to adjustment pursuant to the terms herein, and shall also mean any other shares, securities, assets or property otherwise issuable upon exercise of this Warrant.

"Fair Market Value" shall mean, with respect to a share of Common Stock, or any other security of the Company or any other issuer:

(a) the volume weighted average daily Market Price during the period of the most recent twenty (20) Trading Days, ending on the last Trading Day before the date of determination of Fair Market Value, if such class of Common Stock or other security is (i) traded

on the New York Stock Exchange or any other U.S. national or regional securities exchange, or admitted to unlisted trading privileges on such an exchange, or (ii) is quoted or reported on the Over-the-Counter Bulletin Board ("OTCBB") or by Pink OTC Markets Inc. or a similar organization or agency succeeding to its functions of reporting prices; or

(b) if such class of Common Stock or other security is not then so listed, admitted to trading or quoted, the Fair Market Value shall be the Market Price on the last Business Day before the date of determination of Fair Market Value.

"Fully Diluted" shall mean, as of immediately prior to the exercise of this Warrant (or a portion of this Warrant), the sum of, without duplication, (i) the total number of shares of Common Stock outstanding and (ii) all shares of Common Stock issuable in respect of securities convertible into or exercisable or exchangeable for Common Stock, stock appreciation rights or options, warrants (including this Warrant) and other rights to purchase or subscribe for Common Stock or securities convertible into or exercisable or exchangeable for Common Stock (in each case, assuming that no restrictions apply with respect to conversion, exercise, exchange, subscription or purchase).

"Market Price" shall be, as of any specified date with respect to any share of any class of Common Stock or any other security of the Company or any other issuer:

(i) the closing price on that date or, if no closing price is reported, the last reported sale price, of shares of the Common Stock or such other security on the New York Stock Exchange on that date; or

(ii) if the Common Stock or such other security is not traded on the New York Stock Exchange, the closing price on that date as reported in composite transactions for the principal U.S. national or regional securities exchange on which the Common Stock or such other security is so traded or, if no closing price is reported, the last reported sale price of shares of the Common Stock or such other security on the principal U.S. national or regional securities exchange on which the Common Stock or such other security is so traded on that date; or

(iii) if the Common Stock or such other security is not traded on a U.S. national or regional securities exchange, the last quoted bid price on that date for the Common Stock or such other security in the over-the-counter market as reported (x) by the OTCBB or (y) if reports are unavailable under clause (x) above by Pink OTC Markets Inc. or a similar organization or agency succeeding to its functions of reporting prices;

(iv) if the Common Stock or such other security is not so quoted by OTCBB or Pink OTC Markets Inc. or a similar organization, the Market Price shall be determined in accordance with the Valuation Procedure.

"Participating Securities" shall mean, (i) any equity security (other than Common Stock) that entitles the holders thereof to participate in liquidations or other distributions with the holders of Common Stock or otherwise participate in the capital of the Company other than through a fixed or floating rate of return on capital loaned or invested, and (ii) any stock appreciation rights, phantom stock rights, or any other profit participation rights with respect to

any of the Company's capital stock or other equity ownership interest, or any rights or options to acquire any such rights.

"Person" shall mean any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, estate, unincorporated organization or government or any agency or political subdivision thereof, or any other entity whatsoever.

"Trading Day" shall mean, with respect to any class of Common Stock or any other security of the Company or any other issuer a day (i) on which the securities exchange or other trading platform applicable for purposes of determining the Market Price of a share or unit of such class of Common Stock or other security shall be open for business or (ii) for which quotations from such securities exchange or other trading platform of the character specified for purposes of determining such Market Price shall be reported.

"Valuation Procedure" shall mean a determination made in good faith by the Board of Directors of the Company (the "Board") that is set forth in resolutions of the Board that are certified by the Secretary of the Company, which certified resolutions (i) set forth the basis of the Board's determination, which, in the case of a valuation in excess of $100 million, shall include the Board's reliance on the valuation of a nationally recognized investment banking or appraisal firm, and (ii) are delivered to the Holder within ten (10) Business Days following such determination. A Valuation Procedure with respect to the value of any capital stock shall be based on the price that would be paid for all of the capital stock of the issuer in an arm's-length transaction between a willing buyer and a willing seller (neither acting under compulsion).

2. Exercise of Warrant; Number of Shares.

2.1 Exercise. This Warrant may be exercised in whole or in part at any time during the Exercise Period, by delivery of the following to the Company at its address set forth above (or at such other address as it may designate by notice in writing to the Holder):

(a) an executed Notice of Exercise in the form attached hereto;

(b) payment of the Exercise Price (i) in cash or by check, (ii) by cancellation of indebtedness or (iii) pursuant to Section 2.2 hereof; and

(c) this Warrant.

This Warrant will be exercisable for a number of shares of Common Stock that, together with the shares of Common Stock previously issued pursuant to this Warrant, is equal to 79.9% of the total number of shares of Common Stock outstanding on a Fully Diluted basis on the date of exercise. Whenever the Holder exercises this Warrant in whole or in part, it may assign its right to receive the Exercise Shares issuable upon such exercise to any other Person.

As soon as practicable (and in any event within five Business Days) after this Warrant shall have been exercised, a certificate or certificates for the Exercise Shares so purchased, registered in the name of the Holder or such other Person as may be designated by the Holder (to the extent such transfer is not validly restricted and upon payment of any transfer taxes that are

required to be paid by the Holder in connection with any such transfer), shall be issued and delivered by the Company to the Holder or such other Person .

The Person in whose name any certificate or certificates for the Exercise Shares are to be issued upon exercise of this Warrant shall be deemed to have become the holder of record of such shares on the date on which this Warrant was surrendered and payment of the Exercise Price was made, irrespective of the date of delivery of such certificate or certificates, except that, if the date of such surrender and payment is a date when the stock transfer books of the Company are closed, such Person shall be deemed to have become the holder of such shares at the close of business on the next succeeding date on which the stock transfer books are open (whether before or after the end of the Exercise Period).

2.2 Net Exercise. Notwithstanding any provision herein to the contrary, if the Market Price of one share of the Common Stock is greater than the Exercise Price (at the date of calculation as set forth below), in lieu of exercising this Warrant by payment of cash, check or cancellation of indebtedness, the Holder may elect (the "Conversion Right") to receive shares equal to the value (as determined below) of this Warrant (or the portion thereof being canceled) by surrender of this Warrant at the principal office of the Company together with the properly endorsed Notice of Exercise in which event the Company shall issue to the Holder a number of shares of Common Stock computed using the following formula:

$$X = \frac{Y\,(A-B)}{A}$$

Where X = the number of shares of Common Stock to be issued

Y = the number of shares of Common Stock purchasable under this Warrant or, if only a portion of this Warrant is being exercised, the portion of this Warrant being exercised (at the date of such calculation)

A = the Market Price of one share of the Common Stock (at the date of such calculation)

B = Exercise Price (as adjusted pursuant to the terms herein to the date of such calculation)

The Company shall pay all reasonable administrative costs incurred by the Holder in connection with the exercise of the Conversion Right by the Holder pursuant to this Section 2.2.

3. Covenants and Representations of the Company

3.1 Covenants as to Exercise Shares.

(a) The Company covenants and agrees that all Exercise Shares that may be issued upon the exercise of this Warrant will, upon issuance, be validly authorized, issued and outstanding, fully paid and nonassessable, free of preemptive rights and free from all taxes, liens and charges with respect to the issuance thereof. If the Common Stock or the class of securities of any other Exercise Shares is then listed or quoted on a national securities exchange

or a regional securities exchange, all such Exercise Shares shall, upon issuance, also be so listed or quoted. The Company further covenants and agrees that the Company will at all times during the Exercise Period, have authorized and reserved solely for purposes of the exercise of this Warrant, free from preemptive rights, a sufficient number of shares of its Common Stock or the class of securities of any other Exercise Shares to provide for the exercise in full of this Warrant (without taking into account any possible exercise pursuant to Section 2.2 hereof). If at any time during the Exercise Period the number of authorized but unissued shares of Common Stock or the class of securities of any other Exercise Shares shall not be sufficient to permit exercise in full of this Warrant (without taking into account any possible exercise pursuant to Section 2.2 hereof), the Company will take such corporate action as shall be necessary to increase its authorized but unissued shares of Common Stock or the class of securities of any other Exercise Shares to such number of shares as shall be sufficient for such purposes.

(b) If at any time the Exercise Shares shall include any shares or other securities other than shares of Common Stock, or any other property or assets, the terms of this Warrant shall be modified or supplemented (and in the absence of express written documentation thereof, shall be deemed to be so modified or supplemented), and the Company shall take all actions as may be necessary to preserve, in a manner and on terms as nearly equivalent as practicable to the provisions of this Warrant as they apply to the Common Stock, the rights of the Holder hereunder, including any equitable replacements of the term "Common Stock" with the term "Exercise Shares" and adjustments of any formula included herein.

(c) The Company's filings under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), will comply in all material respects as to form with the Exchange Act and the rules and regulations thereunder.

(d) Without prior written consent of the Holder, the Company shall not permit any Significant Subsidiary (as defined by Rule 1-02(w) of Regulation S-X under the Securities Act or any successor rule) to (i) issue or grant any capital stock or equity ownership interest, including any Participating Security; (ii) any rights, options, warrants or convertible security that is exercisable for or convertible into any capital stock or other equity ownership interest, including any Participating Security; or (iii) any stock appreciation rights, phantom stock rights, or any other profit participation rights, or any rights or options to acquire any such rights, in each case of clauses (i), (ii) and (iii) above, to any Person other than the Company or its wholly owned subsidiaries.

(e) The Company shall not take any action that will result in an increase in the par value of the Common Stock.

3.2 No Impairment. Except and to the extent as waived or consented to in writing by the Holder, the Company will not, by amendment of its charter, bylaws or other governing documents or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all such action as may be necessary or appropriate in order to protect the exercise rights of the Holder against impairment or dilution consistent with the intent and principles

expressed herein. If any event or occurrence shall occur (including without limitation, stock dividends and stock splits) as to which the failure to make any adjustment to the Exercise Price and/or the number of shares or other assets or property subject to this Warrant would adversely affect the purchase rights or value represented by this Warrant, including any issuance of Common Stock or Participating Securities, then, in each such case, the Company shall determine the adjustment, if any, on a basis consistent with the essential intent and principles herein, necessary to preserve, without dilution, the purchase rights represented by this Warrant. If such determination involves or is based on a determination of the Fair Market Value of any securities or other assets or property, such determination shall be made in accordance with the Valuation Procedure. Without limiting the foregoing, in the event of any dividend or distribution by the Company of assets or property (including shares of any other Person) on or with respect to the Common Stock, or any exchange of the shares of Common Stock into any other assets, property or securities, this Warrant will be equitably adjusted to permit the Holder to receive upon exercise the assets, property or securities that would have been received if the Warrant had been exercised immediately prior to such dividend, distribution or exchange.

3.3 Notice of Record Date. In the event (i) the Company takes a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, (ii) the Company authorizes the granting to the holders of Common Stock (or holders of the class of securities of any other Exercise Shares) of rights to subscribe to or purchase any shares of capital stock of any class or securities convertible into any shares of capital stock or of any other right, (iii) the Company authorizes any reclassification of, or any recapitalization involving, any class of Common Stock or any consolidation or merger to which the Company is a party and for which approval of the stockholders of the Company is required, or of the sale or transfer of all or substantially all of the assets of the Company, (iv) the Company authorizes or consents to or otherwise commences the voluntary or involuntary dissolution, liquidation or winding up of the Company or (v) the Company authorizes or takes any other action that would trigger an adjustment in the Exercise Price or the number or amount of shares of Common Stock or other Exercise Shares subject to this Warrant, the Company shall mail to the Holder, at least ten (10) days prior to the earlier of the record date for any such action or stockholder vote and the date of such action, a notice specifying (a) which action is to be taken and the date on which any such record is to be taken for the purpose of any such action, (b) the date that any such action is to take place and (c) the amount and character of any stock, other securities or property and amounts, or rights or options with respect thereto, proposed to be issued, granted or delivered to each holder of Common Stock (or holders of the class of securities of any other Exercise Shares).

4. Fractional Shares. No fractional shares shall be issued upon the exercise of this Warrant. All Exercise Shares (including fractions) issuable upon exercise of this Warrant may be aggregated for purposes of determining whether the exercise would result in the issuance of any fractional share. If, after aggregation, the exercise would result in the issuance of a fractional share, the Company shall, in lieu of issuance of any fractional share, pay the Holder otherwise entitled to such fraction a sum in cash equal to the product resulting from multiplying such fractional amount by the Fair Market Value of one share of Common Stock.

5. Listing Rights. The Company shall use its best efforts, upon the request of the Holder, to cause the Exercise Shares to be listed or quoted on a national securities exchange or a regional securities exchange.

6. No Stockholder Rights or Liabilities. Without limiting the consent rights of the Holder contained in Section 3, this Warrant in and of itself shall not entitle the Holder to any voting rights or other rights as a stockholder of the Company. No provision of this Warrant, in the absence of affirmative action by the Holder to exercise this Warrant in exchange for shares of Common Stock, and no mere enumeration herein of the rights or privileges of the Holder, shall give rise to any liability of the Holder for the Exercise Price or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

7. Transfer of Warrant. This Warrant is not transferable; provided, however, that the Holder may assign its rights to receive shares upon exercise of this Warrant pursuant to Section 2.1.

8. Payment of Taxes on Stock Certificate Issues Upon Exercise. The initial issuance of certificates of Common Stock upon any exercise of this Warrant shall be made without charge to the exercising Holder for any transfer, stamp or similar tax or for any other governmental charges that may be imposed in respect of the issuance of such stock certificates, and such stock certificates shall be issued in the respective names of, or in such names as may be directed by, the Holder; provided, however, that the Company shall not be required to pay any tax or such other charges that may be payable in respect of any transfer involved in the issuance and delivery of any such stock certificate, any new warrants or other securities in a name other than that of the Holder upon exercise of this Warrant (other than to an Affiliate), and the Company shall not be required to issue or deliver such certificates or other securities unless and until the Person or Persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid or is not payable.

9. Lost, Stolen, Mutilated or Destroyed Warrant. If this Warrant is lost, stolen, mutilated or destroyed, the Company may, on such terms as to indemnity or otherwise as it may reasonably impose (which shall, in the case of a mutilated Warrant, include the surrender thereof), issue a new Warrant of like denomination and tenor as this Warrant so lost, stolen, mutilated or destroyed. Any such new Warrant shall constitute an original contractual obligation of the Company, whether or not the allegedly lost, stolen, mutilated or destroyed Warrant shall be at any time enforceable by anyone.

10. Closing of Books. The Company will at no time close its transfer books against the transfer of any shares of Common Stock issued or issuable upon the exercise or conversion of any Warrant in any manner which interferes with the timely exercise or conversion of this Warrant.

11. Notices, Etc. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when sent by confirmed telex or facsimile if sent during normal business hours of the recipient or if not, then on the next Business Day, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) Business Day after deposit with a nationally recognized overnight courier, specifying next Business Day delivery, with written verification of receipt. All notices and other communications shall be sent to the Company at the address listed on the signature page and to Holder at the address set forth below or at such other address as the Company or Holder may designate by ten (10) days advance written notice to the other parties hereto:

United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220
Attn: Under Secretary for Domestic Finance

with a copy to:

United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220
Attn: General Counsel

12. Acceptance. Receipt of this Warrant by the Holder shall constitute acceptance of and agreement to all of the terms and conditions contained herein.

13. Binding Effect on Successors. This Warrant shall be binding upon any Person succeeding the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets, and all of the obligations of the Company relating to the Common Stock issuable upon the exercise or conversion of this Warrant shall survive the exercise, conversion and termination of this Warrant and all of the covenants and agreements of the Company shall inure to the benefit of the successors and assigns of the Holder.

14. Governing Law. This Warrant and all rights, obligations and liabilities hereunder shall be governed and construed in accordance with Federal law, if and to the extent such Federal law is applicable, and otherwise in accordance with the law of the State of New York.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its duly authorized officer as of September 7, 2008.

FEDERAL HOME LOAN MORTGAGE CORPORATION, by

The Federal Housing Finance Agency, its Conservator

____

James B. Lockhart III
Director

Address: 8200 Jones Branch Drive
McLean, Virginia 22102

NOTICE OF EXERCISE

TO: FEDERAL HOME LOAN MORTGAGE CORPORATION

(1) ☐ The undersigned hereby elects to purchase _______________ shares of the Common Stock of Federal Home Loan Mortgage Corporation (the "Company") pursuant to the terms of the attached Warrant, and tenders herewith or is delivering by wire transfer to account number ____________ at _____________________ (bank) payment of the exercise price in full.

☐ The undersigned hereby elects to purchase ________ shares of the Common Stock of the Company pursuant to the terms of the net exercise provisions set forth in Section 2.2 of the attached Warrant.

(2) Please issue a certificate or certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is specified below:

____
(Name)

____

____
(Address)

____
(Date)

____
(Signature)

____
(Print name)

EXECUTION VERSION

FREDDIE MAC

CERTIFICATE OF CREATION, DESIGNATION, POWERS, PREFERENCES, RIGHTS, PRIVILEGES, QUALIFICATIONS, LIMITATIONS, RESTRICTIONS, TERMS AND CONDITIONS OF VARIABLE LIQUIDATION PREFERENCE SENIOR PREFERRED STOCK (PAR VALUE $1.00 PER SHARE)

The Federal Housing Finance Agency, as Conservator of the Federal Home Loan Mortgage Corporation, a government-sponsored enterprise of the United States of America (the "Company"), does hereby certify that, pursuant to authority vested in the Board of Directors of the Company by Section 306(f) of the Federal Home Loan Mortgage Corporation Act, and pursuant to the authority vested in the Conservator of the Company by Section 1367(b) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 U.S.C. §4617), as amended, the Conservator adopted Resolution FHLMC 2008-___ on September 7, 2008, which resolution is now, and at all times since such date has been, in full force and effect, and that the Conservator approved the final terms of the issuance and sale of the preferred stock of the Company designated above.

The Senior Preferred Stock shall have the following designation, powers, preferences, rights, privileges, qualifications, limitations, restrictions, terms and conditions:

1. Designation, Par Value, Number of Shares and Seniority

The class of preferred stock of the Company created hereby (the "Senior Preferred Stock") shall be designated "Variable Liquidation Preference Senior Preferred Stock," shall have a par value of $1.00 per share and shall consist of 1,000,000 shares. The Senior Preferred Stock shall rank prior to the common stock of the Company as provided in this Certificate and shall rank, as to both dividends and distributions upon liquidation, prior to (a) the Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock issued on December 4, 2007, (b) the 6.55% Non-Cumulative Preferred Stock issued on September 28, 2007, (c) the 6.02% Non-Cumulative Preferred Stock issued on July 24, 2007, (d) the 5.66% Non-Cumulative Preferred Stock issued on April 16, 2007, (e) the 5.57% Non-Cumulative Preferred Stock issued on January 16, 2007, (f) the 5.9% Non-Cumulative Preferred Stock issued on October 16, 2006, (g) the 6.42% Non-Cumulative Preferred Stock issued on July 17, 2006, (h) the Variable Rate, Non-Cumulative Preferred Stock issued on July 17, 2006, (i) the 5.81% Non-Cumulative Preferred Stock issued on January 29, 2002, (j) the 5.7% Non-Cumulative Preferred Stock issued on October 30, 2001, (k) the 6% Non-Cumulative Preferred Stock issued on May 30, 2001, (l) the Variable Rate, Non-Cumulative Preferred Stock issued on May 30, 2001 and June 1, 2001, (m) the 5.81% Non-Cumulative Preferred Stock issued on March 23, 2001, (n) the Variable Rate, Non-Cumulative Preferred Stock issued on March 23, 2001, (o) the Variable Rate, Non-Cumulative Preferred Stock issued on January 26, 2001, (p) the Variable Rate, Non-Cumulative Preferred Stock issued on November 5, 1999, (q) the 5.79% Non-Cumulative Preferred Stock issued on July 21, 1999, (r) the 5.1% Non-Cumulative Preferred Stock issued on March 19, 1999, (s) the 5.3% Non-Cumulative Preferred Stock issued on October 28, 1998, (t) the

5.1% Non-Cumulative Preferred Stock issued on September 23, 1998, (u) the Variable Rate, Non-Cumulative Preferred Stock issued on September 23, 1998 and September 29, 1998, (v) the 5% Non-Cumulative Preferred Stock issued on March 23, 1998, (w) the 5.81% Non-Cumulative Preferred Stock issued on October 27, 1997, (x) the Variable Rate, Non-Cumulative Preferred Stock issued on April 26, 1996, (y) any other capital stock of the Company outstanding on the date of the initial issuance of the Senior Preferred Stock, and (z) any capital stock of the Company that may be issued after the date of initial issuance of the Senior Preferred Stock.

2. Dividends

(a) For each Dividend Period from the date of the initial issuance of the Senior Preferred Stock, holders of outstanding shares of Senior Preferred Stock shall be entitled to receive, ratably, when, as and if declared by the Board of Directors, in its sole discretion, out of funds legally available therefor, cumulative cash dividends at the annual rate per share equal to the then-current Dividend Rate on the then-current Liquidation Preference. Dividends on the Senior Preferred Stock shall accrue from but not including the date of the initial issuance of the Senior Preferred Stock and will be payable in arrears when, as and if declared by the Board of Directors quarterly on March 31, June 30, September 30 and December 31 of each year (each, a "Dividend Payment Date"), commencing on December 31, 2008. If a Dividend Payment Date is not a "Business Day," the related dividend will be paid not later than the next Business Day with the same force and effect as though paid on the Dividend Payment Date, without any increase to account for the period from such Dividend Payment Date through the date of actual payment. "Business Day" means a day other than (i) a Saturday or Sunday, (ii) a day on which New York City banks are closed, or (iii) a day on which the offices of the Company are closed.

If declared, the initial dividend will be for the period from but not including the date of the initial issuance of the Senior Preferred Stock through and including December 31, 2008. Except for the initial Dividend Payment Date, the "Dividend Period" relating to a Dividend Payment Date will be the period from but not including the preceding Dividend Payment Date through and including the related Dividend Payment Date. The amount of dividends payable on the initial Dividend Payment Date or for any Dividend Period that is not a full calendar quarter shall be computed on the basis of 30-day months, a 360-day year and the actual number of days elapsed in any period of less than one month. For the avoidance of doubt, in the event that the Liquidation Preference changes in the middle of a Dividend Period, the amount of dividends payable on the Dividend Payment Date at the end of such Dividend Period shall take into account such change in Liquidation Preference and shall be computed at the Dividend Rate on each Liquidation Preference based on the portion of the Dividend Period that each Liquidation Preference was in effect.

(b) To the extent not paid pursuant to Section 2(a) above, dividends on the Senior Preferred Stock shall accrue and shall be added to the Liquidation Preference pursuant to Section 8, whether or not there are funds legally available for the payment of such dividends and whether or not dividends are declared.

(c) "Dividend Rate" means 10.0%; provided, however, that if at any time the Company shall have for any reason failed to pay dividends in cash in a timely manner as required by this Certificate, then immediately following such failure and for all Dividend Periods thereafter until

the Dividend Period following the date on which the Company shall have paid in cash full cumulative dividends (including any unpaid dividends added to the Liquidation Preference pursuant to Section 8), the "Dividend Rate" shall mean 12.0%.

(d) Each such dividend shall be paid to the holders of record of outstanding shares of the Senior Preferred Stock as they appear in the books and records of the Company on such record date as shall be fixed in advance by the Board of Directors, not to be earlier than 45 days nor later than 10 days preceding the applicable Dividend Payment Date. The Company may not, at any time, declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any common stock or other securities ranking junior to the Senior Preferred Stock unless (i) full cumulative dividends on the outstanding Senior Preferred Stock in respect of the then-current Dividend Period and all past Dividend Periods (including any unpaid dividends added to the Liquidation Preference pursuant to Section 8) have been declared and paid in cash (including through any pay down of Liquidation Preference pursuant to Section 3) and (ii) all amounts required to be paid pursuant to Section 4 (without giving effect to any prohibition on such payment under any applicable law) have been paid in cash.

(e) Notwithstanding any other provision of this Certificate, the Board of Directors, in its discretion, may choose to pay dividends on the Senior Preferred Stock without the payment of any dividends on the common stock, preferred stock or any other class or series of stock from time to time outstanding ranking junior to the Senior Preferred Stock with respect to the payment of dividends.

(f) If and whenever dividends, having been declared, shall not have been paid in full, as aforesaid, on shares of the Senior Preferred Stock, all such dividends that have been declared on shares of the Senior Preferred Stock shall be paid to the holders pro rata based on the aggregate Liquidation Preference of the shares of Senior Preferred Stock held by each holder, and any amounts due but not paid in cash shall be added to the Liquidation Preference pursuant to Section 8.

3. Optional Pay Down of Liquidation Preference

(a) Following termination of the Commitment (as defined in the Preferred Stock Purchase Agreement referred to in Section 8 below), and subject to any limitations which may be imposed by law and the provisions below, the Company may pay down the Liquidation Preference of all outstanding shares of the Senior Preferred Stock pro rata, at any time, in whole or in part, out of funds legally available therefor, with such payment first being used to reduce any accrued and unpaid dividends previously added to the Liquidation Preference pursuant to Section 8 below and, to the extent all such accrued and unpaid dividends have been paid, next being used to reduce any Periodic Commitment Fees (as defined in the Preferred Stock Purchase Agreement referred to in Section 8 below) previously added to the Liquidation Preference pursuant to Section 8 below. Prior to termination of the Commitment, and subject to any limitations which may be imposed by law and the provisions below, the Company may pay down the Liquidation Preference of all outstanding shares of the Senior Preferred Stock pro rata, at any time, out of funds legally available therefor, but only to the extent of (i) accrued and unpaid dividends previously added to the Liquidation Preference pursuant to Section 8 below and not repaid by any prior pay down of Liquidation Preference and (ii) Periodic Commitment Fees previously added to the Liquidation

Preference pursuant to Section 8 below and not repaid by any prior pay down of Liquidation Preference. Any pay down of Liquidation Preference permitted by this Section 3 shall be paid by making a payment in cash to the holders of record of outstanding shares of the Senior Preferred Stock as they appear in the books and records of the Company on such record date as shall be fixed in advance by the Board of Directors, not to be earlier than 45 days nor later than 10 days preceding the date fixed for the payment.

(b) In the event the Company shall pay down of the Liquidation Preference of the Senior Preferred Stock as aforesaid, notice of such pay down shall be given by the Company by first class mail, postage prepaid, mailed neither less than 10 nor more than 45 days preceding the date fixed for the payment, to each holder of record of the shares of the Senior Preferred Stock, at such holder's address as the same appears in the books and records of the Company. Each such notice shall state the amount by which the Liquidation Preference of each share shall be reduced and the pay down date.

(c) If after termination of the Commitment the Company pays down the Liquidation Preference of each outstanding share of Senior Preferred Stock in full, such shares shall be deemed to have been redeemed as of the date of such payment, and the dividend that would otherwise be payable for the Dividend Period ending on the pay down date will be paid on such date. Following such deemed redemption, the shares of the Senior Preferred Stock shall no longer be deemed to be outstanding, and all rights of the holders thereof as holders of the Senior Preferred Stock shall cease, with respect to shares so redeemed, other than the right to receive the pay down amount (which shall include the final dividend for such shares). Any shares of the Senior Preferred Stock which shall have been so redeemed, after such redemption, shall no longer have the status of authorized, issued or outstanding shares.

4. Mandatory Pay Down of Liquidation Preference Upon Issuance of Capital Stock

(a) If the Company shall issue any shares of capital stock (including without limitation common stock or any series of preferred stock) in exchange for cash at any time while the Senior Preferred Stock is outstanding, then the Company shall, within 10 Business Days, use the proceeds of such issuance net of the direct costs relating to the issuance of such securities (including, without limitation, legal, accounting and investment banking fees) to pay down the Liquidation Preference of all outstanding shares of Senior Preferred Stock pro rata, out of funds legally available therefor, by making a payment in cash to the holders of record of outstanding shares of the Senior Preferred Stock as they appear in the books and records of the Company on such record date as shall be fixed in advance by the Board of Directors, not to be earlier than 45 days nor later than 10 days preceding the date fixed for the payment, with such payment first being used to reduce any accrued and unpaid dividends previously added to the Liquidation Preference pursuant to Section 8 below and, to the extent all such accrued and unpaid dividends have been paid, next being used to reduce any Periodic Commitment Fees (as defined in the Preferred Stock Purchase Agreement referred to in Section 8 below) previously added to the Liquidation Preference pursuant to Section 8 below; provided that, prior to the termination of the Commitment (as defined in the Preferred Stock Purchase Agreement referred to in Section 8 below), the Liquidation Preference of each share of Senior Preferred Stock shall not be paid down below $1,000 per share.

(b) If the Company shall not have sufficient assets legally available for the pay down of the Liquidation Preference of the shares of Senior Preferred Stock required under Section 4(a), the Company shall pay down the Liquidation Preference per share to the extent permitted by law, and shall pay down any Liquidation Preference not so paid down because of the unavailability of legally available assets or other prohibition as soon as practicable to the extent it is thereafter able to make such pay down legally. The inability of the Company to make such payment for any reason shall not relieve the Company from its obligation to effect any required pay down of the Liquidation Preference when, as and if permitted by law.

(c) If after the termination of the Commitment the Company pays down the Liquidation Preference of each outstanding share of Senior Preferred Stock in full, such shares shall be deemed to have been redeemed as of the date of such payment, and the dividend that would otherwise be payable for the Dividend Period ending on the pay down date will be paid on such date. Following such deemed redemption, the shares of the Senior Preferred Stock shall no longer be deemed to be outstanding, and all rights of the holders thereof as holders of the Senior Preferred Stock shall cease, with respect to shares so redeemed, other than the right to receive the pay down amount (which shall include the final dividend for such redeemed shares). Any shares of the Senior Preferred Stock which shall have been so redeemed, after such redemption, shall no longer have the status of authorized, issued or outstanding shares.

5. No Voting Rights

Except as set forth in this Certificate or otherwise required by law, the shares of the Senior Preferred Stock shall not have any voting powers, either general or special.

6. No Conversion or Exchange Rights

The holders of shares of the Senior Preferred Stock shall not have any right to convert such shares into or exchange such shares for any other class or series of stock or obligations of the Company.

7. No Preemptive Rights

No holder of the Senior Preferred Stock shall as such holder have any preemptive right to purchase or subscribe for any other shares, rights, options or other securities of any class of the Company which at any time may be sold or offered for sale by the Company.

8. Liquidation Rights and Preference

(a) Except as otherwise set forth herein, upon the voluntary or involuntary dissolution, liquidation or winding up of the Company, the holders of the outstanding shares of the Senior Preferred Stock shall be entitled to receive out of the assets of the Company available for distribution to stockholders, before any payment or distribution shall be made on the common stock or any other class or series of stock of the Company ranking junior to the Senior Preferred Stock upon liquidation, the amount per share equal to the Liquidation Preference plus an amount, determined in accordance with Section 2(a) above, equal to the dividend otherwise payable for the then-current Dividend Period accrued through and including the date of payment in respect of such dissolution, liquidation or winding up; provided, however, that if the assets of the Company

available for distribution to stockholders shall be insufficient for the payment of the amount which the holders of the outstanding shares of the Senior Preferred Stock shall be entitled to receive upon such dissolution, liquidation or winding up of the Company as aforesaid, then, all of the assets of the Company available for distribution to stockholders shall be distributed to the holders of outstanding shares of the Senior Preferred Stock pro rata based on the aggregate Liquidation Preference of the shares of Senior Preferred Stock held by each holder.

(b) "Liquidation Preference" shall initially mean $1,000 per share and shall be:

(i) increased each time a Deficiency Amount (as defined in the Preferred Stock Purchase Agreement) is paid to the Company by an amount per share equal to the aggregate amount so paid to the Company divided by the number of shares of Senior Preferred Stock outstanding at the time of such payment;

(ii) increased each time the Company does not pay the full Periodic Commitment Fee (as defined in the Preferred Stock Purchase Agreement) in cash by an amount per share equal to the amount of the Periodic Commitment Fee that is not paid in cash divided by the number of shares of Senior Preferred Stock outstanding at the time such payment is due;

(iii) increased on the Dividend Payment Date if the Company fails to pay in full the dividend payable for the Dividend Period ending on such date by an amount per share equal to the aggregate amount of unpaid dividends divided by the number of shares of Senior Preferred Stock outstanding on such date; and

(iv) decreased each time the Company pays down the Liquidation Preference pursuant to Section 3 or Section 4 of this Certificate by an amount per share equal to the aggregate amount of the pay down divided by the number of shares of Senior Preferred Stock outstanding at the time of such pay down.

(c) "Preferred Stock Purchase Agreement" means the Preferred Stock Purchase Agreement, dated September 7, 2008, between the Company and the United States Department of the Treasury.

(d) Neither the sale of all or substantially all of the property or business of the Company, nor the merger, consolidation or combination of the Company into or with any other corporation or entity, shall be deemed to be a dissolution, liquidation or winding up for the purpose of this Section 8.

9. Additional Classes or Series of Stock

The Board of Directors shall have the right at any time in the future to authorize, create and issue, by resolution or resolutions, one or more additional classes or series of stock of the Company, and to determine and fix the distinguishing characteristics and the relative rights, preferences, privileges and other terms of the shares thereof; provided that, any such class or series of stock may not rank prior to or on parity with the Senior Preferred Stock without the prior written consent of the holders of at least two-thirds of all the shares of Senior Preferred Stock at the time outstanding.

10. Miscellaneous

(a) The Company and any agent of the Company may deem and treat the holder of a share or shares of Senior Preferred Stock, as shown in the Company's books and records, as the absolute owner of such share or shares of Senior Preferred Stock for the purpose of receiving payment of dividends in respect of such share or shares of Senior Preferred Stock and for all other purposes whatsoever, and neither the Company nor any agent of the Company shall be affected by any notice to the contrary. All payments made to or upon the order of any such person shall be valid and, to the extent of the sum or sums so paid, effectual to satisfy and discharge liabilities for moneys payable by the Company on or with respect to any such share or shares of Senior Preferred Stock.

(b) The shares of the Senior Preferred Stock, when duly issued, shall be fully paid and non-assessable.

(c) The Senior Preferred Stock may be issued, and shall be transferable on the books of the Company, only in whole shares.

(d) For purposes of this Certificate, the term "the Company" means the Federal Home Loan Mortgage Corporation and any successor thereto by operation of law or by reason of a merger, consolidation, combination or similar transaction.

(e) This Certificate and the respective rights and obligations of the Company and the holders of the Senior Preferred Stock with respect to such Senior Preferred Stock shall be construed in accordance with and governed by the laws of the United States, provided that the law of the Commonwealth of Virginia shall serve as the federal rule of decision in all instances except where such law is inconsistent with the Company's enabling legislation, its public purposes or any provision of this Certificate.

(f) Any notice, demand or other communication which by any provision of this Certificate is required or permitted to be given or served to or upon the Company shall be given or served in writing addressed (unless and until another address shall be published by the Company) to Freddie Mac, 8200 Jones Branch Drive, McLean, Virginia 22102, Attn: Executive Vice President and General Counsel. Such notice, demand or other communication to or upon the Company shall be deemed to have been sufficiently given or made only upon actual receipt of a writing by the Company. Any notice, demand or other communication which by any provision of this Certificate is required or permitted to be given or served by the Company hereunder may be given or served by being deposited first class, postage prepaid, in the United States mail addressed (i) to the holder as such holder's name and address may appear at such time in the books and records of the Company or (ii) if to a person or entity other than a holder of record of the Senior Preferred Stock, to such person or entity at such address as reasonably appears to the Company to be appropriate at such time. Such notice, demand or other communication shall be deemed to have been sufficiently given or made, for all purposes, upon mailing.

(g) The Company, by or under the authority of the Board of Directors, may amend, alter, supplement or repeal any provision of this Certificate pursuant to the following terms and conditions:

(i) Without the consent of the holders of the Senior Preferred Stock, the Company may amend, alter, supplement or repeal any provision of this Certificate to cure any ambiguity, to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Certificate, provided that such action shall not adversely affect the interests of the holders of the Senior Preferred Stock.

(ii) The consent of the holders of at least two-thirds of all of the shares of the Senior Preferred Stock at the time outstanding, given in person or by proxy, either in writing or by a vote at a meeting called for the purpose at which the holders of shares of the Senior Preferred Stock shall vote together as a class, shall be necessary for authorizing, effecting or validating the amendment, alteration, supplementation or repeal (whether by merger, consolidation or otherwise) of the provisions of this Certificate other than as set forth in subparagraph (i) of this paragraph (g). The creation and issuance of any other class or series of stock, or the issuance of additional shares of any existing class or series of stock, of the Company ranking junior to the Senior Preferred Stock shall not be deemed to constitute such an amendment, alteration, supplementation or repeal.

(iii) Holders of the Senior Preferred Stock shall be entitled to one vote per share on matters on which their consent is required pursuant to subparagraph (ii) of this paragraph (g). In connection with any meeting of such holders, the Board of Directors shall fix a record date, neither earlier than 60 days nor later than 10 days prior to the date of such meeting, and holders of record of shares of the Senior Preferred Stock on such record date shall be entitled to notice of and to vote at any such meeting and any adjournment. The Board of Directors, or such person or persons as it may designate, may establish reasonable rules and procedures as to the solicitation of the consent of holders of the Senior Preferred Stock at any such meeting or otherwise, which rules and procedures shall conform to the requirements of any national securities exchange on which the Senior Preferred Stock may be listed at such time.

(h) **RECEIPT AND ACCEPTANCE OF A SHARE OR SHARES OF THE SENIOR PREFERRED STOCK BY OR ON BEHALF OF A HOLDER SHALL CONSTITUTE THE UNCONDITIONAL ACCEPTANCE BY THE HOLDER (AND ALL OTHERS HAVING BENEFICIAL OWNERSHIP OF SUCH SHARE OR SHARES) OF ALL OF THE TERMS AND PROVISIONS OF THIS CERTIFICATE. NO SIGNATURE OR OTHER FURTHER MANIFESTATION OF ASSENT TO THE TERMS AND PROVISIONS OF THIS CERTIFICATE SHALL BE NECESSARY FOR ITS OPERATION OR EFFECT AS BETWEEN THE COMPANY AND THE HOLDER (AND ALL SUCH OTHERS).**

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of the Company this 7th day of September, 2008.

[Seal]

FEDERAL HOME LOAN MORTGAGE CORPORATION,
by

The Federal Housing Finance Agency, its Conservator

____
James B. Lockhart III
Director

EXECUTION VERSION

AMENDED AND RESTATED SENIOR PREFERRED STOCK PURCHASE AGREEMENT

AMENDED AND RESTATED SENIOR PREFERRED STOCK PURCHASE AGREEMENT (this "Agreement") dated as of September 26, 2008, between the UNITED STATES DEPARTMENT OF THE TREASURY ("Purchaser") and FEDERAL HOME LOAN MORTGAGE CORPORATION ("Seller"), acting through the Federal Housing Finance Agency (the "Agency") as its duly appointed conservator (the Agency in such capacity, "Conservator"). Reference is made to Article 1 below for the meaning of capitalized terms used herein without definition.

Background

A. The Agency has been duly appointed as Conservator for Seller pursuant to Section 1367(a) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (as amended, the "FHE Act"). Conservator has determined that entry into this Agreement is (i) necessary to put Seller in a sound and solvent condition; (ii) appropriate to carry on the business of Seller and preserve and conserve the assets and property of Seller; and (iii) otherwise consistent with its powers, authorities and responsibilities.

B. Purchaser is authorized to purchase obligations and other securities issued by Seller pursuant to Section 306(l) of the Federal Home Loan Mortgage Corporation Act, as amended (the "Charter Act"). The Secretary of the Treasury has determined, after taking into consideration the matters set forth in Section 306(l)(1)(C) of the Charter Act, that the purchases contemplated herein are necessary to (i) provide stability to the financial markets; (ii) prevent disruptions in the availability of mortgage finance; and (iii) protect the taxpayer.

C. Purchaser and Seller executed and delivered the Senior Preferred Stock Purchase Agreement dated as of September 7, 2008 (the "Original Agreement"), and the parties thereto desire to amend and restate the Original Agreement in its entirety as set forth herein.

THEREFORE, the parties hereto agree as follows:

Terms and Conditions

1. DEFINITIONS

As used in this Agreement, the following terms shall have the meanings set forth below:

"*Affiliate*" means, when used with respect to a specified Person (i) any direct or indirect holder or group (as defined in Sections 13(d) and 14(d) of the Exchange Act) of holders of 10.0% or more of any class of capital stock of such Person and (ii) any current or former director or officer of such Person, or any other current or former employee of such Person that currently exercises or formerly exercised a material degree of Control over such Person, including without limitation each current or former Named Executive Officer of such Person.

"*Available Amount*" means, as of any date of determination, the lesser of (a) the Deficiency Amount as of such date and (b) the Maximum Amount as of such date.

"*Business Day*" means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under United States federal law and the law of the State of New York.

"*Capital Lease Obligations*" of any Person shall mean the obligations of such Person to pay rent or other amounts under any lease of (or other similar arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP and, for purposes hereof, the amount of such obligations at any time shall be the capitalized amount thereof at such time determined in accordance with GAAP.

"*Control*" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"*Deficiency Amount*" means, as of any date of determination, the amount, if any, by which (a) the total liabilities of Seller exceed (b) the total assets of Seller (such assets excluding the Commitment and any unfunded amounts thereof), in each case as reflected on the balance sheet of Seller as of the applicable date set forth in this Agreement, prepared in accordance with GAAP; provided, however, that:

(i) for the avoidance of doubt, in measuring the Deficiency Amount liabilities shall exclude any obligation in respect of any capital stock of Seller, including the Senior Preferred Stock contemplated herein;

(ii) in the event that Seller becomes subject to receivership or other liquidation process or proceeding, "Deficiency Amount" shall mean, as of any date of determination, the amount, if any, by which (a) the total allowed claims against the receivership or other applicable estate (excluding any liabilities of or transferred to any LLRE (as defined in Section 5.4(a)) created by a receiver) exceed (b) the total assets of such receivership or other estate (excluding the Commitment, any unfunded amounts thereof and any assets of or transferred to any LLRE, but including the value of the receiver's interest in any LLRE);

(iii) to the extent Conservator or a receiver of Seller, or any statute, rule, regulation or court of competent jurisdiction, specifies or determines that a liability of Seller (including without limitation a claim against Seller arising from rescission of a purchase or sale of a security issued by Seller (or guaranteed by Seller or with respect to which Seller is otherwise liable) or for damages arising from the purchase, sale or retention of such a security) shall be subordinated (other than pursuant to a contract providing for such subordination) to all other liabilities of Seller or shall be treated on par with any class of equity of Seller, then such liability shall be excluded in the calculation of Deficiency Amount; and

(iv) the Deficiency Amount may be increased above the otherwise applicable amount by the mutual written agreement of Purchaser and Seller, each acting in its sole discretion.

"*Designated Representative*" means Conservator or (a) if Conservator has been superseded by a receiver pursuant to Section 1367(a) of the FHE Act, such receiver, or (b) if Seller is not in conservatorship or receivership pursuant to Section 1367(a) of the FHE Act, Seller's chief financial officer.

"*Director*" shall mean the Director of the Agency.

"*Effective Date*" means the date on which this Agreement shall have been executed and delivered by both of the parties hereto.

"*Equity Interests*" of any Person shall mean any and all shares, interests, rights to purchase or otherwise acquire, warrants, options, participations or other equivalents of or interests in (however designated) equity, ownership or profits of such Person, including any preferred stock, any limited or general partnership interest and any limited liability company membership interest, and any securities or other rights or interests convertible into or exchangeable for any of the foregoing.

"*Exchange Act*" means the Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.

"*GAAP*" means generally accepted accounting principles in effect in the United States as set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board from time to time.

"*Indebtedness*" of any Person means, for purposes of Section 5.5 only, without duplication, (a) all obligations of such Person for money borrowed by such Person, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person under conditional sale or other title retention agreements relating to property or assets purchased by such Person, (d) all obligations of such Person issued or assumed as the deferred purchase price of property or services, other than trade accounts payable, (e) all Capital Lease Obligations of such Person, (f) obligations, whether contingent or liquidated, in respect of letters of credit (including standby and commercial), bankers' acceptances and similar instruments and (g) any obligation of such Person, contingent or otherwise, guaranteeing or having the economic effect of guaranteeing any Indebtedness of the types set forth in clauses (a) through (f) payable by another Person other than Mortgage Guarantee Obligations.

"*Liquidation End Date*" means the date of completion of the liquidation of Seller's assets.

"*Maximum Amount*" means, as of any date of determination, $100,000,000,000 (one hundred billion dollars), less the aggregate amount of funding under the Commitment prior to such date.

"*Mortgage Assets*" of any Person means assets of such Person consisting of mortgages, mortgage loans, mortgage-related securities, participation certificates, mortgage-backed commercial paper, obligations of real estate mortgage investment conduits and similar assets, in each case to the extent such assets would appear on the balance sheet of such Person in accordance with GAAP as in effect as of the date hereof (and, for the avoidance of doubt, without giving effect to any change that may be made hereafter in respect of Statement of Financial Accounting Standards No. 140 or any similar accounting standard).

"*Mortgage Guarantee Obligations*" means guarantees, standby commitments, credit enhancements and other similar obligations of Seller, in each case in respect of Mortgage Assets.

"*Named Executive Officer*" has the meaning given to such term in Item 402(a)(3) of Regulation S-K under the Exchange Act, as in effect on the date hereof.

"*Person*" shall mean any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, estate, unincorporated organization or government or any agency or political subdivision thereof, or any other entity whatsoever.

"*SEC*" means the Securities and Exchange Commission.

"*Senior Preferred Stock*" means the Variable Liquidation Preference Senior Preferred Stock of Seller, substantially in the form of Exhibit A hereto.

"*Warrant*" means a warrant for the purchase of common stock of Seller representing 79.9% of the common stock of Seller on a fully-diluted basis, substantially in the form of Exhibit B hereto.

2. COMMITMENT

2.1. *Commitment.* Purchaser hereby commits to provide to Seller, on the terms and conditions set forth herein, immediately available funds in an amount up to but not in excess of the Available Amount, as determined from time to time (the "Commitment"); provided, that in no event shall the aggregate amount funded under the Commitment exceed $100,000,000,000 (one hundred billion dollars). The liquidation preference of the Senior Preferred Stock shall increase in connection with draws on the Commitment, as set forth in Section 3.3 below.

2.2. *Quarterly Draws on Commitment.* Within fifteen (15) Business Days following the determination of the Deficiency Amount, if any, as of the end of each fiscal quarter of Seller which ends on or before the Liquidation End Date, the Designated Representative may, on behalf of Seller, request that Purchaser provide immediately available funds to Seller in an amount up to but not in excess of the Available Amount as of the end of such quarter. Any such request shall be valid only if it is in writing, is timely made, specifies the account of Seller to which such funds are to be transferred, and contains a certification of the Designated Representative that the requested amount does not exceed the Available Amount as of the end of the applicable quarter. Purchaser shall provide such funds within sixty (60) days of its receipt of such request or, following any determination by the Director that the Director will be mandated by law to appoint a receiver for Seller if such funds are not received sooner, such shorter period as may be necessary

to avoid such mandatory appointment of a receiver if reasonably practicable taking into consideration Purchaser's access to funds.

2.3. *Accelerated Draws on Commitment.* Immediately following any determination by the Director that the Director will be mandated by law to appoint a receiver for Seller prior to the Liquidation End Date unless Seller's capital is increased by an amount (the "Special Amount") up to but not in excess of the then current Available Amount (computed based on a balance sheet of Seller prepared in accordance with GAAP that differs from the most recent balance sheet of Seller delivered in accordance with Section 5.9(a) or (b)) on a date that is prior to the date that funds will be available to Seller pursuant to Section 2.2, Conservator may, on behalf of Seller, request that Purchaser provide to Seller the Special Amount in immediately available funds. Any such request shall be valid only if it is in writing, is timely made, specifies the account of Seller to which such funds are to be transferred, and contains certifications of Conservator that (i) the requested amount does not exceed the Available Amount (including computations in reasonable detail and satisfactory to Purchaser of the then existing Deficiency Amount) and (ii) the requested amount is required to avoid the imminent mandatory appointment of a receiver for Seller. Purchaser shall provide such funds within thirty (30) days of its receipt of such request or, if reasonably practicable taking into consideration Purchaser's access to funds, any shorter period as may be necessary to avoid mandatory appointment of a receiver.

2.4. *Final Draw on Commitment.* Within fifteen (15) Business Days following the determination of the Deficiency Amount, if any, as of the Liquidation End Date (computed based on a balance sheet of Seller as of the Liquidation End Date prepared in accordance with GAAP), the Designated Representative may, on behalf of Seller, request that Purchaser provide immediately available funds to Seller in an amount up to but not in excess of the Available Amount as of the Liquidation End Date. Any such request shall be valid only if it is in writing, is timely made, specifies the account of Seller to which such funds are to be transferred, and contains a certification of the Designated Representative that the requested amount does not exceed the Available Amount (including computations in reasonable detail and satisfactory to Purchaser of the Deficiency Amount as of the Liquidation End Date). Purchaser shall provide such funds within sixty (60) days of its receipt of such request.

2.5. *Termination of Purchaser's Obligations.* Subject to earlier termination pursuant to Section 6.7, all of Purchaser's obligations under and in respect of the Commitment shall terminate upon the earliest of: (a) if the Liquidation End Date shall have occurred, (i) the payment in full of Purchaser's obligations with respect to any valid request for funds pursuant to Section 2.4 or (ii) if there is no Deficiency Amount on the Liquidation End Date or if no such request pursuant to Section 2.4 has been made, the close of business on the 15th Business Day following the determination of the Deficiency Amount, if any, as of the Liquidation End Date; (b) the payment in full of, defeasance of or other reasonable provision for all liabilities of Seller, whether or not contingent, including payment of any amounts that may become payable on, or expiry of or other provision for, all Mortgage Guarantee Obligations and provision for unmatured debts; and (c) the funding by Purchaser under the Commitment of an aggregate of $100,000,000,000 (one hundred billion dollars). For the avoidance of doubt, the Commitment shall *not* be terminable by Purchaser solely by reason of (i) the conservatorship, receivership or other insolvency proceeding of Seller or (ii) the Seller's financial condition or any adverse change in Seller's financial condition.

3. PURCHASE OF SENIOR PREFERRED STOCK AND WARRANT; FEES

3.1. *Initial Commitment Fee.* In consideration of the Commitment, and for no additional consideration, on the Effective Date (or as soon thereafter as is practicable) Seller shall sell and issue to Purchaser, and Purchaser shall purchase from Seller, (a) one million (1,000,000) shares of Senior Preferred Stock, with an initial liquidation preference equal to $1,000 per share ($1,000,000,000 (one billion dollars) liquidation preference in the aggregate), and (b) the Warrant.

3.2. *Periodic Commitment Fee.* (a) Commencing March 31, 2010, Seller shall pay to Purchaser quarterly, on the last day of March, June, September and December of each calendar year (each a "Periodic Fee Date"), a periodic commitment fee (the "Periodic Commitment Fee"). The Periodic Commitment Fee shall accrue from January 1, 2010.

(b) The Periodic Commitment Fee is intended to fully compensate Purchaser for the support provided by the ongoing Commitment following December 31, 2009. The amount of the Periodic Commitment Fee shall be set not later than December 31, 2009 with respect to the ensuing five-year period, shall be reset every five years thereafter and shall be determined with reference to the market value of the Commitment as then in effect. The amount of the Periodic Commitment Fee shall be mutually agreed by Purchaser and Seller, subject to their reasonable discretion and in consultation with the Chairman of the Federal Reserve; provided, that Purchaser may waive the Periodic Commitment Fee for up to one year at a time, in its sole discretion, based on adverse conditions in the United States mortgage market.

(c) At the election of Seller, the Periodic Commitment Fee may be paid in cash or by adding the amount thereof ratably to the liquidation preference of each outstanding share of Senior Preferred Stock so that the aggregate liquidation preference of all such outstanding shares of Senior Preferred Stock is increased by an amount equal to the Periodic Commitment Fee. Seller shall deliver notice of such election not later than three (3) Business Days prior to each Periodic Fee Date. If the Periodic Commitment Fee is not paid in cash by 12:00 pm (New York time) on the applicable Periodic Fee Date (irrespective of Seller's election pursuant to this subsection), Seller shall be deemed to have elected to pay the Periodic Commitment Fee by adding the amount thereof to the liquidation preference of the Senior Preferred Stock, and the aggregate liquidation preference of the outstanding shares of Senior Preferred Stock shall thereupon be automatically increased, in the manner contemplated by the first sentence of this section, by an aggregate amount equal to the Periodic Commitment Fee then due.

3.3. *Increases of Senior Preferred Stock Liquidation Preference as a Result of Funding under the Commitment.* The aggregate liquidation preference of the outstanding shares of Senior Preferred Stock shall be automatically increased by an amount equal to the amount of each draw on the Commitment pursuant to Article 2 that is funded by Purchaser to Seller, such increase to occur simultaneously with such funding and ratably with respect to each share of Senior Preferred Stock.

3.4. *Notation of Increase in Liquidation Preference.* Seller shall duly mark its records to reflect each increase in the liquidation preference of the Senior Preferred Stock contemplated

herein (but, for the avoidance of doubt, such increase shall be effective regardless of whether Seller has properly marked its records).

4. REPRESENTATIONS

Seller represents and warrants as of the Effective Date, and shall be deemed to have represented and warranted as of the date of each request for and funding of an advance under the Commitment pursuant to Article 2, as follows:

4.1. *Organization and Good Standing.* Seller is a corporation, chartered by the Congress of the United States, duly organized, validly existing and in good standing under the laws of the United States and has all corporate power and authority to carry on its business as now conducted and as proposed to be conducted.

4.2. *Organizational Documents.* Seller has made available to Purchaser a complete and correct copy of its charter and bylaws, each as amended to date (the "Organizational Documents"). The Organizational Documents are in full force and effect. Seller is not in violation of any provision of its Organizational Documents.

4.3. *Authorization and Enforceability.* All corporate or other action on the part of Seller or Conservator necessary for the authorization, execution, delivery and performance of this Agreement by Seller and for the authorization, issuance and delivery of the Senior Preferred Stock and the Warrant being purchased under this Agreement, has been taken. This Agreement has been duly and validly executed and delivered by Seller and (assuming due authorization, execution and delivery by the Purchaser) shall constitute the valid and legally binding obligation of Seller, enforceable against Seller in accordance with its terms, except to the extent the enforceability thereof may be limited by bankruptcy laws, insolvency laws, reorganization laws, moratorium laws or other laws of general applicability affecting creditors' rights generally or by general equitable principles (regardless of whether enforcement is sought in a proceeding in equity or at law). The Agency is acting as conservator for Seller under Section 1367 of the FHE Act. The Board of Directors of Seller, by valid action at a duly called meeting of the Board of Directors on September 6, 2008, consented to the appointment of the Agency as conservator for purposes of Section 1367(a)(3)(I) of the FHE Act, and the Director of the Agency has appointed the Agency as Conservator for Seller pursuant to Section 1367(a)(1) of the FHE Act, and each such action has not been rescinded, revoked or modified in any respect.

4.4. *Valid Issuance.* When issued in accordance with the terms of this Agreement, the Senior Preferred Stock and the Warrant will be duly authorized, validly issued, fully paid and nonassessable, free and clear of all liens and preemptive rights. The shares of common stock to which the holder of the Warrant is entitled have been duly and validly reserved for issuance. When issued and delivered in accordance with the terms of this Agreement and the Warrant, such shares will be duly authorized, validly issued, fully paid and nonassessable, free and clear of all liens and preemptive rights.

4.5. *Non-Contravention.*

(a) The execution, delivery or performance by Seller of this Agreement and the consummation by Seller of the transactions contemplated hereby do not and will not (i) conflict with or violate any provision of the Organizational Documents of Seller; (ii) conflict with or violate any law, decree or regulation applicable to Seller or by which any property or asset of Seller is bound or affected, or (iii) result in any breach of, or constitute a default (with or without notice or lapse of time, or both) under, or give to others any right of termination, amendment, acceleration or cancellation of, or result in the creation of a lien upon any of the properties or assets of Seller, pursuant to any note, bond, mortgage, indenture or credit agreement, or any other contract, agreement, lease, license, permit, franchise or other instrument or obligation to which Seller is a party or by which Seller is bound or affected, other than, in the case of clause (iii), any such breach, default, termination, amendment, acceleration, cancellation or lien that would not have and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the business, property, operations or condition of the Seller, the authority of the Conservator or the validity or enforceability of this Agreement (a "Material Adverse Effect").

(b) The execution and delivery of this Agreement by Seller does not, and the consummation by Seller of the transactions contemplated by this Agreement will not, require any consent, approval, authorization, waiver or permit of, or filing with or notification to, any governmental authority or any other person, except for such as have already been obtained.

5. COVENANTS

From the Effective Date until such time as the Senior Preferred Stock shall have been repaid or redeemed in full in accordance with its terms:

5.1. *Restricted Payments.* Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, declare or pay any dividend (preferred or otherwise) or make any other distribution (by reduction of capital or otherwise), whether in cash, property, securities or a combination thereof, with respect to any of Seller's Equity Interests (other than with respect to the Senior Preferred Stock or the Warrant) or directly or indirectly redeem, purchase, retire or otherwise acquire for value any of Seller's Equity Interests (other than the Senior Preferred Stock or the Warrant), or set aside any amount for any such purpose.

5.2. *Issuance of Capital Stock.* Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, sell or issue Equity Interests of Seller or any of its subsidiaries of any kind or nature, in any amount, other than the sale and issuance of the Senior Preferred Stock and Warrant on the Effective Date and the common stock subject to the Warrant upon exercise thereof, and other than as required by (and pursuant to) the terms of any binding agreement as in effect on the date hereof.

5.3. *Conservatorship.* Seller shall not (and Conservator, by its signature below, agrees that it shall not), without the prior written consent of Purchaser, terminate, seek termination of or permit to be terminated the conservatorship of Seller pursuant to Section 1367 of the FHE Act, other

than in connection with a receivership pursuant to Section 1367 of the FHE Act.

5.4. *Transfer of Assets*. Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, sell, transfer, lease or otherwise dispose of (in one transaction or a series of related transactions) all or any portion of its assets (including Equity Interests in other persons, including subsidiaries), whether now owned or hereafter acquired (any such sale, transfer, lease or disposition, a "Disposition"), other than Dispositions for fair market value:

(a) to a limited life regulated entity ("LLRE") pursuant to Section 1367(i) of the FHE Act;

(b) of assets and properties in the ordinary course of business, consistent with past practice;

(c) in connection with a liquidation of Seller by a receiver appointed pursuant to Section 1367(a) of the FHE Act;

(d) of cash or cash equivalents for cash or cash equivalents; or

(e) to the extent necessary to comply with the covenant set forth in Section 5.7 below.

5.5. *Indebtedness*. Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, incur, assume or otherwise become liable for (a) any Indebtedness if, after giving effect to the incurrence thereof, the aggregate Indebtedness of Seller and its subsidiaries on a consolidated basis would exceed 110.0% of the aggregate Indebtedness of Seller and its subsidiaries on a consolidated basis as of June 30, 2008 or (b) any Indebtedness if such Indebtedness is subordinated by its terms to any other Indebtedness of Seller or the applicable subsidiary. For purposes of this covenant the acquisition of a subsidiary with Indebtedness will be deemed to be the incurrence of such Indebtedness at the time of such acquisition.

5.6. *Fundamental Changes*. Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, (i) merge into or consolidate or amalgamate with any other Person, or permit any other Person to merge into or consolidate or amalgamate with it, (ii) effect a reorganization or recapitalization involving the common stock of Seller, a reclassification of the common stock of Seller or similar corporate transaction or event or (iii) purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or substantially all of the assets of any other Person or any division, unit or business of any Person.

5.7. *Mortgage Assets*. Seller shall not own, as of any applicable date, Mortgage Assets in excess of (i) on December 31, 2009, $850 billion, or (ii) on December 31 of each year thereafter, 90.0% of the aggregate amount of Mortgage Assets of Seller as of December 31 of the immediately preceding calendar year; provided, that in no event shall Seller be required under this Section 5.7 to own less than $250 billion in Mortgage Assets.

5.8. *Transactions with Affiliates.* Seller shall not, and shall not permit any of its subsidiaries to, without the prior written consent of Purchaser, engage in any transaction of any kind or nature with an Affiliate of Seller unless such transaction is (i) pursuant to this Agreement, the Senior Preferred Stock or the Warrant, (ii) upon terms no less favorable to Seller than would be obtained in a comparable arm's-length transaction with a Person that is not an Affiliate of Seller or (iii) a transaction undertaken in the ordinary course or pursuant to a contractual obligation or customary employment arrangement in existence as of the date hereof.

5.9. *Reporting.* Seller shall provide to Purchaser:

(a) not later than the time period specified in the SEC's rules and regulations with respect to issuers as to which Section 13 and 15(d) of the Exchange Act apply, annual reports on Form 10-K (or any successor or comparable form) containing the information required to be contained therein (or required in such successor or comparable form);

(b) not later than the time period specified in the SEC's rules and regulations with respect to issuers as to which Section 13 and 15(d) of the Exchange Act apply, reports on Form 10-Q (or any successor or comparable form) containing the information required to be contained therein (or required in such successor or comparable form);

(c) promptly from time to time after the occurrence of an event required to be therein reported (and in any event within the time period specified in the SEC's rules and regulations), such other reports on Form 8-K (or any successor or comparable form);

(d) concurrently with any delivery of financial statements under paragraphs (a) or (b) above, a certificate of the Designated Representative, (i) certifying that Seller is (and since the last such certificate has at all times been) in compliance with each of the covenants contained herein and that no representation made by Seller herein or in any document delivered pursuant hereto or in connection herewith was false or misleading in any material respect when made, or, if the foregoing is not true, specifying the nature and extent of the breach of covenant and/or representation and any corrective action taken or proposed to be taken with respect thereto, and (ii) setting forth computations in reasonable detail and satisfactory to the Purchaser of the Deficiency Amount, if any;

(e) promptly, from time to time, such other information regarding the operations, business affairs, plans, projections and financial condition of Seller, or compliance with the terms of this Agreement, as Purchaser may reasonably request; and

(f) as promptly as reasonably practicable, written notice of the following:

(i) the occurrence of the Liquidation End Date;

(ii) the filing or commencement of, or any written threat or notice of intention of any Person to file or commence, any action, suit or proceeding, whether at law or in equity or by or before any governmental authority or in arbitration, against Conservator, Seller or any other Person which, if adversely determined, would reasonably be expected to have a Material Adverse Effect;

(iii) any other development that is not a matter of general public knowledge and that has had, or would reasonably be expected to have, a Material Adverse Effect.

5.10. *Executive Compensation.* Seller shall not, without the consent of the Director, in consultation with the Secretary of the Treasury, enter into any new compensation arrangements with, or increase amounts or benefits payable under existing compensation arrangements of, any Named Executive Officer of Seller.

6. MISCELLANEOUS

6.1. *No Third-Party Beneficiaries.* Until the termination of the Commitment, at any time during the existence and continuance of a payment default with respect to debt securities issued by Seller and/or a default by Seller with respect to any Mortgage Guarantee Obligations, any holder of such defaulted debt securities or beneficiary of such Mortgage Guarantee Obligations (collectively, the "Holders") may (a) deliver notice to the Seller and the Designated Representative requesting exercise of all rights available to them under this Agreement to draw on the Commitment up to the lesser of the amount necessary to cure the outstanding payment defaults and the Available Amount as of the last day of the immediately preceding fiscal quarter (the "Demand Amount"), (b) if Seller and the Designated Representative fail to act as requested within thirty (30) days of such notice, seek judicial relief for failure of the Seller to draw on the Commitment, and (c) if Purchaser shall fail to perform its obligations in respect of any draw on the Commitment, and Seller and/or the Designated Representative shall not be diligently pursuing remedies in respect of such failure, file a claim in the United States Court of Federal Claims for relief requiring Purchaser to pay Seller the Demand Amount in the form of liquidated damages. Any payment of liquidated damages to Seller under the previous sentence shall be treated for all purposes, including the provisions of the Senior Preferred Stock and Section 3.3 of this Agreement, as a draw and funding of the Commitment pursuant to Article 2. The Holders shall have no other rights under or in respect of this Agreement, and the Commitment shall not otherwise be enforceable by any creditor of Seller or by any other Person other than the parties hereto, and no such creditor or other Person is intended to be, or shall be, a third party beneficiary of any provision of this Agreement.

6.2. *Non-Transferable; Successors.* The Commitment is solely for the benefit of Seller and shall not inure to the benefit of any other Person (other than the Holders to the extent set forth in Section 6.1), including any entity to which the charter of Seller may be transferred, to any LLRE or to any other successor to the assets, liabilities or operations of Seller. The Commitment may not be assigned or otherwise transferred, in whole or in part, to any Person (including, for the avoidance of doubt, any LLRE to which a receiver has assigned all or a portion of Seller's assets) without the prior written consent of Purchaser (which may be withheld in its sole discretion). In no event shall any successor to Seller (including such an LLRE) be entitled to the benefit of the Commitment without the prior written consent of Purchaser. Seller and Conservator, for themselves and on behalf of their permitted successors, covenant and agree not to transfer or purport to transfer the Commitment in contravention of the terms hereof, and any such attempted transfer shall be null and void *ab initio*. It is the expectation of the parties that, in the event Seller were placed into receivership and an LLRE formed to purchase certain of its assets and assume certain of its liabilities, the Commitment would remain with Seller for the benefit of the holders of the

debt of Seller not assumed by the LLRE.

6.3. *Amendments; Waivers.* This Agreement may be waived or amended solely by a writing executed by both of the parties hereto, and, with respect to amendments to or waivers of the provisions of Sections 5.3, 6.2 and 6.11, the Conservator; provided, however, that no such waiver or amendment shall decrease the aggregate Commitment or add conditions to funding the amounts required to be funded by Purchaser under the Commitment if such waiver or amendment would, in the reasonable opinion of Seller, adversely affect in any material respect the holders of debt securities of Seller and/or the beneficiaries of Mortgage Guarantee Obligations, in each case in their capacities as such, after taking into account any alternative arrangements that may be implemented concurrently with such waiver or amendment. In no event shall any rights granted hereunder prevent the parties hereto from waiving or amending in any manner whatsoever the covenants of Seller hereunder.

6.4. *Governing Law; Jurisdiction; Venue.* This Agreement and the Warrant shall be governed by, and construed in accordance with, the federal law of the United States of America if and to the extent such federal law is applicable, and otherwise in accordance with the laws of the State of New York. The Senior Preferred Stock shall be governed as set forth in the terms thereof. Except as provided in section 6.1 and as otherwise required by law, the United States District Court for the District of Columbia shall have exclusive jurisdiction over all civil actions arising out of this Agreement, the Commitment, the Senior Preferred Stock and the Warrant, and venue for any such civil action shall lie exclusively in the United States District Court for the District of Columbia.

6.5. *Notices.* Any notices delivered pursuant to or in connection with this Agreement shall be delivered to the applicable parties at the addresses set forth below:

If to Seller:

Federal Home Loan Mortgage Corporation
c/o Federal Housing Finance Authority
1700 G Street, NW
4th Floor
Washington, DC 20552
Attention: General Counsel

If to Purchaser:

United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington DC 20220
Attention: Under Secretary for Domestic Finance

with a copy to:

United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington DC 20220
Attention: General Counsel

If to Conservator:

Federal Housing Finance Authority
1700 G Street, NW
4th Floor
Washington, DC 20552
Attention: General Counsel

All notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail. All notices hereunder shall be effective upon receipt.

6.6. *Disclaimer of Guarantee.* This Agreement and the Commitment are not intended to and shall not be deemed to constitute a guarantee by Purchaser or any other agency or instrumentality of the United States of the payment or performance of any debt security or any other obligation, indebtedness or liability of Seller of any kind or character whatsoever.

6.7. *Effect of Order; Injunction; Decree.* If any order, injunction or decree is issued by any court of competent jurisdiction that vacates, modifies, amends, conditions, enjoins, stays or otherwise affects the appointment of Conservator as conservator of Seller or otherwise curtails Conservator's powers as such conservator (except in each case any order converting the conservatorship to a receivership under Section 1367(a) of the FHE Act), Purchaser may by written notice to Conservator and Seller declare this Agreement null and void, whereupon all transfers hereunder (including the issuance of the Senior Preferred Stock and the Warrant and any funding of the Commitment) shall be rescinded and unwound and all obligations of the parties (other than to effectuate such rescission and unwind) shall immediately and automatically terminate.

6.8. *Business Day.* To the extent that any deadline or date of performance of any right or obligation set forth herein shall fall on a day other than a Business Day, then such deadline or date of performance shall automatically be extended to the next succeeding Business Day.

6.9. *Entire Agreement.* This Agreement, together with the Senior Preferred Stock and Warrant, contains the entire agreement between the parties hereto with respect to the transactions contemplated hereby and supersedes and cancels all prior agreements, including, but not limited to, all proposals, term sheets, statements, letters of intent or representations, written or oral, with respect thereto.

6.10. *Remedies.* In the event of a breach by Seller of any covenant or representation of Seller set forth herein, Purchaser shall be entitled to specific performance (in the case of a breach of

covenant), damages and such other remedies as may be available at law or in equity; provided, that Purchaser shall not have the right to terminate the Commitment solely as a result of any such breach, and compliance with the covenants and the accuracy of the representations set forth in this Agreement shall not be conditions to funding the Commitment.

6.11. *Tax Reporting.* Neither Seller nor Conservator shall take, or shall permit any of their respective successors or assigns to take, a position for any tax, accounting or other purpose that is inconsistent with Internal Revenue Service Notice 2008-76 (or the regulations to be issued pursuant to such Notice) regarding the application of Section 382 of the Internal Revenue Code of 1986, as amended, a copy of which Notice has been provided to Seller in connection with the execution of this Agreement.

6.12. *Non-Severability.* Each of the provisions of this Agreement is integrated with and integral to the whole and shall not be severable from the remainder of the Agreement. In the event that any provision of this Agreement, the Senior Preferred Stock or the Warrant is determined to be illegal or unenforceable, then Purchaser may, in its sole discretion, by written notice to Conservator and Seller, declare this Agreement null and void, whereupon all transfers hereunder (including the issuance of the Senior Preferred Stock and the Warrant and any funding of the Commitment) shall be rescinded and unwound and all obligations of the parties (other than to effectuate such rescission and unwind) shall immediately and automatically terminate.

[Signature Page Follows]

FEDERAL NATIONAL MORTGAGE ASSOCIATION
WARRANT TO PURCHASE COMMON STOCK

NO. _____ September 7, 2008

VOID AFTER SEPTEMBER 7, 2028

THIS CERTIFIES THAT, for value received, the United States Department of the Treasury, with its principal office at 1500 Pennsylvania Avenue, NW, Washington, DC 20220 (the "Holder"), is entitled to purchase at the Exercise Price (defined below) from Federal National Mortgage Association, a government-sponsored enterprise of the United States of America, with its principal office at 3900 Wisconsin Avenue, NW, Washington, DC 20016 (the "Company"), shares of common stock, no par value, of the Company, as provided herein.

1. Definitions. As used herein, the following terms shall have the following respective meanings:

"Affiliate" shall mean, as to any specified Person, any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control," when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise and the terms "affiliated," "controlling" and "controlled" have meanings correlative to the foregoing.

"Business Day" shall mean each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York, New York are authorized or obligated by law or executive order to close.

"Common Stock" shall mean the common stock, no par value, of the Company, and all other stock of any class or classes (however designated) of the Company from time to time outstanding, the holders of which have the right, without limitation as to amount, either to all or to a share of the balance of current dividends or liquidating distributions after the payment of dividends and distributions on any shares entitled to preference.

"Exercise Period" shall mean the time period commencing with the date hereof and ending at 5:00 p.m. New York time on the 20th anniversary of the date hereof.

"Exercise Price" shall mean one one-thousandth of a cent ($0.00001) per share.

"Exercise Shares" shall mean the shares of the Common Stock issuable upon exercise of this Warrant, subject to adjustment pursuant to the terms herein, and shall also mean any other shares, securities, assets or property otherwise issuable upon exercise of this Warrant.

"Fair Market Value" shall mean, with respect to a share of Common Stock, or any other security of the Company or any other issuer:

(a) the volume weighted average daily Market Price during the period of the most recent twenty (20) Trading Days, ending on the last Trading Day before the date of determination of Fair Market Value, if such class of Common Stock or other security is (i) traded

on the New York Stock Exchange or any other U.S. national or regional securities exchange, or admitted to unlisted trading privileges on such an exchange, or (ii) is quoted or reported on the Over-the-Counter Bulletin Board ("OTCBB") or by Pink OTC Markets Inc. or a similar organization or agency succeeding to its functions of reporting prices; or

(b) if such class of Common Stock or other security is not then so listed, admitted to trading or quoted, the Fair Market Value shall be the Market Price on the last Business Day before the date of determination of Fair Market Value.

"Fully Diluted" shall mean, as of immediately prior to the exercise of this Warrant (or a portion of this Warrant), the sum of, without duplication, (i) the total number of shares of Common Stock outstanding and (ii) all shares of Common Stock issuable in respect of securities convertible into or exercisable or exchangeable for Common Stock, stock appreciation rights or options, warrants (including this Warrant) and other rights to purchase or subscribe for Common Stock or securities convertible into or exercisable or exchangeable for Common Stock (in each case, assuming that no restrictions apply with respect to conversion, exercise, exchange, subscription or purchase).

"Market Price" shall be, as of any specified date with respect to any share of any class of Common Stock or any other security of the Company or any other issuer:

(i) the closing price on that date or, if no closing price is reported, the last reported sale price, of shares of the Common Stock or such other security on the New York Stock Exchange on that date; or

(ii) if the Common Stock or such other security is not traded on the New York Stock Exchange, the closing price on that date as reported in composite transactions for the principal U.S. national or regional securities exchange on which the Common Stock or such other security is so traded or, if no closing price is reported, the last reported sale price of shares of the Common Stock or such other security on the principal U.S. national or regional securities exchange on which the Common Stock or such other security is so traded on that date; or

(iii) if the Common Stock or such other security is not traded on a U.S. national or regional securities exchange, the last quoted bid price on that date for the Common Stock or such other security in the over-the-counter market as reported (x) by the OTCBB or (y) if reports are unavailable under clause (x) above by Pink OTC Markets Inc. or a similar organization or agency succeeding to its functions of reporting prices;

(iv) if the Common Stock or such other security is not so quoted by OTCBB or Pink OTC Markets Inc. or a similar organization, the Market Price shall be determined in accordance with the Valuation Procedure.

"Participating Securities" shall mean, (i) any equity security (other than Common Stock) that entitles the holders thereof to participate in liquidations or other distributions with the holders of Common Stock or otherwise participate in the capital of the Company other than through a fixed or floating rate of return on capital loaned or invested, and (ii) any stock appreciation rights, phantom stock rights, or any other profit participation rights with respect to

any of the Company's capital stock or other equity ownership interest, or any rights or options to acquire any such rights.

"Person" shall mean any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, estate, unincorporated organization or government or any agency or political subdivision thereof, or any other entity whatsoever.

"Trading Day" shall mean, with respect to any class of Common Stock or any other security of the Company or any other issuer a day (i) on which the securities exchange or other trading platform applicable for purposes of determining the Market Price of a share or unit of such class of Common Stock or other security shall be open for business or (ii) for which quotations from such securities exchange or other trading platform of the character specified for purposes of determining such Market Price shall be reported.

"Valuation Procedure" shall mean a determination made in good faith by the Board of Directors of the Company (the "Board") that is set forth in resolutions of the Board that are certified by the Secretary of the Company, which certified resolutions (i) set forth the basis of the Board's determination, which, in the case of a valuation in excess of $100 million, shall include the Board's reliance on the valuation of a nationally recognized investment banking or appraisal firm, and (ii) are delivered to the Holder within ten (10) Business Days following such determination. A Valuation Procedure with respect to the value of any capital stock shall be based on the price that would be paid for all of the capital stock of the issuer in an arm's-length transaction between a willing buyer and a willing seller (neither acting under compulsion).

2. Exercise of Warrant; Number of Shares.

2.1 Exercise. This Warrant may be exercised in whole or in part at any time during the Exercise Period, by delivery of the following to the Company at its address set forth above (or at such other address as it may designate by notice in writing to the Holder):

(a) an executed Notice of Exercise in the form attached hereto;

(b) payment of the Exercise Price (i) in cash or by check, (ii) by cancellation of indebtedness or (iii) pursuant to Section 2.2 hereof; and

(c) this Warrant.

This Warrant will be exercisable for a number of shares of Common Stock that, together with the shares of Common Stock previously issued pursuant to this Warrant, is equal to 79.9% of the total number of shares of Common Stock outstanding on a Fully Diluted basis on the date of exercise. Whenever the Holder exercises this Warrant in whole or in part, it may assign its right to receive the Exercise Shares issuable upon such exercise to any other Person.

As soon as practicable (and in any event within five Business Days) after this Warrant shall have been exercised, a certificate or certificates for the Exercise Shares so purchased, registered in the name of the Holder or such other Person as may be designated by the Holder (to the extent such transfer is not validly restricted and upon payment of any transfer taxes that are

required to be paid by the Holder in connection with any such transfer), shall be issued and delivered by the Company to the Holder or such other Person .

The Person in whose name any certificate or certificates for the Exercise Shares are to be issued upon exercise of this Warrant shall be deemed to have become the holder of record of such shares on the date on which this Warrant was surrendered and payment of the Exercise Price was made, irrespective of the date of delivery of such certificate or certificates, except that, if the date of such surrender and payment is a date when the stock transfer books of the Company are closed, such Person shall be deemed to have become the holder of such shares at the close of business on the next succeeding date on which the stock transfer books are open (whether before or after the end of the Exercise Period).

2.2 Net Exercise. Notwithstanding any provision herein to the contrary, if the Market Price of one share of the Common Stock is greater than the Exercise Price (at the date of calculation as set forth below), in lieu of exercising this Warrant by payment of cash, check or cancellation of indebtedness, the Holder may elect (the "Conversion Right") to receive shares equal to the value (as determined below) of this Warrant (or the portion thereof being canceled) by surrender of this Warrant at the principal office of the Company together with the properly endorsed Notice of Exercise in which event the Company shall issue to the Holder a number of shares of Common Stock computed using the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where X = the number of shares of Common Stock to be issued

Y = the number of shares of Common Stock purchasable under this Warrant or, if only a portion of this Warrant is being exercised, the portion of this Warrant being exercised (at the date of such calculation)

A = the Market Price of one share of the Common Stock (at the date of such calculation)

B = Exercise Price (as adjusted pursuant to the terms herein to the date of such calculation)

The Company shall pay all reasonable administrative costs incurred by the Holder in connection with the exercise of the Conversion Right by the Holder pursuant to this Section 2.2.

3. Covenants and Representations of the Company

3.1 Covenants as to Exercise Shares.

(a) The Company covenants and agrees that all Exercise Shares that may be issued upon the exercise of this Warrant will, upon issuance, be validly authorized, issued and outstanding, fully paid and nonassessable, free of preemptive rights and free from all taxes, liens and charges with respect to the issuance thereof. If the Common Stock or the class of securities of any other Exercise Shares is then listed or quoted on a national securities exchange

or a regional securities exchange, all such Exercise Shares shall, upon issuance, also be so listed or quoted. The Company further covenants and agrees that the Company will at all times during the Exercise Period, have authorized and reserved solely for purposes of the exercise of this Warrant, free from preemptive rights, a sufficient number of shares of its Common Stock or the class of securities of any other Exercise Shares to provide for the exercise in full of this Warrant (without taking into account any possible exercise pursuant to Section 2.2 hereof). If at any time during the Exercise Period the number of authorized but unissued shares of Common Stock or the class of securities of any other Exercise Shares shall not be sufficient to permit exercise in full of this Warrant (without taking into account any possible exercise pursuant to Section 2.2 hereof), the Company will take such corporate action as shall be necessary to increase its authorized but unissued shares of Common Stock or the class of securities of any other Exercise Shares to such number of shares as shall be sufficient for such purposes.

(b) If at any time the Exercise Shares shall include any shares or other securities other than shares of Common Stock, or any other property or assets, the terms of this Warrant shall be modified or supplemented (and in the absence of express written documentation thereof, shall be deemed to be so modified or supplemented), and the Company shall take all actions as may be necessary to preserve, in a manner and on terms as nearly equivalent as practicable to the provisions of this Warrant as they apply to the Common Stock, the rights of the Holder hereunder, including any equitable replacements of the term "Common Stock" with the term "Exercise Shares" and adjustments of any formula included herein.

(c) The Company's filings under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), will comply in all material respects as to form with the Exchange Act and the rules and regulations thereunder.

(d) Without prior written consent of the Holder, the Company shall not permit any Significant Subsidiary (as defined by Rule 1-02(w) of Regulation S-X under the Securities Act or any successor rule) to (i) issue or grant any capital stock or equity ownership interest, including any Participating Security; (ii) any rights, options, warrants or convertible security that is exercisable for or convertible into any capital stock or other equity ownership interest, including any Participating Security; or (iii) any stock appreciation rights, phantom stock rights, or any other profit participation rights, or any rights or options to acquire any such rights, in each case of clauses (i), (ii) and (iii) above, to any Person other than the Company or its wholly owned subsidiaries.

(e) The Company shall not take any action that will result in an increase in the par value of the Common Stock.

3.2 No Impairment. Except and to the extent as waived or consented to in writing by the Holder, the Company will not, by amendment of its charter, bylaws or other governing documents or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all such action as may be necessary or appropriate in order to protect the exercise rights of the Holder against impairment or dilution consistent with the intent and principles

expressed herein. If any event or occurrence shall occur (including without limitation, stock dividends and stock splits) as to which the failure to make any adjustment to the Exercise Price and/or the number of shares or other assets or property subject to this Warrant would adversely affect the purchase rights or value represented by this Warrant, including any issuance of Common Stock or Participating Securities, then, in each such case, the Company shall determine the adjustment, if any, on a basis consistent with the essential intent and principles herein, necessary to preserve, without dilution, the purchase rights represented by this Warrant. If such determination involves or is based on a determination of the Fair Market Value of any securities or other assets or property, such determination shall be made in accordance with the Valuation Procedure. Without limiting the foregoing, in the event of any dividend or distribution by the Company of assets or property (including shares of any other Person) on or with respect to the Common Stock, or any exchange of the shares of Common Stock into any other assets, property or securities, this Warrant will be equitably adjusted to permit the Holder to receive upon exercise the assets, property or securities that would have been received if the Warrant had been exercised immediately prior to such dividend, distribution or exchange.

3.3 Notice of Record Date. In the event (i) the Company takes a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, (ii) the Company authorizes the granting to the holders of Common Stock (or holders of the class of securities of any other Exercise Shares) of rights to subscribe to or purchase any shares of capital stock of any class or securities convertible into any shares of capital stock or of any other right, (iii) the Company authorizes any reclassification of, or any recapitalization involving, any class of Common Stock or any consolidation or merger to which the Company is a party and for which approval of the stockholders of the Company is required, or of the sale or transfer of all or substantially all of the assets of the Company, (iv) the Company authorizes or consents to or otherwise commences the voluntary or involuntary dissolution, liquidation or winding up of the Company or (v) the Company authorizes or takes any other action that would trigger an adjustment in the Exercise Price or the number or amount of shares of Common Stock or other Exercise Shares subject to this Warrant, the Company shall mail to the Holder, at least ten (10) days prior to the earlier of the record date for any such action or stockholder vote and the date of such action, a notice specifying (a) which action is to be taken and the date on which any such record is to be taken for the purpose of any such action, (b) the date that any such action is to take place and (c) the amount and character of any stock, other securities or property and amounts, or rights or options with respect thereto, proposed to be issued, granted or delivered to each holder of Common Stock (or holders of the class of securities of any other Exercise Shares).

4. Fractional Shares. No fractional shares shall be issued upon the exercise of this Warrant. All Exercise Shares (including fractions) issuable upon exercise of this Warrant may be aggregated for purposes of determining whether the exercise would result in the issuance of any fractional share. If, after aggregation, the exercise would result in the issuance of a fractional share, the Company shall, in lieu of issuance of any fractional share, pay the Holder otherwise entitled to such fraction a sum in cash equal to the product resulting from multiplying such fractional amount by the Fair Market Value of one share of Common Stock.

5. Listing Rights. The Company shall use its best efforts, upon the request of the Holder, to cause the Exercise Shares to be listed or quoted on a national securities exchange or a regional securities exchange.

6. No Stockholder Rights or Liabilities. Without limiting the consent rights of the Holder contained in Section 3, this Warrant in and of itself shall not entitle the Holder to any voting rights or other rights as a stockholder of the Company. No provision of this Warrant, in the absence of affirmative action by the Holder to exercise this Warrant in exchange for shares of Common Stock, and no mere enumeration herein of the rights or privileges of the Holder, shall give rise to any liability of the Holder for the Exercise Price or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

7. Transfer of Warrant. This Warrant is not transferable; provided, however, that the Holder may assign its rights to receive shares upon exercise of this Warrant pursuant to Section 2.1.

8. Payment of Taxes on Stock Certificate Issues Upon Exercise. The initial issuance of certificates of Common Stock upon any exercise of this Warrant shall be made without charge to the exercising Holder for any transfer, stamp or similar tax or for any other governmental charges that may be imposed in respect of the issuance of such stock certificates, and such stock certificates shall be issued in the respective names of, or in such names as may be directed by, the Holder; provided, however, that the Company shall not be required to pay any tax or such other charges that may be payable in respect of any transfer involved in the issuance and delivery of any such stock certificate, any new warrants or other securities in a name other than that of the Holder upon exercise of this Warrant (other than to an Affiliate), and the Company shall not be required to issue or deliver such certificates or other securities unless and until the Person or Persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid or is not payable.

9. Lost, Stolen, Mutilated or Destroyed Warrant. If this Warrant is lost, stolen, mutilated or destroyed, the Company may, on such terms as to indemnity or otherwise as it may reasonably impose (which shall, in the case of a mutilated Warrant, include the surrender thereof), issue a new Warrant of like denomination and tenor as this Warrant so lost, stolen, mutilated or destroyed. Any such new Warrant shall constitute an original contractual obligation of the Company, whether or not the allegedly lost, stolen, mutilated or destroyed Warrant shall be at any time enforceable by anyone.

10. Closing of Books. The Company will at no time close its transfer books against the transfer of any shares of Common Stock issued or issuable upon the exercise or conversion of any Warrant in any manner which interferes with the timely exercise or conversion of this Warrant.

11. Notices, Etc. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when sent by confirmed telex or facsimile if sent during normal business hours of the recipient or if not, then on the next Business Day, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) Business Day after deposit with a nationally recognized overnight courier, specifying next Business Day delivery, with written verification of receipt. All notices and other communications shall be sent to the Company at the address listed on the signature page and to Holder at the address set forth below or at such other address as the Company or Holder may designate by ten (10) days advance written notice to the other parties hereto:

United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220
Attn: Under Secretary for Domestic Finance

with a copy to:

United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220
Attn: General Counsel

12. Acceptance. Receipt of this Warrant by the Holder shall constitute acceptance of and agreement to all of the terms and conditions contained herein.

13. Binding Effect on Successors. This Warrant shall be binding upon any Person succeeding the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets, and all of the obligations of the Company relating to the Common Stock issuable upon the exercise or conversion of this Warrant shall survive the exercise, conversion and termination of this Warrant and all of the covenants and agreements of the Company shall inure to the benefit of the successors and assigns of the Holder.

14. Governing Law. This Warrant and all rights, obligations and liabilities hereunder shall be governed and construed in accordance with Federal law, if and to the extent such Federal law is applicable, and otherwise in accordance with the law of the State of New York.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its duly authorized officer as of September 7, 2008.

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
by

The Federal Housing Finance Agency, its Conservator

____
James B. Lockhart III
Director

Address: 3900 Wisconsin Avenue, NW
Washington, DC 20016

NOTICE OF EXERCISE

TO: FEDERAL NATIONAL MORTGAGE ASSOCIATION

(1) ☐ The undersigned hereby elects to purchase ______________ shares of the Common Stock of Federal National Mortgage Association (the "Company") pursuant to the terms of the attached Warrant, and tenders herewith or is delivering by wire transfer to account number ____________ at ____________________ (bank) payment of the exercise price in full.

☐ The undersigned hereby elects to purchase ________ shares of the Common Stock of the Company pursuant to the terms of the net exercise provisions set forth in Section 2.2 of the attached Warrant.

(2) Please issue a certificate or certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is specified below:

____
(Name)

____

____
(Address)

____
(Date)

____
(Signature)

____
(Print name)

EXECUTION VERSION

CERTIFICATE OF DESIGNATION OF TERMS OF VARIABLE LIQUIDATION PREFERENCE SENIOR PREFERRED STOCK, SERIES 2008-2

1. Designation, Par Value, Number of Shares and Priority

The designation of the series of preferred stock of the Federal National Mortgage Association (the "Company") created by this resolution shall be "Variable Liquidation Preference Senior Preferred Stock, Series 2008-2" (the "Senior Preferred Stock"), and the number of shares initially constituting the Senior Preferred Stock is 1,000,000. Shares of Senior Preferred Stock will have no par value and a stated value and initial liquidation preference per share equal to $1,000 per share, subject to adjustment as set forth herein. The Board of Directors of the Company, or a duly authorized committee thereof, in its sole discretion, may reduce the number of shares of Senior Preferred Stock, provided such reduction is not below the number of shares of Senior Preferred Stock then outstanding.

The Senior Preferred Stock shall rank prior to the common stock of the Company as provided in this Certificate and shall rank, as to both dividends and distributions upon dissolution, liquidation or winding up of the Company, prior to (a) the shares of preferred stock of the Company designated "5.25% Non-Cumulative Preferred Stock, Series D", "5.10% Non-Cumulative Preferred Stock, Series E", "Variable Rate Non-Cumulative Preferred Stock, Series F", "Variable Rate Non-Cumulative Preferred Stock, Series G", "5.81% Non-Cumulative Preferred Stock, Series H", "5.375% Non-Cumulative Preferred Stock, Series I", "5.125% Non-Cumulative Preferred Stock, Series L", "4.75% Non-Cumulative Preferred Stock, Series M", "5.50% Non-Cumulative Preferred Stock, Series N", "Non-Cumulative Preferred Stock, Series O", "Non-Cumulative Convertible Series 2004-1 Preferred Stock", "Variable Rate Non-Cumulative Preferred Stock, Series P", "6.75% Non-Cumulative Preferred Stock, Series Q", "7.625% Non-Cumulative Preferred Stock, Series R", "Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series S", and "8.75% Non-Cumulative Mandatory Convertible Preferred Stock", Series 2008-1", (b) any other capital stock of the Company outstanding on the date of the initial issuance of the Senior Preferred Stock and (c) any capital stock of the Company that may be issued after the date of initial issuance of the Senior Preferred Stock.

2. Dividends

(a) For each Dividend Period from the date of the initial issuance of the Senior Preferred Stock, holders of outstanding shares of Senior Preferred Stock shall be entitled to receive, ratably, when, as and if declared by the Board of Directors, in its sole discretion, out of funds legally available therefor, cumulative cash dividends at the annual rate per share equal to the then-current Dividend Rate on the then-current Liquidation Preference. Dividends on the Senior Preferred Stock shall accrue from but not including the date of the initial issuance of the Senior Preferred Stock and will be payable in arrears when, as and if declared by the Board of Directors quarterly on March 31, June 30, September 30 and December 31 of each year (each, a "Dividend Payment Date"), commencing on December 31, 2008. If a Dividend Payment Date is not a "Business Day," the related dividend will be paid not later than the next Business Day with the same force and effect as though paid on the Dividend Payment Date, without any increase to

account for the period from such Dividend Payment Date through the date of actual payment. "Business Day" means a day other than (i) a Saturday or Sunday, (ii) a day on which New York City banks are closed, or (iii) a day on which the offices of the Company are closed.

If declared, the initial dividend will be for the period from but not including the date of the initial issuance of the Senior Preferred Stock through and including December 31, 2008. Except for the initial Dividend Payment Date, the "Dividend Period" relating to a Dividend Payment Date will be the period from but not including the preceding Dividend Payment Date through and including the related Dividend Payment Date. The amount of dividends payable on the initial Dividend Payment Date or for any Dividend Period that is not a full calendar quarter shall be computed on the basis of 30-day months, a 360-day year and the actual number of days elapsed in any period of less than one month. For the avoidance of doubt, in the event that the Liquidation Preference changes in the middle of a Dividend Period, the amount of dividends payable on the Dividend Payment Date at the end of such Dividend Period shall take into account such change in Liquidation Preference and shall be computed at the Dividend Rate on each Liquidation Preference based on the portion of the Dividend Period that each Liquidation Preference was in effect.

(b) To the extent not paid pursuant to Section 2(a) above, dividends on the Senior Preferred Stock shall accrue and shall be added to the Liquidation Preference pursuant to Section 8, whether or not there are funds legally available for the payment of such dividends and whether or not dividends are declared.

(c) "Dividend Rate" means 10.0%; provided, however, that if at any time the Company shall have for any reason failed to pay dividends in cash in a timely manner as required by this Certificate, then immediately following such failure and for all Dividend Periods thereafter until the Dividend Period following the date on which the Company shall have paid in cash full cumulative dividends (including any unpaid dividends added to the Liquidation Preference pursuant to Section 8), the "Dividend Rate" shall mean 12.0%.

(d) Each such dividend shall be paid to the holders of record of outstanding shares of the Senior Preferred Stock as they appear in the books and records of the Company on such record date as shall be fixed in advance by the Board of Directors, not to be earlier than 45 days nor later than 10 days preceding the applicable Dividend Payment Date. The Company may not, at any time, declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any common stock or other securities ranking junior to the Senior Preferred Stock unless (i) full cumulative dividends on the outstanding Senior Preferred Stock in respect of the then-current Dividend Period and all past Dividend Periods (including any unpaid dividends added to the Liquidation Preference pursuant to Section 8) have been declared and paid in cash (including through any pay down of Liquidation Preference pursuant to Section 3) and (ii) all amounts required to be paid pursuant to Section 4 (without giving effect to any prohibition on such payment under any applicable law) have been paid in cash.

(e) Notwithstanding any other provision of this Certificate, the Board of Directors, in its discretion, may choose to pay dividends on the Senior Preferred Stock without the payment of any dividends on the common stock, preferred stock or any other class or series of stock from time

to time outstanding ranking junior to the Senior Preferred Stock with respect to the payment of dividends.

(f) If and whenever dividends, having been declared, shall not have been paid in full, as aforesaid, on shares of the Senior Preferred Stock, all such dividends that have been declared on shares of the Senior Preferred Stock shall be paid to the holders pro rata based on the aggregate Liquidation Preference of the shares of Senior Preferred Stock held by each holder, and any amounts due but not paid in cash shall be added to the Liquidation Preference pursuant to Section 8.

3. Optional Pay Down of Liquidation Preference

(a) Following termination of the Commitment (as defined in the Preferred Stock Purchase Agreement referred to in Section 8 below), and subject to any limitations which may be imposed by law and the provisions below, the Company may pay down the Liquidation Preference of all outstanding shares of the Senior Preferred Stock pro rata, at any time, in whole or in part, out of funds legally available therefor, with such payment first being used to reduce any accrued and unpaid dividends previously added to the Liquidation Preference pursuant to Section 8 below and, to the extent all such accrued and unpaid dividends have been paid, next being used to reduce any Periodic Commitment Fees (as defined in the Preferred Stock Purchase Agreement referred to in Section 8 below) previously added to the Liquidation Preference pursuant to Section 8 below. Prior to termination of the Commitment, and subject to any limitations which may be imposed by law and the provisions below, the Company may pay down the Liquidation Preference of all outstanding shares of the Senior Preferred Stock pro rata, at any time, out of funds legally available therefor, but only to the extent of (i) accrued and unpaid dividends previously added to the Liquidation Preference pursuant to Section 8 below and not repaid by any prior pay down of Liquidation Preference and (ii) Periodic Commitment Fees previously added to the Liquidation Preference pursuant to Section 8 below and not repaid by any prior pay down of Liquidation Preference. Any pay down of Liquidation Preference permitted by this Section 3 shall be paid by making a payment in cash to the holders of record of outstanding shares of the Senior Preferred Stock as they appear in the books and records of the Company on such record date as shall be fixed in advance by the Board of Directors, not to be earlier than 45 days nor later than 10 days preceding the date fixed for the payment.

(b) In the event the Company shall pay down of the Liquidation Preference of the Senior Preferred Stock as aforesaid, notice of such pay down shall be given by the Company by first class mail, postage prepaid, mailed neither less than 10 nor more than 45 days preceding the date fixed for the payment, to each holder of record of the shares of the Senior Preferred Stock, at such holder's address as the same appears in the books and records of the Company. Each such notice shall state the amount by which the Liquidation Preference of each share shall be reduced and the pay down date.

(c) If after termination of the Commitment the Company pays down the Liquidation Preference of each outstanding share of Senior Preferred Stock in full, such shares shall be deemed to have been redeemed as of the date of such payment, and the dividend that would otherwise be payable for the Dividend Period ending on the pay down date will be paid on such date. Following such deemed redemption, the shares of the Senior Preferred Stock shall no longer be deemed to be

outstanding, and all rights of the holders thereof as holders of the Senior Preferred Stock shall cease, with respect to shares so redeemed, other than the right to receive the pay down amount (which shall include the final dividend for such shares). Any shares of the Senior Preferred Stock which shall have been so redeemed, after such redemption, shall no longer have the status of authorized, issued or outstanding shares.

4. Mandatory Pay Down of Liquidation Preference Upon Issuance of Capital Stock

(a) If the Company shall issue any shares of capital stock (including without limitation common stock or any series of preferred stock) in exchange for cash at any time while the Senior Preferred Stock is outstanding, then the Company shall, within 10 Business Days, use the proceeds of such issuance net of the direct costs relating to the issuance of such securities (including, without limitation, legal, accounting and investment banking fees) to pay down the Liquidation Preference of all outstanding shares of Senior Preferred Stock pro rata, out of funds legally available therefor, by making a payment in cash to the holders of record of outstanding shares of the Senior Preferred Stock as they appear in the books and records of the Company on such record date as shall be fixed in advance by the Board of Directors, not to be earlier than 45 days nor later than 10 days preceding the date fixed for the payment, with such payment first being used to reduce any accrued and unpaid dividends previously added to the Liquidation Preference pursuant to Section 8 below and, to the extent all such accrued and unpaid dividends have been paid, next being used to reduce any Periodic Commitment Fees (as defined in the Preferred Stock Purchase Agreement referred to in Section 8 below) previously added to the Liquidation Preference pursuant to Section 8 below; provided that, prior to the termination of the Commitment (as defined in the Preferred Stock Purchase Agreement referred to in Section 8 below), the Liquidation Preference of each share of Senior Preferred Stock shall not be paid down below $1,000 per share.

(b) If the Company shall not have sufficient assets legally available for the pay down of the Liquidation Preference of the shares of Senior Preferred Stock required under Section 4(a), the Company shall pay down the Liquidation Preference per share to the extent permitted by law, and shall pay down any Liquidation Preference not so paid down because of the unavailability of legally available assets or other prohibition as soon as practicable to the extent it is thereafter able to make such pay down legally. The inability of the Company to make such payment for any reason shall not relieve the Company from its obligation to effect any required pay down of the Liquidation Preference when, as and if permitted by law.

(c) If after the termination of the Commitment the Company pays down the Liquidation Preference of each outstanding share of Senior Preferred Stock in full, such shares shall be deemed to have been redeemed as of the date of such payment, and the dividend that would otherwise be payable for the Dividend Period ending on the pay down date will be paid on such date. Following such deemed redemption, the shares of the Senior Preferred Stock shall no longer be deemed to be outstanding, and all rights of the holders thereof as holders of the Senior Preferred Stock shall cease, with respect to shares so redeemed, other than the right to receive the pay down amount (which shall include the final dividend for such redeemed shares). Any shares of the Senior Preferred Stock which shall have been so redeemed, after such redemption, shall no longer have the status of authorized, issued or outstanding shares.

5. No Voting Rights

Except as set forth in this Certificate or otherwise required by law, the shares of the Senior Preferred Stock shall not have any voting powers, either general or special.

6. No Conversion or Exchange Rights

The holders of shares of the Senior Preferred Stock shall not have any right to convert such shares into or exchange such shares for any other class or series of stock or obligations of the Company.

7. No Preemptive Rights

No holder of the Senior Preferred Stock shall as such holder have any preemptive right to purchase or subscribe for any other shares, rights, options or other securities of any class of the Company which at any time may be sold or offered for sale by the Company.

8. Liquidation Rights and Preference

(a) Except as otherwise set forth herein, upon the voluntary or involuntary dissolution, liquidation or winding up of the Company, the holders of the outstanding shares of the Senior Preferred Stock shall be entitled to receive out of the assets of the Company available for distribution to stockholders, before any payment or distribution shall be made on the common stock or any other class or series of stock of the Company ranking junior to the Senior Preferred Stock upon liquidation, the amount per share equal to the Liquidation Preference plus an amount, determined in accordance with Section 2(a) above, equal to the dividend otherwise payable for the then-current Dividend Period accrued through and including the date of payment in respect of such dissolution, liquidation or winding up; provided, however, that if the assets of the Company available for distribution to stockholders shall be insufficient for the payment of the amount which the holders of the outstanding shares of the Senior Preferred Stock shall be entitled to receive upon such dissolution, liquidation or winding up of the Company as aforesaid, then, all of the assets of the Company available for distribution to stockholders shall be distributed to the holders of outstanding shares of the Senior Preferred Stock pro rata based on the aggregate Liquidation Preference of the shares of Senior Preferred Stock held by each holder.

(b) "Liquidation Preference" shall initially mean $1,000 per share and shall be:

(i) increased each time a Deficiency Amount (as defined in the Preferred Stock Purchase Agreement) is paid to the Company by an amount per share equal to the aggregate amount so paid to the Company divided by the number of shares of Senior Preferred Stock outstanding at the time of such payment;

(ii) increased each time the Company does not pay the full Periodic Commitment Fee (as defined in the Preferred Stock Purchase Agreement) in cash by an amount per share equal to the amount of the Periodic Commitment Fee that is not paid in cash divided by the number of shares of Senior Preferred Stock outstanding at the time such payment is due;

(iii) increased on the Dividend Payment Date if the Company fails to pay in full the dividend payable for the Dividend Period ending on such date by an amount per share equal to the aggregate amount of unpaid dividends divided by the number of shares of Senior Preferred Stock outstanding on such date; and

(iv) decreased each time the Company pays down the Liquidation Preference pursuant to Section 3 or Section 4 of this Certificate by an amount per share equal to the aggregate amount of the pay down divided by the number of shares of Senior Preferred Stock outstanding at the time of such pay down.

(c) "Preferred Stock Purchase Agreement" means the Preferred Stock Purchase Agreement, dated September 7, 2008, between the Company and the United States Department of the Treasury.

(d) Neither the sale of all or substantially all of the property or business of the Company, nor the merger, consolidation or combination of the Company into or with any other corporation or entity, shall be deemed to be a dissolution, liquidation or winding up for the purpose of this Section 8.

9. Additional Classes or Series of Stock

The Board of Directors shall have the right at any time in the future to authorize, create and issue, by resolution or resolutions, one or more additional classes or series of stock of the Company, and to determine and fix the distinguishing characteristics and the relative rights, preferences, privileges and other terms of the shares thereof; provided that, any such class or series of stock may not rank prior to or on parity with the Senior Preferred Stock without the prior written consent of the holders of at least two-thirds of all the shares of Senior Preferred Stock at the time outstanding.

10. Miscellaneous

(a) The Company and any agent of the Company may deem and treat the holder of a share or shares of Senior Preferred Stock, as shown in the Company's books and records, as the absolute owner of such share or shares of Senior Preferred Stock for the purpose of receiving payment of dividends in respect of such share or shares of Senior Preferred Stock and for all other purposes whatsoever, and neither the Company nor any agent of the Company shall be affected by any notice to the contrary. All payments made to or upon the order of any such person shall be valid and, to the extent of the sum or sums so paid, effectual to satisfy and discharge liabilities for moneys payable by the Company on or with respect to any such share or shares of Senior Preferred Stock.

(b) The shares of the Senior Preferred Stock, when duly issued, shall be fully paid and non-assessable.

(c) The Senior Preferred Stock may be issued, and shall be transferable on the books of the Company, only in whole shares.

(d) For purposes of this Certificate, the term "the Company" means the Federal National Mortgage Association and any successor thereto by operation of law or by reason of a merger, consolidation, combination or similar transaction.

(e) This Certificate and the respective rights and obligations of the Company and the holders of the Senior Preferred Stock with respect to such Senior Preferred Stock shall be construed in accordance with and governed by the laws of the United States, provided that the law of the State of Delaware shall serve as the federal rule of decision in all instances except where such law is inconsistent with the Company's enabling legislation, its public purposes or any provision of this Certificate.

(f) Any notice, demand or other communication which by any provision of this Certificate is required or permitted to be given or served to or upon the Company shall be given or served in writing addressed (unless and until another address shall be published by the Company) to Fannie Mae, 3900 Wisconsin Avenue NW, Washington, DC 20016, Attn: Executive Vice President and General Counsel. Such notice, demand or other communication to or upon the Company shall be deemed to have been sufficiently given or made only upon actual receipt of a writing by the Company. Any notice, demand or other communication which by any provision of this Certificate is required or permitted to be given or served by the Company hereunder may be given or served by being deposited first class, postage prepaid, in the United States mail addressed (i) to the holder as such holder's name and address may appear at such time in the books and records of the Company or (ii) if to a person or entity other than a holder of record of the Senior Preferred Stock, to such person or entity at such address as reasonably appears to the Company to be appropriate at such time. Such notice, demand or other communication shall be deemed to have been sufficiently given or made, for all purposes, upon mailing.

(g) The Company, by or under the authority of the Board of Directors, may amend, alter, supplement or repeal any provision of this Certificate pursuant to the following terms and conditions:

(i) Without the consent of the holders of the Senior Preferred Stock, the Company may amend, alter, supplement or repeal any provision of this Certificate to cure any ambiguity, to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Certificate, provided that such action shall not adversely affect the interests of the holders of the Senior Preferred Stock.

(ii) The consent of the holders of at least two-thirds of all of the shares of the Senior Preferred Stock at the time outstanding, given in person or by proxy, either in writing or by a vote at a meeting called for the purpose at which the holders of shares of the Senior Preferred Stock shall vote together as a class, shall be necessary for authorizing, effecting or validating the amendment, alteration, supplementation or repeal (whether by merger, consolidation or otherwise) of the provisions of this Certificate other than as set forth in subparagraph (i) of this paragraph (g). The creation and issuance of any other class or series of stock, or the issuance of additional shares of any existing class or series of stock, of the Company ranking junior to the Senior Preferred Stock shall not be deemed to constitute such an amendment, alteration, supplementation or repeal.

(iii) Holders of the Senior Preferred Stock shall be entitled to one vote per share on matters on which their consent is required pursuant to subparagraph (ii) of this paragraph (g). In connection with any meeting of such holders, the Board of Directors shall fix a record date, neither earlier than 60 days nor later than 10 days prior to the date of such meeting, and holders of record of shares of the Senior Preferred Stock on such record date shall be entitled to notice of and to vote at any such meeting and any adjournment. The Board of Directors, or such person or persons as it may designate, may establish reasonable rules and procedures as to the solicitation of the consent of holders of the Senior Preferred Stock at any such meeting or otherwise, which rules and procedures shall conform to the requirements of any national securities exchange on which the Senior Preferred Stock may be listed at such time.

(h) **RECEIPT AND ACCEPTANCE OF A SHARE OR SHARES OF THE SENIOR PREFERRED STOCK BY OR ON BEHALF OF A HOLDER SHALL CONSTITUTE THE UNCONDITIONAL ACCEPTANCE BY THE HOLDER (AND ALL OTHERS HAVING BENEFICIAL OWNERSHIP OF SUCH SHARE OR SHARES) OF ALL OF THE TERMS AND PROVISIONS OF THIS CERTIFICATE. NO SIGNATURE OR OTHER FURTHER MANIFESTATION OF ASSENT TO THE TERMS AND PROVISIONS OF THIS CERTIFICATE SHALL BE NECESSARY FOR ITS OPERATION OR EFFECT AS BETWEEN THE COMPANY AND THE HOLDER (AND ALL SUCH OTHERS).**

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of the Company this 7th day of September, 2008.

[Seal]

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
by

The Federal Housing Finance Agency, its Conservator

____
James B. Lockhart III
Director

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

September 10, 2008
HP-1130

Major Iranian Shipping Company Designated for Proliferation Activity

Washington, DC--The U.S. Department of the Treasury's Office of Foreign Assets Control today designated the Islamic Republic of Iran Shipping Lines (IRISL), and 18 other affiliated entities, for providing logistical services to Iran's Ministry of Defense and Armed Forces Logistics (MODAFL).

"Not only does IRISL facilitate the transport of cargo for U.N. designated proliferators, it also falsifies documents and uses deceptive schemes to shroud its involvement in illicit commerce," said Stuart Levey, Under Secretary for Terrorism and Financial Intelligence. "IRISL's actions are part of a broader pattern of deception and fabrication that Iran uses to advance its nuclear and missile programs. That conduct should give pause to any financial institution or business still choosing to deal with Iran."

MODAFL, which was designated by the U.S. Department of State in October 2007 under E.O. 13382, has the ultimate authority over previously designated entities including the Aerospace Industries Organization an umbrella group which controls Iran's ballistic missile research, development and production activities and organizations.

IRISL is Iran's national maritime carrier; a global operator with a worldwide network of subsidiaries, branch offices and agent relationships. It provides a variety of maritime transport services, including bulk, break-bulk, cargo and containerized shipping. These services connect Iranian exporters and importers with South America, Europe, the Middle East, Asia, and Africa.

According to information available to the U.S. government, IRISL also facilitates shipments of military-related cargo destined for MODAFL and its subordinate entities, including organizations that have been designated by the United States pursuant to E.O. 13382 and listed by United Nations Security Council Resolutions 1737 and 1747.

In order to ensure the successful delivery of military-related goods, IRISL has deliberately misled maritime authorities through the use of deception techniques. These techniques were adopted to conceal the true nature of shipments ultimately destined for MODAFL. Furthermore, as international attention over Iran's WMD programs has increased, IRISL has pursued new strategies, which could afford it the potential to evade future detection of military shipments.

Specifically, IRISL has employed the use of generic terms to describe shipments so as not to attract the attention of shipping authorities and created and made use of cover entities to conduct official, IRISL business. For example, in 2007, IRISL transported a shipment of a precursor chemical destined for use in Iran's missile program. The end user of the chemical was Parchin Chemical Industries, an entity listed by the United States pursuant to E.O. 13382 and listed in UNSCR 1747 as a subordinate of Iran's Defense Industries Organization (DIO).

Also designated today were 17 entities, which were found to be owned or controlled by or acting or purporting to act for or on behalf of, directly or indirectly, IRISL. These entities are:

- Valfajr 8th Shipping Line Co SSK
- Khazar Sea Shipping Lines
- Irinvestship Ltd.
- Shipping Computer Services Company
- Iran o Misr Shipping Company

- Iran o Hind Shipping Company
- IRISL Marine Services & Engineering Company
- Irital Shipping SRL Company
- South Shipping Line Iran
- IRISL Multimodal Transport Co.
- Oasis Freight Agencies
- IRISL Europe Gmbh
- IRISL Benelux NV
- IRISL China Shipping Co., Ltd.
- Asia Marine Network Pte. Ltd.
- CISCO Shipping Co. Ltd.
- IRISL (Malta) Limited

One additional entity, IRISL (UK) Ltd., was designated today for being owned or controlled by Irinvestship Ltd.

Today's designations reinforce United Nations Security Council Resolution 1803 of March 2008, which among other things, calls upon all States, in a manner consistent with their national legal authorities and international law, to inspect IRISL cargoes to and from Iran, transiting their ports, "provided there is reasonable grounds to believe that the vessel is transporting prohibited goods" pursuant to UNSCRs 1737, 1747 and 1803.

These designations also highlight the dangers of doing business with IRISL and its subsidiaries. Countries and firms, including customers, business partners, and maritime insurers doing business with IRISL, may be unwittingly helping the shipping line facilitate Iran's proliferation activities.

Identifying Information on Designees:

ISLAMIC REPUBLIC OR IRAN SHIPPING LINES

A.K.A.
IRISL Group
IRI Shipping Lines
ARYA Shipping Company
IRISL

Address 1 No. 37, Aseman Tower, Sayyade Shirazee Square, Pasdaran Ave., Tehran, Iran, P.O. Box 19395-1311

Address 2 No. 37, Corner of 7th Narenjestan, Sayad Shirazi Square, After Noboyand Square, Pasdaran Ave., Tehran, Iran

VALFAJR 8TH SHIPPING LINE CO SSK

AKA
Sherkat Sahami Khass Keshtirani Valfajr 8th
Valfajre Eight Shipping Co.
Val Fajr-E-8 Shipping Company
Val Fajr Hasht Shipping Co.
VESC

Address 1 Shahid Azodi St., Karimkhan Zand Ave., Abiar Alley, P.O. Box 4155, Tehran, Iran

Address 2 Abyar Alley, Corner of Shahid Azodi St & Karim Khan Zand Ave., Tehran, Iran

KHAZAR SEA SHIPPING LINES

AKA
Darya-ye Khazar Shipping Company
Khazar Shipping Co.

Address 1 M. Khomeini St., Ghazian, Bandar Anzali, Gilan, Iran

Address 2 No. 1, End of Shahid Mostafa Khomeini St., Tohid Square, P.O. Box 43145, Bandar Anzali, 1711-324, Iran

IRINVESTSHIP LTD.

Address 1
Global House 61 Petty France, London, SW1H 9EU, United Kingdom,

Registration Number: 4110179

IRAN O HIND SHIPPING COMPANY

AKA
Keshtirani Iran Ve Hend Sahami Khass
Irano Hind Shipping Company
Iranohind Shipping Company (PJS)
IHSC

Address 1 265, Next to Mehrshad, Sedaghat St., Opposite of Mellat Park, Vali Asr Ave., Tehran, IAOO1, Iran

Address 2 18 Mehrshad Street, Sadaghat Street, Opposite Park Mellat, Vali-e-Asr Ave., Tehran, Iran

SHIPPING COMPUTER SERVICES COMPANY

AKA
SCSCO

Address 1 No. 37, Asseman, Shahid Sayyad Shirazeesq, Pasdaran Ave., Tehran, Iran, P.O. Box 1587553-1351

Address 3 No. 13, 1st Floor, Abgan Alley, Aban Ave., Karimkhan Zand Blvd., 15976 Tehran

IRAN O MISR SHIPPING COMPANY

AKA
Iranmisr Shipping Company
Iran & Egypt Shipping Lines

Address 1 El Nahda Building, Elnahda St., 4th Floor, Port Said, Egypt

Address 2 No. 41, 3rd Floor, Corner of 6th Alley, Sanaei St., Karim Khan Zand Ave., Tehran, Iran

Address 3 6 El Horreya Avenue, Alexandria, Egypt

IRISL MARINE SERVICES & ENGINEERING COMPANY

AKA
Sherkate Khadamte Darya and Moharndesi Keshtirani
IMSENGCO

Address 1 No. 221, Northern Iranshahr St. Karimkhan Ave., Tehran, Iran

Address 2 Karim Khane Zand Ave., Iran Shahr Shomai, No. 221, Tehran, Iran
Address 3 Sarbandar, Gas Station, P.O. Box 199, Bandar Imam Khomeini, Iran

IRITAL SHIPPING SRL COMPANY

Address
Ponte Francesco Morosini 59, 16126 Genova (GE) Italy;

Fiscal Code: 03329300101
VAT Number: 12869140157
CCIAA: GE 426505

SOUTH SHIPPING LINE IRAN

AKA
South Shipping Lines Iran Line Company

Address 1 Qaem Magham Farahani St., Tehran, Iran

Address 2 Apt. No. 7, 3rd Fl., No. 2, 4th Alley, Gandi Ave., Tehran, Iran

IRISL MULTIMODAL TRANSPORT CO.

AKA
Rail Iran Shipping Company

Address 1
No. 25, Shahid Arabi Line, Sanaei St., Karimkhan Zand St., Tehran, Iran

OASIS FREIGHT AGENCIES

AKA
Oasis Freight Agency LLC

Address 1 Sharaf Building, No. 4, 2nd Floor, Al Meena Road, Opposite Customs, Dubai, UAE

Address 2 Sharaf Shipping Building, 1st Floor, Al Mankhool St., Bur Dubai, P.O. Box 5562, Dubai, UAE

Address 3 Kayed Ahli Building, Jamal Abdul Nasser Road (Parallel to Al Wahda St.), P.O. Box 4840, Sharjah, UAE

IRISL EUROPE GMBH

Address
Schottweg 5, 22087 Hamburg, Germany

VAT Number: DE217283818

IRISL BENELUX NV

Address
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VAT Number: BE480224531

IRISL (UK) LTD

Address
2 Abbey Road, Barking, Essex IG11 7 AX, United Kingdom

Registration Number: 4765305

IRISL CHINA SHIPPING CO., LTD

AKA
Yi Hang Shipping Company, Ltd

Address

F23A-D, Times Plaza No. 1, Taizi Road, Shekou, Shenzhen, China, ZIP: 518067

ASIA MARINE NETWORK PTE. LTD.

AKA
IRISL Asia Pte. Ltd.
Asian Perfect Marine Pte. Ltd.

Address 200 Middle Road, #14-01 Prime Centre, Singapore 188980

CISCO SHIPPING CO. LTD.

AKA
IRISL Korea Co., Ltd.
SISCO
Seoul International Shipping Co.

Address 1
8th Floor, Sebang Bldg., 708-8, Yeoksam-dong, Kangnam-Gu, Seoul, Republic of Korea

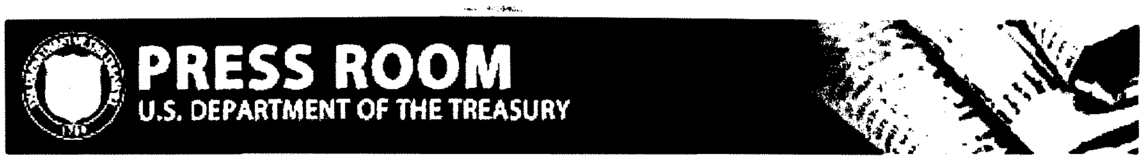
Address 2
4th Floor, Sebang Bldg. 68-46, Jwacheon-Dong, Dong-Gu, Busan, Republic of Korea

IRISL (MALTA) LIMITED

AKA
IRISL Malta Limited

Address Flat 1, 181, Tower Road, Sliema SLM 1604, Malta
Registration Number: C33735
Tax Registration Number: MT 17037313

These actions were taken pursuant to Executive Order 13382, an authority aimed at freezing the assets of proliferators of weapons of mass destruction and their supporters, and at isolating them from the U.S. financial and commercial systems. Today's designations are part of the ongoing interagency effort by the U.S. Government to combat WMD trafficking by blocking the property of entities and individuals that engage in proliferation activities and their support networks. Designations under E.O. 13382 are implemented by Treasury's OFAC, and they prohibit all transactions between the designees and any U.S. person, and freeze any assets the designees may have under U.S. jurisdiction.



September 11, 2008
HP-1131

Frequently Asked Questions:
Treasury Senior Preferred Stock Purchase Agreement

Can the U.S. Congress or the Executive Branch change the terms of the preferred stock purchase agreement?
This preferred stock purchase agreement is a binding legal obligation between two parties. The agreement is designed to prohibit any amendment that would decrease the amount of Treasury's funding commitment or add funding conditions that would adversely affect debt or mortgage-backed securities holders.

Some may speculate that a future Congress could pass a law that would abrogate the agreement. But any such law would be inconsistent with the U.S. government's longstanding history of honoring its obligations. Such action would also give rise to government liability to parties suing to enforce their rights under the agreement.

The U.S. Government stands behind the preferred stock purchase agreements and will honor its commitments. Contracts are respected in this country as a fundamental part of rule of law.

Can the U.S. Congress or the Executive Branch change the covenants in the agreement, such as the covenant requiring the reduction of the companies' portfolios?
As with any contract, the parties to the agreement may modify the covenants by mutual agreement only.

Does the senior preferred stock purchase agreement protect debt and mortgage backed securities issued or maturing after 2009?
Yes. The holders of senior debt, subordinated debt, and mortgage backed securities issued or guaranteed by these GSEs are protected by the agreement without regard to when those securities were issued or guaranteed. Debt and mortgage backed securities issued or guaranteed both before and after December 31, 2009 are protected by the agreement.

If the preferred stock purchase agreement protects senior and subordinated debt securities issued at any time in the future, how can the agreement ever be terminated?
Treasury's funding commitment in the agreement would terminate under three events:

1. The funding commitment terminates if the commitment is fully funded by Treasury.
2. If a GSE liquidates its assets, its net worth deficiency is computed at that time and the GSE can call upon the Treasury to fund under its preferred stock purchase agreement. After that final funding, the funding commitment in the agreement would terminate.
3. When a GSE satisfies all of its liabilities, whether at maturity or by making some other provision for payment in full of its obligations, the funding commitment will also terminate.

Why is the preferred stock purchase agreement limited to $100 billion? Is that enough to protect against even the worst downside scenario? What happens if losses exceed $100 billion?
Treasury deliberately chose a large number to give confidence to the markets.

If Treasury has already received $1 billion in senior preferred stock, how can you say that no investment has been made yet?
The companies each issued $1 billion in senior preferred stock to Treasury in

connection with Treasury's commitment to maintain a positive net worth in the GSE. No taxpayer money was spent to receive this stock.

How is it legal for this preferred stock purchase agreement to be valid beyond the December 31, 2009 expiration of Treasury's authority?
Treasury received the preferred stock and received warrants for common stock as of Sunday September 7, 2008 and will not need to purchase any additional shares relative to this agreement. No payments by the Treasury will be made under this agreement until and unless necessary to prevent a negative net worth position for either GSE.

If the Treasury makes payments under its funding commitment, the liquidation preference of the Treasury shares will increase accordingly

What happens to the declared dividends for investors of existing GSE preferred stock?
Dividends actually declared by a GSE before the date of the senior preferred stock purchase agreement will be paid on schedule.

Can the government exercise its warrants whenever it wants, even if it is disadvantageous to the companies?
Yes. Treasury can exercise its warrant for up to 79.9% of the common stock of each GSE on a fully diluted basis at any time during the 20-year life of the warrant.

What do the rating agencies think of this agreement?
All of the rating agencies have reaffirmed the United States' current rating status.

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September 12, 2008
HP-1132

Treasury Targets Venezuelan Government Officials Supporting the FARC

Washington, DC--The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today designated two senior Venezuelan government officials, Hugo Armando Carvajal Barrios and Henry de Jesus Rangel Silva, and one former official, Ramon Rodriguez Chacin, for materially assisting the narcotics trafficking activities of the Revolutionary Armed Forces of Colombia (FARC), a narco-terrorist organization.

"Today's designation exposes two senior Venezuelan government officials and one former official who armed, abetted, and funded the FARC, even as it terrorized and kidnapped innocents," said Adam J. Szubin, Director of OFAC. "This is OFAC's sixth action in the last ten months against the FARC. We will continue to target and isolate those individuals and entities that aid the FARC's deadly narco-terrorist activities in the Americas."

Hugo Armando Carvajal Barrios is the Director of Venezuela's Military Intelligence Directorate (DGIM). His assistance to the FARC includes protecting drug shipments from seizure by Venezuelan anti-narcotics authorities and providing weapons to the FARC, allowing them to maintain their stronghold of the coveted Arauca Department. Arauca, which is located on the Colombia/Venezuela border, is known for coca cultivation and cocaine production. Carvajal Barrios also provides the FARC with official Venezuelan government identification documents that allow FARC members to travel to and from Venezuela with ease.

Henry de Jesus Rangel Silva, the Director of Venezuela's Directorate of Intelligence and Prevention Services or DISIP, is in charge of intelligence and counterintelligence activities for the Venezuelan government. Rangel Silva has materially assisted the narcotics trafficking activities of the FARC. He has also pushed for greater cooperation between the Venezuelan government and the FARC.

Ramon Emilio Rodriguez Chacin, who was Venezuela's Minister of Interior and Justice until September 8, is the Venezuelan government's main weapons contact for the FARC. The FARC uses its proceeds from narcotics sales to purchase weapons from the Venezuelan government. Rodriguez Chacin has held numerous meetings with senior FARC members, one of which occurred at the Venezuelan government's Miraflores Palace in late 2007. Rodriguez Chacin has also assisted the FARC by trying to facilitate a $250 million dollar loan from the Venezuelan government to the FARC in late 2007. We cannot confirm whether the loan materialized.

On May 29, 2003, President George W. Bush identified the FARC as a significant foreign narcotics trafficker, or drug kingpin, pursuant to the Kingpin Act. In 2001, the State Department designated the FARC as a Specially Designated Global Terrorist pursuant to Executive Order 13224, and in 1997 as a Foreign Terrorist Organization.

This OFAC action continues ongoing efforts under the Kingpin Act to apply financial measures against significant foreign narcotics traffickers and their organizations worldwide. In addition to the 75 drug kingpins that have been designated by the President, 460 businesses and individuals have been designated pursuant to the Kingpin Act since June 2000.

Today's action freezes any assets the designated entities and individuals may have under U.S. jurisdiction and prohibits U.S. persons from conducting financial or

commercial transactions involving those assets. Penalties for violations of the Kingpin Act range from civil penalties of up to $1,075,000 per violation to more severe criminal penalties. Criminal penalties for corporate officers may include up to 30 years in prison and fines of up to $5,000,000. Criminal fines for corporations may reach $10,000,000. Other individuals face up to 10 years in prison for criminal violations of the Kingpin Act and fines pursuant to Title 18 of the United States Code.

For a complete list of the individuals and entities designated today, please visit: http://www.treasury.gov/offices/enforcement/ofac/actions/index.shtml

To view previous OFAC actions directed against the FARC, please visit:

- Treasury Action against the FARC on July 31, 2008 (link: http://www.treas.gov/press/releases/hp1096.htm)
- Treasury Action against the FARC on May 7, 2008 (link: http://www.treas.gov/press/releases/hp966.htm)
- Treasury Action against the FARC on April 22, 2008 (link: http://www.treas.gov/press/releases/hp938.htm)
- Treasury Action against the FARC on January 15, 2008 (link: http://www.treas.gov/press/releases/hp762.htm)
- Treasury Action against the FARC on November 1, 2007 (link: http://www.treas.gov/press/releases/hp661.htm)
- Treasury Action against the FARC on September 28, 2006 (link: http://www.treas.gov/press/releases/hp119.htm)
- Treasury Action against the FARC on February 19, 2004 (link: http://www.ustreas.gov/press/releases/js1181.htm)

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REPORTS

- Designation Chart

Revolutionary Armed Forces of Colombia (FARC)

U.S. Department of the Treasury
Office of Foreign Assets Control

September 2008

FARC Designated by the President as a Significant Foreign Narcotics Trafficker on May 29, 2003

Rodrigo Granda Escobar
FARC International Representative
Designated by OFAC on September 28, 2006

Luciano Marin Arango
(a.k.a. Ivan Marquez)
Secretariat Member
FARC Commander
Designated by OFAC in February 2004

Rodrigo Londono Echeverry
(a.k.a. Timochenko)
Secretariat Member
FARC Commander
Designated by OFAC in February 2004

Noe Suarez Rojas
(a.k.a. Grannobles)
Secretariat Member
FARC Commander
Designated by OFAC in February 2004

Hugo Armando CARVAJAL BARRIOS
DOB 01 Apr 1960
Director
Venezuelan Military Intelligence Directorate (DGIM)

Henry de Jesus RANGEL SILVA
CC 5764952
Director
Venezuelan Directorate of Intelligence and Prevention Services (DISIP)

Ramon Emilio RODRIGUEZ CHACIN
CC 3169119 (Venezuela)
Former Venezuelan Minister of Interior and Justice

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

September 12, 2008
HP-1133

Treasury, SBA Partner to Help Small Businesses
Understand the Value of Health Savings Accounts

Washington, DC--The Treasury Department and the U.S. Small Business Administration today announced a new website that provides small businesses with information on how Health Savings Accounts (HSAs) can help meet their employees' health care needs.

While many Americans have access to health coverage through their employers, many employees work for small companies that are unable to sponsor health insurance plans. Many of these employees can benefit from the affordability and flexibility of HSAs and HSA-eligible health plans.

The new website, www.hsa.gov, presents the advantages of HSAs, provides comparisons to other health coverage options, and has other materials to help employers and individuals determine whether and how to enroll in HSA-eligible coverage and how to save for health care costs through an HSA.

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September 14, 2008
hp-1134

**Paulson Statement on SEC and Federal Reserve Actions
Surrounding Lehman Brothers**

Treasury Secretary Henry M. Paulson, Jr. made the following statement today:

I strongly support the actions announced tonight by SEC Chairman Chris Cox, Federal Reserve Chairman Ben Bernanke and market participants. These changes will strengthen and enhance our financial markets.

These initiatives will be critical to facilitating liquid, smooth functioning markets, and addressing potential concerns in the credit markets.

I particularly appreciate the efforts of market participants who came together this weekend and initiated a set of steps to facilitate orderliness and stability in our financial markets as we work through this extraordinary environment.

Today we are looking forward. This weekend's discussions made clear that both market participants and regulators in this country and abroad recognize the need to support market stability and remove uncertainty as they address current challenges.

I am committed to working with regulators and policymakers – including Congress – to take necessary and appropriate steps to maintain the stability and orderliness of our financial markets. And I will engage with regulators and policymakers around the world to that end.

Healthy capital markets are the backbone of a vibrant U.S. economy and critical to the well-being of our economy and American families. I am confident in the resilience of our capital markets, and in the commitment of U.S. regulators and market participants to work together through this difficult period.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

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September 15, 2008
hp-1135

Treasury Office of Debt Management Director Karthik Ramanathan
Remarks at Real Return USA:
The Euromoney Inflation Linked Products Conference

New York City - Good Morning. Thank you for giving me this opportunity to share my thoughts on Treasury debt management. I'm going to start off by explaining the role that our office and Treasury securities play in the capital markets, then describe some of the challenges posed by recent market conditions, and finally, address Treasury Inflation Protected Securities.

In my role as the Director of the Office of Debt Management, I provide recommendations on matters related to the Treasury's debt management policy, the issuance of Treasury securities, and the state of financial markets. By actively engaging with reserve managers, institutional investors, and market participants like you, we remain well informed regarding financial market conditions, liquidity in the fixed income markets, and Treasury-market-specific issues.

Our mission is to issue debt in a manner that provides the U.S. government – and ultimately the taxpayer – with the lowest cost of financing over time. With over $4 trillion of annual marketable Treasury issuance, more than 200 Treasury auctions each year, and nearly $9.5 trillion in total federal debt, the numbers are large, so discussing these issues is quite relevant.

U.S. Treasuries play an important role in the global capital markets. They are actively used by portfolio managers, investors, and traders to hedge existing positions, to serve as the risk-free pricing benchmark, and to provide the ultimate source of liquidity. In addition, the Federal Reserve uses Treasury securities to affect the supply of reserves in the banking system, and Treasuries provide foreign central banks with a highly liquid investment vehicle. The central roles that Treasuries play contribute to a lower overall cost of capital.

However, despite this prominent role, we do not take our position in the debt markets for granted. We constantly strive to enhance Treasury's status as the preeminent sovereign debt market by adhering to our clear mission. This gives us confidence that Treasury will remain the borrower of choice in global capital markets.

Now, before I delve into more detail on TIPS, I'd like to first talk about Treasury's debt management objectives, then financial market challenges over the past year, and finally, how we as debt managers responded.

Debt Management Objectives and Operating Principles

The Treasury Department's primary goal in debt management is to finance the government's borrowing needs at the lowest cost over time. In meeting this objective, we face numerous constraints and risks.

Perhaps the most prevalent of these constraints is uncertainty. Uncertainty arises from many different sources including changes in economic conditions, unexpected legislative initiatives, and fluctuations in non-marketable debt issuance. In a given year, these factors could easily shift borrowing by a significant amount with little advance warning.

Another major source of uncertainty stems from deficit forecast errors with various estimates off by more than $100 billion on average. Collectively, the private sector as well as policy makers have difficulty in consistently projecting deficits in the coming twelve months – let alone further into the future.

Given the extensive uncertainty Treasury faces, debt management requires considerable flexibility. The recent fiscal stimulus package, in which rebates were literally place into the hands of Americans just 20 weeks after enactment, shows such a need for adapting to rapidly changing conditions. At the same time, our large size makes behaving opportunistically impractical. Moreover, it would not necessarily lower borrowing costs. Financial market participants would likely model our interest rate objectives and anticipate our debt issuance behavior, limiting any potential gains we might hope to achieve.

In addition, opportunistic behavior would increase investor uncertainty and could limit demand for our securities. Therefore, in order to ensure ready market access, we issue debt regularly and in predictable amounts. Our set of instruments consists of 8 nominal issues and 3 inflation indexed issues – a very simple, liquid set of benchmarks which investors can tailor to their needs.

Under these conditions, we must not create additional constraints based on externalities that result from a particular debt management strategy. For example, the U.S. Treasury often receives requests for debt tailored to particular interests such as GDP-linked debt, annuitizing debt instruments, and callable debt. However, it is the Treasury's policy not to issue debt targeted to any particular constituency. As taxpayers, we are better off with the Treasury market being deep and liquid. We consider the market's appetite for certain securities or debt management practices; however, debt management policy decisions cannot be held captive solely to the market's preferences.

For example, when Treasury discontinued the 52-week bill in 2001, we did so despite positive externalities associated with the security including its wide use as a benchmark point for pricing derivatives (such as adjustable rate mortgages and interest rate swaps), and its use for setting rates for statutorily required credit programs (which required Congress and Treasury to make legislative changes). We simply did not need it at the time, and acted in the best interest of the taxpayer. Similarly, the 30-year bond and 30-year TIPS were also discontinued in 2001 due to reduced borrowing needs.

Decisions to adopt or suspend particular debt management practices are similarly made by always keeping in mind our goal of the lowest borrowing cost over time. For instance, despite the benefits of multiple-price auctions to certain more sophisticated segments of the financial markets, Treasury moved to uniform-price auctions. Internal studies and empirical analysis indicated that such auctions broaden the distribution of auction awards, promote efficiency in the markets, and lead to more aggressive bidding – all factors which collectively reduce the cost of financing the federal debt.

As another example, we continue to have the authority to conduct buybacks of Treasury securities. However, Treasury suspended this practice when they were no longer practical despite the benefits to some investors of having a regular buyer for relatively illiquid securities.

While not limiting potential responses to ever changing financial market conditions, we make any changes to Treasury debt issuance and debt management practices in a transparent manner, in consultation with market participants, and based on analyses of how to best meet our goals.

Financial Market and Debt Management Challenges

The financial markets have faced challenging conditions over the past year, many of which have impacted the broader economy. Tighter credit standards and pressure on interest rate spreads have made it more difficult to obtain credit in many sectors. In the face of these challenges, Treasury has responded aggressively.

To provide confidence and stability to financial markets, Treasury financed an economic stimulus package and moved to support the housing government

sponsored enterprises Fannie Mae and Freddie Mac. A cyclical correction is underway, particularly in the housing sector, and this process of re-pricing of risk and deleveraging across asset classes has created additional challenges for market participants.

Borrowing requirements have risen swiftly in response to the economic stimulus legislation as well as actions take by the Federal Reserve related to its liquidity initiatives. To sterilize the monetary effects of these initiatives, the Federal Reserve redeemed Treasury securities held in its portfolio and also sold securities outright which resulted in nearly $300 billion in additional Treasury issuance. We responded successfully to these challenges by increasing bill auction sizes, reintroducing the 52-week bill, and issuing longer dated cash management bills.

Looking ahead, a wide variety of factors could potentially impact Treasury's marketable borrowing including a less robust economy, the possibility of additional legislative initiatives enacted by Congress, and further pressures on the financial sector.

In this rapidly evolving economic and financial market environment, Treasury has responded to changes in marketable borrowing needs in its traditional manner by first reviewing the size of our existing securities, then addressing the frequency of issuance, and finally, making adjustments to the auction calendar as necessary.

In addition, through our meetings with major investors domestically and abroad, many ideas have been suggested to better position Treasury to meet these challenges. Some recommendations include increasing the frequency of the 10-year note and 30-year bond, reintroducing other securities including the 3-year note and 7-year note, and reintroducing a Treasury buyback program to better manage our debt maturity profile.

Other ideas included issuing additional longer dated inflation linked securities versus shorter dated securities to potentially better capture any inflation premium. We appreciate all of these suggestions, and take them all under consideration in achieving the lowest cost of financing over time.

Treasury Inflation-Protected Securities

Now, turning to inflation linked securities, Treasury has been issuing TIPS for over 10 years and is the largest issuer of inflation linked bonds globally. We have held 60 TIPS auctions since the inception of the program and have over half a trillion dollars of such debt outstanding. Average daily trading volume of $9 billion also makes the TIPS market the most liquid of any sovereign inflation-linked debt market. With 27 issues outstanding, the TIPS curve is well established out to 10 years, and well on its way to being complete out to 20 year.

Let me give you some other figures about the size and liquidity if the TIPS market. In fiscal year 2007, TIPS issuance totaled $57 billion, or 10 percent of total Treasury coupon issuance, and represented about 30 percent of total global inflation linked debt issuance. In comparison, such issuance was $29 billion in the United Kingdom, $27 billion in Japan, and $26 billion in France. Although the growth rate of TIPS has slowed, it still outpaces nominal coupons.

In terms of secondary market liquidity, which often receives much attention, the TIPS market is much more liquid than any other sovereign inflation linked market. Prior to this most recent period of stress in credit markets, the typical bid-ask spread on the benchmark 10-year TIPS on a trading size of $50 million was about 1 basis point. In contrast, for similar benchmark issues in the United Kingdom, France and Japan, the bid–ask spreads ranged between 2.5 and 5 basis points.

So, while TIPS will likely remain less liquid than nominal coupons due to their unique qualities, from an investor perspective, the depth of the TIPS market is unrivaled. Calls to increase liquidity through much larger issuance need to be carefully evaluated.

Taken together, these market statistics illustrate our preeminent stance in the inflation-indexed market in terms of size, depth, and liquidity, even in an environment without regulatory mandates and in the absence of a high rate of

indexation to inflation compared to other sovereigns.

While the TIPS auction calendar has seen several changes since the inception of the program, we have repeatedly communicated to market participants our commitment to the program. Let me again reassure you that inflation linked securities are an important part of our portfolio.

As I mentioned earlier, determining the proper mix of our portfolio in pursuit of the lowest cost of borrowing is an ongoing effort. From our perspective, TIPS offer potential benefits including a more diversified portfolio, a potentially broader investor base, and a liability that theoretically tracks tax receipts.

However, you may be aware that recently the Treasury's Borrowing Advisory Committee of the Securities Industry and Financial Markets Association, or TBAC, prepared a [illegible] on TIPS. The presenting Committee member concluded that the cost of the program, compared to nominal debt issued at a similar time, was estimated at close to $30 billion. This cost was attributed to two factors: the low level of breakeven inflation and the reduced level of liquidity of TIPS compared to nominal securities.

It was also noted that private issuers have been less willing to issue inflation linked securities because they view them as costly and because of unfavorable accounting treatment. In fact, over the past ten years, there have been only a handful of corporate issuers of inflation indexed debt, thereby limiting the growth of the inflation derivatives markets. The large majority of corporate issuance is immediately hedged with TIPS, so it does not really create new inflation-linked supply. Instead, the Treasury continues to be the only significant payer of inflation in the United States.

This situation naturally raises many questions. Why are corporations not issuing such debt more generally? Are we selling insurance on inflation protection for too little? Should unknown future liabilities resulting from inflation accretion concern debt issuers? Certainly in a corporation or financial institution, these issues would be taken into consideration. Are we as sovereign debt issuers doing the same?

Not surprisingly, the financial press has been discussing the deliberations of the TBAC's presentation. Some have agreed with its findings, while others have disputed them. As debt managers, we greatly appreciate all viewpoints and encourage further constructive dialogue. The growth in the significance of the inflation linked debt market over the past decade by sovereign issuers has made having an accurate understanding of the costs involved in their issuance more important than ever.

Sovereign debt issuers have issued inflation indexed debt with the belief that such issuance would diversify their portfolios and better track receipts. In addition, there was a belief that borrowing costs would be lower due to the willingness of some investors to pay a premium in return for inflation compensation. Other nations have recently joined this trend, issuing inflation linked debt with the same intentions and with little empirical or analytical studies of costs versus benefits. Unfortunately, though, there have been only a few published studies of the costs of issuing TIPS, and these have offered conflicting conclusions.

In May of 2004 then Federal Reserve economists Brian Sack and Robert Elsasser estimated that TIPS issuance since the inception of the program had been expensive relative to comparable nominal securities, primarily due to the difficulties in launching a new asset class and the flight to quality earlier in the decade. Sack and Elsasser used realized costs - an "ex post" approach - in their estimates. They estimated that the cost of the program as of June 2003 was $2.8 billion, and estimated a projected total cost of $12.3 billion.

An update to this analysis in 2007 by Sack showed that the 10-year TIPS that matured in January 2007 saved the Treasury $1.1 billion.

In October 2007, also using ex-post calculations, Federal Reserve Board economist Jennifer Roush concluded that TIPS issuance was relatively costly due to illiquidity in the early years of the program. She estimated the cost of the program through early 2007 at around $5 billion to $8 billion.

Roush's analysis, however, also suggested that beginning with issuance in 2004, TIPS have actually saved Treasury a small amount of money, and will save Treasury from $1 billion to $4 billion over the entire life of these securities. Moreover, she finds that if the illiquidity effects of the early years of the TIPS program are excluded, the TIPS program would have saved the Treasury a substantial amount – from $14 billion to $17 billion through early 2007. The "liquidity premium" effectively cost Treasury between $10 billion and $15 billion.

On the other hand, some economists have suggested that ex-post analyses are too simplistic and that the relevant question is whether the Treasury obtained the financing it needed at a lower "ex-ante cost;" that is, using expected inflation at the time of issuance in determining the cost. However, one of the difficulties of an ex-ante approach is obtaining an accurate estimate of investors' inflation expectations. Studies using an ex-ante approach have shown neither a benefit nor a cost from issuing TIPS relative to nominal securities.

As can be seen from these studies, the results to date have been conflicting and, at times, inconclusive. Assumptions which are used greatly vary. Perhaps most disturbing, few rigorous, analytical approaches have been undertaken to fully understand the efficiency of the program.

Treasury has a duty to ensure that taxpayers attain the lowest cost of borrowing over time. In that vein, we must continuously study our models, develop alternative perspectives, and institute changes if warranted. We need to focus on our mission and less on positive externalities. From our perspective as debt issuers, we have a wealth of information to examine. We know the details of every competitive bid made at each auction. We know the concentration of bids by particular investors at given auctions. And we know our alternative funding choices. Moreover, we have a large set of observations. While the growth of inflation-indexed securities remains robust, and the importance investors place on them continues to grow, taking a step back, evaluating our practices, and examining the costs and benefits of any program in a deliberative manner is only prudent. .

Treasury, like other major sovereign issuers of debt, needs to attract capital from the market, but we need to do so in a thoughtful manner. So I want to make the earnest request to all sovereign debt issuers and members of the financial market community actively develop an appropriate framework for assessing the cost of issuing inflation linked debt versus nominal debt.

Such an undertaking will benefit all who participate in this market, most importantly the taxpayer. As we undertake these deliberations in concert with financial market participants, Treasury will continue to issue TIPS in a regular and predictable manner and continue to maintain these securities as a significant portion of our overall debt portfolio.

Thank you.

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September 15, 2008
hp-1136

Media Advisory:
Treasury to Release Multi-Media Campaign to Teach Young Adults About Credit

The Treasury Department, in partnership with the Ad Council, will release a new multi-media campaign Tuesday aimed at combating the issue of financial illiteracy among young adults. The campaign includes television, radio and web banners, including a radio spot in Spanish. Department officials will preview the television and radio spots, as well as a new web site providing free financial information and tools.

WHO: Treasurer Anna Escobedo Cabral
Deputy Assistant Secretary for Financial Education Dan Iannicola, Jr.

WHAT: Launch of Treasury Multi-Media Campaign on Credit

WHEN: Tuesday, September 16, 9:30 a.m. EDT

WHERE: Treasury Department
Media Room (4121)
1500 Pennsylvania Avenue, NW
Washington, D.C.

NOTE: Media without Treasury press credentials should contact Frances Anderson at (202) 622-2960, or Frances.Anderson@do.treas.gov with the following information: full name, Social Security number, and date of birth.

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September 15, 2008
hp1137

Paulson to Speak on Economy, Housing Market

Secretary Henry M. Paulson, Jr. will deliver remarks Tuesday at the Brookings conference on The Future of Consumer Payments in Washington. He will discuss the economy and the housing market.

Who Secretary Henry M. Paulson, Jr.

What Remarks on the Economy & the Housing Market

When Tuesday, September 16, 1:30 p.m. EDT

Where The Brookings Institution
Falk Auditorium
1775 Massachusetts Avenue, NW
Washington, D.C.

Note Press should RSVP to DJ Nordquist at djnordquist@brookings.edu or visit http://onlinepressroom.net/brookings/new.

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FROM THE OFFICE OF PUBLIC AFFAIRS

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September 16, 2008
HP-1138

Treasury International Capital (TIC) Data for July

Treasury International Capital (TIC) data for July 2008 are released today and posted on the U.S. Treasury website (www.treas.gov/ti
which will report on data for August, is scheduled for October 16, 2008.

Net foreign purchases of long-term securities were $6.1 billion.

- Net foreign purchases of long-term U.S. securities were negative $25.6 billion. Of this, net purchases by private foreign invest billion, and net purchases by foreign official institutions were negative $4.9 billion.
- U.S. residents sold a net $31.7 billion of long-term foreign securities.

Net foreign acquisition of long-term securities, taking into account adjustments, is estimated to have been negative $8.2 billion.

Foreign holdings of dollar-denominated short-term U.S. securities, including Treasury bills, and other custody liabilities decreased $8.
of Treasury bills decreased $4.4 billion.

Banks' own net dollar-denominated liabilities to foreign residents declined $58.1 billion.

Monthly net TIC flows were negative $74.8 billion. Of this, net foreign private flows were negative $92.9 billion, and net foreign official

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TIC Monthly Reports on Cross-Border Financial Flows

(Billions of dollars, not seasonally adjusted)

				12 Months Through			
		2006	2007	Jul-07	Jul-08	Apr-08	Ma
	Foreigners' Acquisitions of Long-term Securities						
1	Gross Purchases of Domestic U.S. Securities	21077.1	29730.6	25290.0	33496.1	2584.6	25
2	Gross Sales of Domestic U.S. Securities	19933.9	28714.7	24038.1	32727.0	2478.9	24
3	**Domestic Securities Purchased, net** (line 1 less line 2) /1	**1143.2**	**1015.9**	**1252.0**	**769.0**	**105.7**	**1**
4	**Private, net /2**	**946.6**	**828.2**	**1036.6**	**520.0**	**64.4**	
5	Treasury Bonds & Notes, net	125.9	197.9	164.7	259.3	54.7	
6	Gov't Agency Bonds, net	193.8	107.0	156.1	93.0	4.3	
7	Corporate Bonds, net	482.2	342.8	505.1	143.1	17.5	
8	Equities, net	144.6	180.4	210.7	24.5	-12.0	
9	**Official, net /3**	**196.6**	**187.7**	**215.4**	**249.1**	**41.3**	
10	Treasury Bonds & Notes, net	69.6	3.0	52.6	90.3	22.3	
11	Gov't Agency Bonds, net	92.6	119.1	127.9	64.9	11.0	
12	Corporate Bonds, net	28.6	50.6	35.1	61.4	7.5	
13	Equities, net	5.8	15.1	-0.2	32.4	0.4	

14	Gross Purchases of Foreign Securities from U.S. Residents	5515.9	8187.6	7031.7	8520.7	698.7	6
15	Gross Sales of Foreign Securities to U.S. Residents	5766.8	8411.9	7312.0	8615.9	688.2	7
16	**Foreign Securities Purchased, net** (line 14 less line 15) /4	**-250.9**	**-224.3**	**-280.3**	**-95.2**	**10.5**	-
17	Foreign Bonds Purchased, net	-144.5	-129.0	-153.1	-53.5	10.7	
18	Foreign Equities Purchased, net	-106.5	-95.3	-127.3	-41.7	-0.2	-
19	**Net Long-Term Securities Transactions** (line 3 plus line	**892.3**	**791.6**	**971.6**	**673.8**	**116.1**	:
20	**Other Acquisitions of Long-term Securities, net /5**	**-174.6**	**-235.1**	**-220.2**	**-217.7**	**-12.3**	-
21	**Net Foreign Acquisition of Long-Term Securities** (lines 19 and 20):	**717.7**	**556.5**	**751.4**	**456.1**	**103.9**	
22	**Increase in Foreign Holdings of Dollar-denominated Short- U.S. Securities and Other Custody Liabilities: /6**	**146.2**	**197.6**	**88.2**	**194.3**	**-14.0**	
23	**U.S. Treasury Bills**	**-9.0**	**48.8**	**-9.6**	**125.8**	**3.4**	
24	Private, net	16.1	29.3	0.1	69.5	-11.0	
25	Official, net	-25.0	19.5	-9.7	56.3	14.4	
26	**Other Negotiable Instruments and Selected Other Liabilities: /7**	**155.1**	**148.8**	**97.9**	**68.6**	**-17.4**	
27	Private, net	174.9	72.7	112.4	16.9	-4.4	
28	Official, net	-19.8	76.1	-14.6	51.6	-13.0	-
29	**Change in Banks' Own Net Dollar-Denominated Liabilities**	**198.0**	**-133.8**	**38.9**	**-440.3**	**23.0**	-
30	**Monthly Net TIC Flows** (lines 21,22,29) /8	**1061.8**	**620.4**	**878.6**	**210.1**	**112.9**	
	of which						
31	Private, net	923.0	333.6	665.1	-67.7	82.7	-
32	Official, net	138.9	286.8	213.5	277.8	30.2	

/1 Net foreign purchases of U.S. securities (+)

/2 Includes international and regional organizations

/3 The reported division of net purchases of long-term securities between net purchases by foreign official institutions anc of other foreign investors is subject to a "transaction bias" described in Frequently Asked Questions 7 and 10.a.4 on

/4 Net transactions in foreign securities by U.S. residents. Foreign purchases of foreign securities = U.S. sales of foreign s Thus negative entries indicate net U.S. purchases of foreign securities, or an outflow of capital from the United Stat indicate net U.S. sales of foreign securities.

/5 Minus estimated unrecorded principal repayments to foreigners on domestic corporate and agency asset-backed securit estimated foreign acquisitions of U.S. equity through stock swaps -
estimated U.S. acquisitions of foreign equity through stock swaps +
increase in nonmarketable Treasury Bonds and Notes Issued to Official Institutions and Other Residents of Foreign

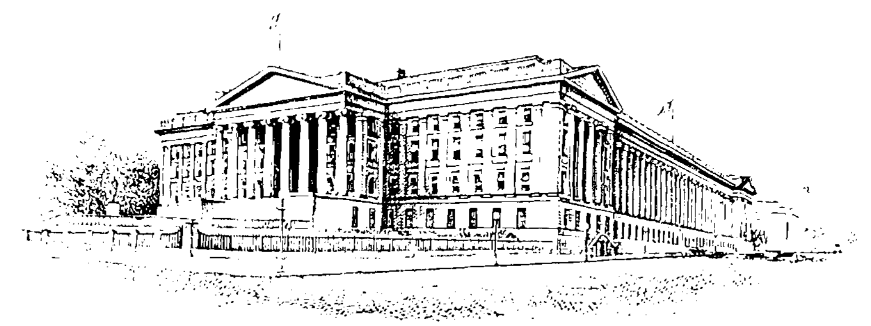
/6 These are primarily data on monthly changes in banks' and broker/dealers' custody liabilities. Data on custody claims a quarterly and published in the Treasury Bulletin and the TIC website.

/7 "Selected Other Liabilities" are primarily the foreign liabilities of U.S. customers that are managed by U.S. banks or br

/8 TIC data cover most components of international financial flows, but do not include data on direct investment flows, w and published by the Department of Commerce's Bureau of Economic Analysis. In addition to the monthly data sur TIC collects quarterly data on some banking and nonbanking assets and liabilities. Frequently Asked Question 1 on describes the scope of TIC data collection.

REPORTS

- (PDF) TIC Monthly Reports on Cross-Border Financial Flows (Billions of dollars, not seasonally adjusted)



DEPARTMENT OF THE TREASURY

OFFICE OF PUBLIC AFFAIRS

September 16, 2008
EMBARGOED UNTIL 9:00 AM

Contact: Rob Saliterman
(202) 622-2960

TREASURY INTERNATIONAL CAPITAL DATA FOR JULY

Treasury International Capital (TIC) data for July 2008 are released today and posted on the U.S. Treasury website (www.treas.gov/tic). The next release, which will report on data for August, is scheduled for October 16, 2008.

Net foreign purchases of long-term securities were $6.1 billion.

- Net foreign purchases of long-term U.S. securities were negative $25.6 billion. Of this, net purchases by private foreign investors were negative $20.7 billion, and net purchases by foreign official institutions were negative $4.9 billion.

- U.S. residents sold a net $31.7 billion of long-term foreign securities.

Net foreign acquisition of long-term securities, taking into account adjustments, is estimated to have been negative $8.2 billion.

Foreign holdings of dollar-denominated short-term U.S. securities, including Treasury bills, and other custody liabilities decreased $8.4 billion. Foreign holdings of Treasury bills decreased $4.4 billion.

Banks' own net dollar-denominated liabilities to foreign residents declined $58.1 billion.

Monthly net TIC flows were negative $74.8 billion. Of this, net foreign private flows were negative $92.9 billion, and net foreign official flows were $18.2 billion.

TIC Monthly Reports on Cross-Border Financial Flows

(Billions of dollars, not seasonally adjusted)

		2006	2007	12 Months Through Jul-07	12 Months Through Jul-08	Apr-08	May-08	Jun-08	Jul-08
	Foreigners' Acquisitions of Long-term Securities								
1	Gross Purchases of Domestic U.S. Securities	21077.1	29730.6	25290.0	33496.1	2584.6	2599.2	2794.1	2819.5
2	Gross Sales of Domestic U.S. Securities	19933.9	28714.7	24038.1	32727.0	2478.9	2489.6	2731.4	2845.1
3	**Domestic Securities Purchased, net** (line 1 less line 2) /1	**1143.2**	**1015.9**	**1252.0**	**769.0**	**105.7**	**109.7**	**62.7**	**-25.6**
4	**Private, net /2**	**946.6**	**828.2**	**1036.6**	**520.0**	**64.4**	**93.2**	**47.8**	**-20.7**
5	Treasury Bonds & Notes, net	125.9	197.9	164.7	259.3	54.7	9.4	27.2	24.2
6	Gov't Agency Bonds, net	193.8	107.0	156.1	93.0	4.3	17.1	22.3	-33.8
7	Corporate Bonds, net	482.2	342.8	505.1	143.1	17.5	50.8	0.6	-4.3
8	Equities, net	144.6	180.4	210.7	24.5	-12.0	15.9	-2.3	-6.8
9	**Official, net /3**	**196.6**	**187.7**	**215.4**	**249.1**	**41.3**	**16.4**	**14.9**	**-4.9**
10	Treasury Bonds & Notes, net	69.6	3.0	52.6	90.3	22.3	-3.7	1.1	10.1
11	Gov't Agency Bonds, net	92.6	119.1	127.9	64.9	11.0	11.0	9.1	-16.2
12	Corporate Bonds, net	28.6	50.6	35.1	61.4	7.5	9.1	4.1	0.2
13	Equities, net	5.8	15.1	-0.2	32.4	0.4	0.0	0.5	1.1
14	Gross Purchases of Foreign Securities from U.S. Residents	5515.9	8187.6	7031.7	8520.7	698.7	676.7	688.3	720.2
15	Gross Sales of Foreign Securities to U.S. Residents	5766.8	8411.9	7312.0	8615.9	688.2	703.1	697.5	688.5
16	**Foreign Securities Purchased, net** (line 14 less line 15) /4	**-250.9**	**-224.3**	**-280.3**	**-95.2**	**10.5**	**-26.4**	**-9.2**	**31.7**
17	Foreign Bonds Purchased, net	-144.5	-129.0	-153.1	-53.5	10.7	-8.3	-10.8	13.6
18	Foreign Equities Purchased, net	-106.5	-95.3	-127.3	-41.7	-0.2	-18.1	1.6	18.1
19	**Net Long-Term Securities Transactions** (line 3 plus line 16):	**892.3**	**791.6**	**971.6**	**673.8**	**116.1**	**83.2**	**53.4**	**6.1**
20	**Other Acquisitions of Long-term Securities, net /5**	**-174.6**	**-235.1**	**-220.2**	**-217.7**	**-12.3**	**-22.6**	**-16.8**	**-14.3**
21	**Net Foreign Acquisition of Long-Term Securities** (lines 19 and 20):	**717.7**	**556.5**	**751.4**	**456.1**	**103.9**	**60.6**	**36.6**	**-8.2**
22	**Increase in Foreign Holdings of Dollar-denominated Short-term U.S. Securities and Other Custody Liabilities: /6**	**146.2**	**197.6**	**88.2**	**194.3**	**-14.0**	**9.3**	**-2.2**	**-8.4**
23	**U.S. Treasury Bills**	**-9.0**	**48.8**	**-9.6**	**125.8**	**3.4**	**11.4**	**6.9**	**-4.4**
24	Private, net	16.1	29.3	0.1	69.5	-11.0	7.2	0.3	-10.3
25	Official, net	-25.0	19.5	-9.7	56.3	14.4	4.3	6.7	5.9
26	**Other Negotiable Instruments and Selected Other Liabilities: /7**	**155.1**	**148.8**	**97.9**	**68.6**	**-17.4**	**-2.1**	**-9.1**	**-4.1**
27	Private, net	174.9	72.7	112.4	16.9	-4.4	10.2	-11.1	-10.3
28	Official, net	-19.8	76.1	-14.6	51.6	-13.0	-12.3	2.0	6.3
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30	**Monthly Net TIC Flows** (lines 21,22,29) /8	**1061.8**	**620.4**	**878.6**	**210.1**	**112.9**	**-4.1**	**59.9**	**-74.8**
	of which								
31	Private, net	923.0	333.6	665.1	-67.7	82.7	-17.9	46.8	-92.9
32	Official, net	138.9	286.8	213.5	277.8	30.2	13.8	13.1	18.2

/1 Net foreign purchases of U.S. securities (+)

/2 Includes international and regional organizations

/3 The reported division of net purchases of long-term securities between net purchases by foreign official institutions and net purchases of other foreign investors is subject to a "transaction bias" described in Frequently Asked Questions 7 and 10.a.4 on the TIC website.

/4 Net transactions in foreign securities by U.S. residents. Foreign purchases of foreign securities = U.S. sales of foreign securities to foreigners. Thus negative entries indicate net U.S. purchases of foreign securities, or an outflow of capital from the United States; positive entries indicate net U.S. sales of foreign securities.

/5 Minus estimated unrecorded principal repayments to foreigners on domestic corporate and agency asset-backed securities + estimated foreign acquisitions of U.S. equity through stock swaps - estimated U.S. acquisitions of foreign equity through stock swaps + increase in nonmarketable Treasury Bonds and Notes Issued to Official Institutions and Other Residents of Foreign Countries.

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/8 TIC data cover most components of international financial flows, but do not include data on direct investment flows, which are collected and published by the Department of Commerce's Bureau of Economic Analysis. In addition to the monthly data summarized here, the TIC collects quarterly data on some banking and nonbanking assets and liabilities. Frequently Asked Question 1 on the TIC website describes the scope of TIC data collection.

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

September 16, 2008
HP-1139

Treasury Launches Multi-Media Campaign to Help Young Adults Control Their Credit

Washington - The U.S. Treasury Department unveiled a new multi-media campaign today aimed at combating financial illiteracy among young adults. The ad campaign, featuring an interactive online game and radio and television spots, warns its audience, "Don't let your credit put you in a bad place."

"Many consumers need to better understand how to control their credit," said U.S. Treasurer Anna Escobedo Cabral. "It's especially important that we reach young adults with this information. Our research shows that the relationship between financial decisions made early in life and their credit scores too often remains a mystery for many young adults."

Presented in partnership with the Ad Council and created pro bono by Lowe Worldwide, the campaign is designed to encourage young adults ages 18 to 24 to take control of their credit. Radio spots and web content in English and Spanish demonstrate the consequences of developing bad credit at an early age, such as being declined future employment or denied a car loan. Every advertisement ends with the tag line, "Don't let your credit put you in a bad place."

"Consumers can face serious problems when they make uninformed choices about borrowing," said Dan Iannicola, Deputy Assistant Secretary for Financial Education. "The goal of this campaign is to equip Americans with the knowledge to take advantage of the positive aspects of credit, while avoiding its pitfalls."

The campaign features a new website, , where the audience can play an online game, The Bad Credit Hotel. The website also provides free financial information and tools.

The announcements will air in advertising time and space donated by the media.

Click here to watch the television spots and listen to the radio spots.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

September 16, 2008
HP-1140

Treasurer Anna Escobedo Cabral
Remarks at Launch of Multi-Media Campaign
to Help Young Adults Control Their Credit

Washington - Thank you, Dan. On behalf of Secretary Paulson, welcome to the Treasury Department. And welcome to the launch of our new multi-media campaign to help consumers understand more about their credit.

Credit can be a helpful tool for a healthy, prosperous financial existence. But all too often, many Americans fall prey to the pitfalls of not using credit wisely. This is especially true for young Americans who may have a less thorough understanding of credit and who tend to think less about the consequences of their financial decisions today.

In partnership with the Ad Council, Treasury has decided to take action. Today we launch a new campaign aimed at helping young adults think twice about their spending habits and how their behavior today can affect their credit history tomorrow.

The campaign, which targets 18-24 year-olds who are already in debt or about to get into unmanageable debt, will use Public Service Announcements to provoke a second thought or a pause when considering the true *cost* of a purchase. Our hope is that through this campaign, young adults will develop more thoughtful and conscientious spending habits.

As you will see, the PSAs end with the tagline "Don't let your credit put you in a bad place." And as we all know, poor credit history can do just that. It can cost you a job, car loan, apartment, or even cause public embarrassment.

The campaign includes new television spots, radio spots, web banners and a new web site. It also includes a radio spot in Spanish, and a Spanish-language version of the web site, which is very important.

These new PSAs from Treasury and the Ad Council will air in advertising time donated by the media.

In addition, the PSAs direct people to a new website:

On this new web site, visitors will find free financial information and tools, as well as play an interactive game, The Bad Credit Hotel, that explains the importance of having a good credit score.

I would like to thank Treasury's Office of Financial Education and its outreach team for working so diligently on this important campaign.

I would also like to say that we are pleased to partner with the Ad Council on this. Over the years, they have brought us Smokey the Bear, McGruff the Crime Dog, the Friends Don't Let Friends Drive Drunk campaign – just to name a few of their tremendously successful campaigns. And now, with the help of Lowe Worldwide, we hope that the Bad Credit Hotel will be included as another piece of their memorable collection.

To help us officially roll out the new campaign, I would like to introduce Ms. Kathy Crosby from the Ad Council.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

September 16, 2008
HP-1141

Treasury Designates Individuals and Entities Fueling Violence in Iraq

Washington, DC--The U.S. Department of the Treasury today designated five individuals and two entities under Executive Order (E.O.) 13438 for threatening the peace and stability of Iraq and the Government of Iraq. Four of the individuals designated today commit, direct, support, or pose a significant risk of committing acts of violence against Iraqi citizens, Iraqi government officials, and Coalition Forces.

"These individuals are targeting and planning attacks against innocent Iraqis, the Government of Iraq, Coalition Forces, and U.S. troops. Their lethal and destabilizing tactics, especially by Iran's Qods Force, are intended to undermine Iraq as it strives for peace and prosperity," said Stuart Levey, Under Secretary for Terrorism and Financial Intelligence.

One of the individuals designated today is a member of Iran's Qods Force, the arm of the Islamic Revolutionary Guard Corps (IRGC) that is responsible for providing material support to Lebanese Hizballah, Hamas, Palestinian Islamic Jihad, and the Popular Front for the Liberation of Palestine – General Command. Further, the Qods Force provides lethal support in the form of weapons, training, funding, and guidance to select groups of Iraqi Shia militants who target and kill Coalition and Iraqi forces and Iraqi civilians. The IRGC–Qods Force was named a Specially Designated Global Terrorist by the Treasury Department on October 25, 2007.

The Syria-based individual and entities designated today act for and on behalf of, or are owned and controlled by, Syria-based Specially Designated National Mish'an Al-Jaburi, who was designated by Treasury under E.O. 13438 in January 2008 for providing financial, material, and technical support for acts of violence that threaten the peace and stability of Iraq.

Today's action follows President Bush's issuance of E.O. 13438 on July 17, 2007, which targets insurgent and militia groups in Iraq and their supporters. Designations under E.O. 13438 are administered by Treasury's Office of Foreign Assets Control and prohibit all transactions between the designees and any U.S. person and freeze any assets the designees may have under U.S. jurisdiction. Treasury previously designated four individuals and one entity under E.O. 13438 in January 2008.

Identifying Information

ABDUL REZA SHAHLAI
AKAs:
Abdol Reza Shahlai
Abdul Reza Shala'i
`Abd-al Reza Shalai
`Abdorreza Shahlai
Abdolreza Shahla'i
Abdul-Reza Shahlaee
Hajj Yusef
Haji Yusif
Hajji Yasir
Hajji Yusif
`Yusuf Abu-al-Karkh'
Year of Birth:
Circa 1957
Location:
Kermanshah, Iran
Alt. Location:

Mehran Military Base, Ilam Province, Iran

Iran-based Abdul Reza Shahlai--a deputy commander in the IRGC–Qods Force--threatens the peace and stability of Iraq by planning Jaysh al-Mahdi (JAM) Special Groups attacks against Coalition Forces in Iraq. Shahlai has also provided material and logistical support to Shia extremist groups--to include JAM Special Groups--that conduct attacks against U.S. and Coalition Forces. In one instance, Shahlai planned the January 20, 2007 attack by JAM Special Groups against U.S. soldiers stationed at the Provincial Joint Coordination Center in Karbala, Iraq. Five U.S. soldiers were killed and three were wounded during the attack.

In late-August 2006, Shahlai provided material support to JAM Special Groups by supplying JAM Special Groups members with 122mm grad rockets, 240mm rockets, 107mm Katyushas, RPG-7s, 81mms, 60mm mortars, and a large quantity of C-4.

Shahlai also approved and coordinated the training of JAM Special Groups. As of May 2007, Shahlai served as the final approving and coordinating authority for all Iran-based Lebanese Hizballah training for JAM Special Groups to fight Coalition Forces in Iraq. In late-August 2006, Shahlai instructed a senior Lebanese Hizballah official to coordinate anti-aircraft rocket training for JAM Special Groups.

AKRAM 'ABBAS AL-KABI
AKAs:
Akram Abas al-Ka'bi
Sheik Akram al-Ka'abi
Shaykh Abu-Akram al-Ka'abi
Abu-Muhammad
Karumi
Abu 'Ali
Nationality:
Iraqi
Year of Birth:
Circa 1976
Alt. Year of Birth:
Circa 1973
Place of Birth:
al 'Amarah, Iraq
Alt. Place of Birth:
al Kalamiy, Iraq

JAM Special Groups leader Akram 'Abbas al-Kabi threatens the peace and stability of Iraq and the Government of Iraq by planning and leading attacks against members of the Government of Iraq and Coalition Forces. As of early-2008, al-Kabi was planning multiple attacks against Coalition Forces in order to show that JAM Special Groups were capable of conducting operations even when there was a freeze. In one instance, in late-February 2008, JAM Special Groups led by al-Kabi claimed responsibility for mortar and rocket attacks against Coalition and Iraqi Security Forces in Baghdad's International Zone. In March 2008, al-Kabi also led JAM Special Groups members who launched rockets into the International Zone. Additionally, as of February 2008, al-Kabi sanctioned attacks targeting Coalition Forces to include indirect fire attacks against the International Zone.

Al-Kabi also provided financial and material support to Shia militia groups that committed acts of violence in Iraq. In one instance, in early-April 2008, al-Kabi paid a JAM Special Groups leader 50 million Iraqi dinars (approximately $41,684 USD) for carrying out three separate improvised explosive device (IED) attacks against Coalition Forces in Baghdad. As of February 2008, al-Kabi had also allegedly provided funding to JAM Special Groups for recruitment purposes. Separately, as of early-2008, al-Kabi was providing weapons for large-scale military operations against Coalition Forces.

HARITH SULAYMANAL-DARI
AKAs:
Harith Al-Dari
Harith Al-Dhari
Harith Al-Dari Al-Zawbai
Harith S. Al-Dhari
Hareth Al Dari

Hareth Al-Dauri
Harith Dari Al-Zawba'i
Harith Al-Duri
Year of Birth:
1941
Place of Birth:
Baghdad, Iraq
Citizenship
Iraqi
Nationality:
Iraqi
Passport Number:
N348171/IRAQ
Title:
Secretary General of the Muslim Ulema Council
Alt. Title:
Leader of the Muslim Scholars Association
Location:
Jordan
Alt Location:
Akashat, Iraq
Alt Location:
Abu Ghuraib, Iraq
Alt Location:
Qatar
Alt Location:
Egypt

Jordan-based Harith Al-Dari-the Secretary General of the Muslim Ulama Council (MUC)-threatens the peace and stability of Iraq and the Government of Iraq by ordering and directing attacks against civilians and Iraqi and Coalition Forces. As of mid-May 2008, Al-Dari ordered leaders of Al-Qa'ida in Iraq (AQI)-affiliated cells to attack Coalition Forces and the Sons of Iraq--local citizens who support Coalition and Iraqi Security Force operations against AQI and Sunni extremists by serving as auxiliary police forces. Two of these cells--both under Al-Dari's control--emplace IEDs along Coalition convoy routes and conduct small arms fire attacks against the Sons of Iraq at checkpoints. Previously, in early-December 2005, Al-Dari ordered and was responsible for the kidnapping of four foreign nationals in Iraq by a group under Ansar al-Sunna, a Specially Designated Global Terrorist.

Separately, in early-October 2006, Al-Dari directed a plot to bring IEDs into the International Zone, Baghdad. Although foiled, the plot was intended to be part of other coordinated attacks, to include plans to assassinate the commander of U.S. Forces in Iraq and the U.S. and British ambassadors to Iraq. Al-Dari also ordered a MUC advisor to plan and direct late-November 2005 attacks against Coalition and Iraqi forces.

Al-Dari has also provided financial and material support to terrorist and insurgent groups that conduct attacks against Coalition and Iraqi Forces. As of mid-April 2008, Al-Dari continuously travels between Lebanon, Syria, Jordan, and Saudi Arabia to elicit monetary and material donations that finance two Sunni terrorist groups in Baghdad. The groups--using funds provided by Al-Dari to purchase large amounts of bomb-making material, explosives, and weapons--emplace IEDs, launch mortars and rockets, and conduct sectarian violence. Additionally, as of mid-April 2008, Al-Dari was in charge of funding for the AQI-affiliated Mujahidin Army (MA), to include distributing funds collected by foreign "investors" to support MA operations. As of mid-2008, Al-Dari allegedly arranged financing for an AQI-affiliated group whose operational plans included emplacing IEDs, launching rockets, and conducting assassinations of political and religious figures that cooperated with the United States. Additionally, as of early-2008, Al-Dari provided financial support to a Sunni extremist cell formed for the purpose of carrying out attacks on Multi-National Force – Iraq.

Previously, in June 2006, Al-Dari provided financial and logistical support for an attack against Iraqi forces. Al-Dari owned a front company that received a money transfer of $5 million USD to finance a chemical mortar attack against Iraqi forces. The money transfer was intended to provide logistical support for the attack, to include facilitating the use of Al-Dari's farm house and complex as a staging area and paying for the billeting of the foreign fighters slated to carry out the attack.

AHMAD HASSAN KAKA AL-UBAYDI
AKAs:
Ahmed Hassan Kaka al-Obeidi
Ali Al Nobani
Hazim Kaka
Nationality:
Iraqi
Year of Birth:
1949
Place of Birth:
Baghdad, Iraq
Passport Number:
F032516
Date of Issue:
19760504
Place of Issue:
Baghdad, Iraq
Location:
Al Humayra village, Taza sub district, Iraq
Alt. Location:
Kurdi Al Nasir village, Iraq

Iraq-based Ahmad Hassan Kaka Al-Ubaydi--a former Iraqi Intelligence Service officer and a Ba'th Party official--leads a network of Kirkuk, Iraq-based insurgents that commits and poses a significant risk of committing acts of violence that threaten the peace and stability of Iraq and the Government of Iraq. Kaka also provides financial support for acts of violence that have the purpose or effect of threatening the peace and stability of Iraq and the Government of Iraq.

In 2005, Kaka was identified as the leader of a Kirkuk-based network that attacked Coalition and Iraqi forces with IEDs and plotted assassinations of Iraqi government officials. As of late-October 2007, Kaka directs assassinations of Iraqi Kurds and in one instance authorized a member of his network to assassinate tribal leaders because of their cooperation with U.S. and Iraqi forces.

Kaka also plans acts of violence targeting Kirkuk. In February 2007, Kaka planned to take over Kirkuk using sophisticated weapons and numerous armed fighters.

In addition to directing and planning acts of violence against Coalition and Iraqi forces, Kaka provided financial support for vehicle borne improvised explosive devices (VBIED) attacks in Iraq. As of August 2007, Kaka and his group purchased sedans to use as VBIEDs against Coalition and Iraqi government forces in Kirkuk, and certain government facilities in Mosul, Iraq. Previously, in May 2007, Kaka was providing funding to a group that manufactured IEDs to attack Coalition Forces.

RAW'A AL-USTA
AKAs:
Raw'a al-Ousta
Raw'ah al-Usta
Raw'ah al-Ustah
Rawa al-`Usta
Rawaa Alousta
Raw'ah Al-Astah
Nationality:
Syrian
Year of Birth:
1982
Location:
Damascus, Syria

AL-RA'Y SATELLITE TELEVISION CHANNEL
AKAs:
Satellite Television Channel Al Ra'y
Al-Ra'y Satellite Channel
Al-Ra'i Satellite Channel
Al Ra'y satellite television station
Al Raie TV Channel
Arrai TV
Al Ra'y TV
The Opinion satellite television channel

Internet Address:
[illegible]
Email Address:
[illegible]
Location:
Near Damascus in the Yaafur area, Syria

SURAQIYA FOR MEDIA AND BROADCASTING
AKAs:
Soraqia for Media and Broadcasting
Soraqiya for Media and Broadcasting
SBC Television
SBC TV
Location:
Al Sufara' Street in the Ya'fur district of Damascus, Syria

Syria-based Al-Ra'y Satellite Television Channel is owned and controlled by Syria-based Specially Designated National Mish'an Al-Jaburi. Although Al-Jaburi publicly denied owning Al-Ra'y and claimed it was owned by a Syrian woman named Raw'a Al- Usta, Al-Jaburi established Al-Ra'y in Syria, is the real owner of the station, and manages it through Al-Usta-his wife. Al-Usta works for and on behalf of Al-Jaburi as Al-Ra'y's general manager--dealing with the station's personnel and technical issues and making requests on behalf of the station. Syria-based Suraqiya for Media and Broadcasting--Al-Ra'y's parent company--is also owned and controlled by Al-Jaburi.

In addition to the reasons for which Al-Ra'y is being designated, as of late-March 2008, despite experiencing technical difficulties, Al-Ra'y had transmitted videos of Iraqi insurgent groups conducting operations.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

September 16, 2008
HP-1142

Remarks by Treasury Under Secretary for International Affairs
David H. McCormick
at Future
of Consumer Payments Conference

Washington – Good afternoon. Thank you for that kind introduction, Martin. And thanks to you, to Bob and to Ken Chenault for the invitation to be here today. I am pleased to join with you for this conference on "the quiet revolution in money," the implications for our citizens, our economy, and financial system of the dramatic change in consumer payments.

I'd like to begin by passing along the regrets of Secretary Paulson who is focused today on market developments and has asked me to speak on his behalf.

Financial Markets

I will begin my remarks on a broader issue. As you know, we are going through a difficult period in our financial markets right now as we work through past excesses. After years of unsustainable home price appreciation, we are undergoing a necessary, difficult, and prolonged housing correction. In addition, benign U.S. and global economic conditions, significant global imbalances, large international capital flows, lax lending standards and investors' aggressive appetite for yield extended beyond the U.S. housing market and have impacted our capital markets more broadly.

We are working to minimize the impact of the housing correction on the rest of the economy, but we do not want to impede its progress --- because the sooner we turn the corner on housing, the sooner we will see home values stabilize, the sooner we will see more people buying homes, and the sooner housing will again contribute to economic growth. Still, it will take time to work through these stresses. Progress will not come in a straight line, and there will be bumps in the road as we make progress. The events of the last few weeks are evidence of this and are important and necessary steps to work through the uncertainty and turmoil in our markets and minimize their impact on the rest of the economy.

This past weekend, Secretary Paulson and the Treasury team worked with the Federal Reserve and the Securities and Exchange Commission (SEC) to convene financial institution leaders from around the world to discuss particular areas of market weakness and how to work through managing the broader impact of those issues on financial market stability. The weekend culminated with a series of significant events. To mitigate disruption surrounding the bankruptcy of Lehman Brothers, the SEC, the Federal Reserve, and major global financial institutions each took a series of extraordinary steps.

The Federal Reserve has broadened the eligible collateral of certain lending facilities, and the SEC has taken steps to protect customer accounts at Lehman Brothers. Moreover, in an important show of leadership, major market participants have stepped up to their responsibility to support stable and orderly markets as well. The extraordinary commitments will be critical to facilitating liquid, smooth functioning markets and addressing potential credit concerns.

This past weekend, regulators and market participants mitigated the systemic risk that might have otherwise occurred due to the bankruptcy of the fourth largest U.S. investment bank. And as Secretary Paulson said yesterday, while what's happening is not easy -- and significant challenges remain -- the American people can remain confident in the soundness and resilience of our banking and financial system.

Healthy capital markets are the backbone of a vibrant U.S. economy, and they are critical to the well-being of our families. Capital market stress continues to weigh on our economy, but the housing correction is at the root of the challenges facing our financial institutions and our markets. These factors, along with high energy prices, present ongoing challenges. But we are also confident in the resilience and diversity of the U.S. economy and that we will move through these difficulties, just as we have moved through difficult periods in the past. We expect our economy to continue growing this year, although at a moderate pace as these challenges persist.

U.S. Economy and Housing Market

The current soft labor market reflects our slow rate of growth. The unemployment rate increased to 6.1 percent in August, and although Americans' average wages have increased, higher food and energy prices are absorbing those gains.

Energy prices, while still much higher than a year ago, have declined recently. A gallon of regular gas costs about 30 cents less now than in early summer, even in the face of hurricane-related disruptions, which should help relieve some pressure on family finances and business costs.

Clearly, the economic slowdown is hurting American families. The stimulus package proposed by President Bush and passed by Congress earlier this year has provided some relief --- $93 billion in payments have been sent to American households. We saw the impact of this in the second quarter, when the U.S economy expanded at a solid 3.3 percent, supported by increases in trade and consumer spending. And we expect that the stimulus package will continue to boost growth above where it would have been otherwise through the end of the year.

As Secretary Hank Paulson, Chairman Ben Bernanke, and others have said from the outset of these challenges over a year ago, housing poses the biggest downside risk to our economy and continues to be a drag on growth. Yet, there are signs of progress. Fewer new homes are being built, and this means the total number of new single-family homes on the market is down 27 percent from a July 2006 peak. And though it is early, new and existing home sales show tentative signs of stabilizing.

Treasury has worked closely with lenders and key industry participants on an aggressive strategy to do everything possible to help avoid preventable foreclosures. We supported the creation of the HOPE NOW Alliance last October, which to date has helped over 2 million homeowners avoid foreclosure through loan workouts.

But we have much further to go. Turning the corner on the housing correction requires that prices stabilize and affordable mortgage financing be available so buyers can return to the market. And so while we are working to stabilize capital markets, it is also vital that the Government Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac continue to play their role in supporting the housing market.

Actions to Stabilize Housing and Financial Markets

The GSEs have become the largest sources of mortgage finance, touching 70 percent of mortgages originated in the first quarter. Their continued activity is critical to turning the corner on the housing situation and removing the underlying uncertainty in our financial markets and financial institutions.

Not surprisingly, the prolonged housing correction weakened the financial condition of both of these enterprises, and they faced a significant loss of confidence among investors. Fannie Mae and Freddie Mac are so large and so interwoven in our financial system that if either of them were to fail, it would be harder for Americans to get home loans, auto loans and other consumer credit. Business finance would be even harder to obtain, constraining job creation and our overall economic growth.

And so in July, Secretary Paulson asked the Congress for extraordinary authorities with regard to Fannie Mae and Freddie Mac in order to support our housing markets and the stability of our financial markets more broadly. Congress acted

promptly and decisively. In the days and weeks that followed, the Federal Housing Finance Agency (FHFA) Director Lockhart, Fed Chairman Bernanke, and Secretary Paulson conducted a rigorous analysis of the situation, which led to the unpleasant but necessary decision to utilize these authorities. We had no choice but to act. Waiting for a precipitating event would have been too late.

We acted decisively to avert instability in our markets that would have harmed the overall financial well-being of Americans, and we acted to support the availability of mortgage credit and protect taxpayers to the maximum extent possible.

First, Treasury and the GSEs, under the control of the conservator FHFA, have established contractual Preferred Stock Purchase Agreements. Under these agreements, Treasury has committed up to $100 billion per institution to ensure that each GSE maintains a positive net worth. In return, to protect the taxpayers to the maximum extent, Treasury has received from the companies $1 billion in senior preferred stock and warrants providing an option to purchase up to 79 percent of the companies' outstanding shares at a nominal price.

These Preferred Stock Purchase Agreements were made necessary by the ambiguities in the GSE Congressional charters, which have been perceived to indicate government support for agency debt. Our nation has tolerated these ambiguities for too long, and as a result, central banks and investors throughout the United States and around the world who hold GSE debt and MBS believe them to be virtually risk-free. Because the U.S. Government created these ambiguities, we have a responsibility to both avert and ultimately address the systemic risk now posed by the scale and breadth of the holdings of GSE debt and agency MBS.

The terms of these purchase agreements provide significant taxpayer protection. The existing shareholders of the GSEs will lose 100 percent of their investment before the American taxpayers lose a penny.

Second, Treasury has established a new, secured credit facility for Fannie Mae, Freddie Mac, and the Federal Home Loan Bank to fund, if necessary, their regular business activities in the capital markets. This facility is intended to serve purely as an ultimate liquidity backstop, and will be available until the temporary authority expires in December 2009.

And third, to further support the availability of mortgage financing for millions of Americans, Treasury is initiating a temporary program to purchase mortgage-backed securities issued by the GSEs. This will provide additional capital to the mortgage marketplace. There is no reason to expect taxpayer losses from this program, which will also expire in December 2009.

Together, Treasury and FHFA steps are the best means of protecting taxpayers and our markets from the systemic risk posed by the current financial condition of the GSEs and to provide support for these enterprises' current, important role in the housing market.

At the same time, we face fundamental policy decisions about the role and structure of these enterprises. Policymakers must resolve the inherent conflict in their charter that requires they serve both the interests of private investors and a public mission. Our recent actions have afforded a "time out" – providing the stability, time, and flexibility for Congress and the current and the next Administration to address both the need for affordable mortgage finance and the systemic risk presented by the scale and breadth of the existing GSE holdings. We will make a grave error if we don't use this time to permanently address these structural issues.

Electronic Payments

As we work through these financial and housing market issues, let me speak for a moment on one of the most constant aspects of our economic life -- change ---- and how this is evidenced in the topic of today's conference – consumer payments. This is evident in how we pay for our groceries, our bills, our clothes, and our taxes. Between 2003 and 2006, Americans wrote 7 billion fewer checks and made 19 billion more electronic payments.

Treasury is interested in this transformation on a macroeconomic level --- one study

estimates that growth in electronic payments added 0.5 percent to real GDP per year in each of the last 20 years, or the equivalent of 1.3 million new jobs. The same study estimated that the increase in efficiency and velocity of electronic over paper-based payments saved at least 1 percent of GDP, or about $60 billion, annually.

We have a long-standing strategic vision, which is becoming a reality thanks to years of hard work by our many professionals, to become an all-electronic Treasury. To put the scale of this in perspective, Treasury manages a daily cash flow of nearly $60 billion.

Every year, we collect more than $3.1 trillion and disburse nearly one billion payments worth nearly $1.6 trillion. In 1996, 56 percent of federal benefit payments were made by electronic payment; today it's 82 percent.

Electronic payments provide real savings to the U.S. taxpayer. It costs Treasury approximately 10 cents to issue an electronic payment, versus 98 cents to issue a check --- when you consider the millions of annual federal payments made, the savings are substantial. There are savings on the collection side as well --- processing a taxpayer's check costs $1.30 versus 73 cents for an electronic payment.

We are encouraging more individuals to opt for direct deposit for their social security payments, because nine times out of ten when there's a problem with a payment, it's with a paper check.

Treasury also works closely with financial regulatory authorities on issues of infrastructure and data integrity so that consumers can trust that their information will be protected. Through a public-private partnership, we work with the intelligence community, law enforcement, and financial institutions to provide the latest information regarding cyber vulnerabilities and risk mitigation tactics.

Conclusion

Just as you are looking forward, so are we. It will take time to work through the excesses that were built up over a number of years, and the Administration and financial regulators remain vigilant. We are focused on measures and policies that address our short-term economic challenges and build a stronger long-term foundation. And the American economy has a record of innovation and adjustment --- to challenges, to risks, to changing demands --- second to none. That is the underlying spirit that has made the United States the economic envy of the world – even as we manage through our current problems --- and it will keep us so in the years ahead. Thank you.

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September 16, 2008
hp-1143

Statement by Secretary Henry M. Paulson, Jr. on Federal Reserve Actions Surrounding AIG

Washington, DC-- Treasury issued the following statement by Secretary Henry M. Paulson, Jr. on Federal Reserve actions surrounding American International Group:

These are challenging times for our financial markets. We are working closely with the Federal Reserve, the SEC and other regulators to enhance the stability and orderliness of our financial markets and minimize the disruption to our economy. I support the steps taken by the Federal Reserve tonight to assist AIG in continuing to meet its obligations, mitigate broader disruptions and at the same time protect the taxpayers.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

September 17, 2008
HP-1144

Treasury Announces Supplementary Financing Program

Washington- The Federal Reserve has announced a series of lending and liquidity initiatives during the past several quarters intended to address heightened liquidity pressures in the financial market, including enhancing its liquidity facilities this week. To manage the balance sheet impact of these efforts, the Federal Reserve has taken a number of actions, including redeeming and selling securities from the System Open Market Account portfolio.

The Treasury Department announced today the initiation of a temporary Supplementary Financing Program at the request of the Federal Reserve. The program will consist of a series of Treasury bills, apart from Treasury's current borrowing program, which will provide cash for use in the Federal Reserve initiatives.

Announcements of and participation in auctions conducted under the Supplementary Financing Program will be governed by existing Treasury auction rules. Treasury will provide as much advance notification as possible regarding the timing, size, and maturity of any bills auctioned for Supplementary Financing Program purposes.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

September 17, 2008
HP-1145

Treasury Designates Iranian Military Firms

Washington - The U.S Department of the Treasury today designated six Iranian military firms that are owned or controlled by entities previously designated for their roles in Iran's nuclear and ballistic missile programs, including Iran's Ministry of Defense and Armed Forces Logistics (MODAFL) and Defense Industries Organization (DIO).

"Iran attempts to shield its procurement activities behind a maze of entities, essentially hoodwinking those still doing business with Iran into facilitating illicit transactions for the transport of dual use, missile-related items," said Stuart Levey, Under Secretary for Terrorism & Financial Intelligence.

Iran Electronics Industries , Shiraz Electronics Industries , Iran Communications Industries , Iran Aircraft Manufacturing Industrial Company , Farasakht Industries, and Armament Industries Group were designated today pursuant to Executive Order 13382, an authority aimed at freezing the assets of proliferators of weapons of mass destruction and their supporters, and at isolating them from the U.S. financial and commercial systems. Designations under E.O. 13382 are implemented by Treasury's Office of Foreign Assets Control and they prohibit all transactions between the designees and any U.S. person, and freeze any assets the designees may have under U.S. jurisdiction.

Treasury prepared these designations in close coordination with the Commerce Department's Bureau of Industry and Security as well as the Justice Department. The designations complement Commerce's and Justice's criminal investigation of Iranian procurement front companies.

Iran Electronics Industries , as well as two subsidiary organizations, Shiraz Electronics Industries and Iran Communications Industries , are being designated because they are owned or controlled by Iran's MODAFL. MODAFL, which was designated under Executive Order 13382 on October 25, 2007, controls other previously designated entities DIO, and Aerospace Industries Organization, which is the overall manager and coordinator of Iran's missile program.

Iran Electronics Industries (IEI) offers a diversified range of military products including electro-optics and lasers, communication equipment, telecommunication security equipment, electronic warfare equipment, new and refurbished radar tubes, and missile launchers. IEI manufactures military tactical communication systems and also electronic field telephones and switchboards. IEI also manufactures night vision systems and laser range finders in addition to binoculars and periscopes.

Shiraz Electronics Industries is engage in the production of various electronics equipment for the Iranian military, including radars, microwave electron vacuum tubes, naval electronics, avionics and control systems, training simulators, missile guidance technology, and electronic test equipment.

Iran Communications Industries (ICI) is Iran's leading manufacturer of military and civilian communication equipment and systems. ICI offers more than seventy-five products, including tactical communications and encryption systems that meet a wide range of the Iranian military's requirements.

Iran Aircraft Manufacturing Industrial Company (HESA) is being designated because it is owned or controlled by MODAFL, and also because it has provided support to the Iranian Revolutionary Guard Corps (IRGC). The IRGC, which was designated under Executive Order 13382 on October 25, 2007, is considered to be the military vanguard of Iran and has been outspoken about its willingness to

proliferate ballistic missiles capable of carrying WMD.

HESA utilizes its own facilities for the inspection, maintenance, repair overhaul research, development, and manufacture of military and civilian aircraft and related military logistic systems. HESA conducts research on, development of, production of, and flight operations for unmanned aerial vehicles (UAVs) in Iran. The IRGC utilizes the "Ababil" UAV, manufactured by HESA. HESA produces different variants of the Ababil UAV, which can be used for surveillance and attack. Farasakht Industries is a subsidiary of HESA that specializes in the manufacturing of various aerospace tools and equipment.

Armament Industries Group is also being designated because it is owned or controlled by and acts on behalf of Iran's DIO. Armament Industries Group is directly subordinate to DIO and is known to manufacture arms such as gun howitzers, multiple rocket launchers, sniper rifles and a variety of machine guns. DIO was designated under Executive Order 13382 on March 30, 2007, for having engaged in activities that materially contribute to the development of Iran's nuclear and missile programs.

Identifying Information

ARMAMENT INDUSTRIES GROUP
AKA:
"AIG-Armament Industries Group"

Addresses:
Pasdaran Ave., P.O. Box 19585/777
Tehran, Iran
Sepah Islam Road, Karaj Special Road Km 10, Iran

FARASAKHT INDUSTRIES
Address:
P.O. Box 83145-311, Kilometer 28, Esfahan -- Tehran Freeway
Shahin Shahr, Esfahan, Iran

IRAN AIRCRAFT MANUFACTURING INDUSTRIAL COMPANY

AKAs:
HESA
Hava Peyma Sazi-E Iran
Hevapeimasazi;
Havapeyma Sazi Iran
Havapeyma Sazhran
Iran Aircraft Manufacturing Industries
Karkhanejate Sanaye Havapaymaie Iran
Iran Aircraft Manufacturing Company
IAMCO
IAMI
HESA Trade Center

Address:
P.O. Box 83145-311, 28 km Esfahan -- Tehran Freeway
Shahin Shahr, Esfahan, Iran

Shahih Shar Industrial Zone Isfahan, Iran

P.O. Box 81465-935, Esfahan, Iran

P.O. Box 8140, No. 107 Sepahbod Gharany Ave, Tehran, Iran

P.O. Box 14155-5568, No. 27 Shahamat Ave, Vallie Asr Sqr,
Post Code 15946, Tehran, Iran

IRAN COMMUNICATION INDUSTRIES
AKAs:
ICI

IRAN COMMUNICATIONS INDUSTRIES GROUP
SANAYE MOKHABERAT IRAN

Addresses:
P.O. Box 19295-4731, Pasdaran Avenue, Tehran, Iran

P.O. Box 19575-131, 34 Apadana Avenue, Tehran, Iran

Shahid Langari Street, Nobonyad Square Ave., Pasdaran, Tehran, Iran

IRAN ELECTRONICS INDUSTRIES
AKAs:
IEI
Sanaye Electronic Iran
Sasad Iran Electronics Industries
Sherkat Sanayeh Electronics Iran

Company Registration Number:
829

Addresses:
P.O. Box 19575-365
Shahied Langari Street, Noboniad Sq, Pasdaran Aye, Saltanad Abad, Tehran, Iran

P.O. Box 71365-1174, Hossain Abad/Ardakan Road, Shiraz, Iran

SHIRAZ ELECTRONICS INDUSTRIES
AKAs:
Shiraz Electronic Industries
SEI

Addresses:
P.O. Box 71365-1589, Shiraz, Iran

Hossain Abad Road, Shiraz, Iran

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

September 18, 2008
HP-1146

Prepared Remarks by Patrick M. O'Brien, Assistant Secretarybefore the 3rd U.S.-Latin America Private Sector Dialogue

Washington, DC--Good morning, ladies and gentlemen.

It is a pleasure to see many familiar as well as new faces at our third U.S.-Latin America Private Sector Dialogue.

This *dialogue* could not have been realized without the tremendous organizational efforts of our Brazilian hosts at the Federation of Brazilian Banks (FEBRABAN). *Muito obrigado*. Those who have participated in past dialogues know that they require a significant amount of coordination across the Americas and I would also like to thank the Latin American Federation of Banks (FELABAN), the Banking and Financial Entities Association of Colombia (Asobancaria), the Florida International Banking Association (FIBA), and the Bankers Association for Finance and Trade (BAFT), all of whom have contributed countless resources to this important regional initiative.

The U.S.-Latin American Private Sector Dialogue – or PSD – originated in June 2006 as a roundtable discussion among senior U.S. and Latin American banking and financial regulatory officials. Roundtable participants representing distinct jurisdictions throughout Latin America spent a full day discussing private sector perspectives on Anti-Money Laundering and Counter-Terrorist Financing (AML/CFT) implementation and agreed to move forward together with planning large conferences and seminars dedicated to addressing core areas of mutual interest and concern.

Since its inception, the purpose of the PSD initiative has been to open and encourage direct dialogue between the financial sectors in the U.S. and Latin America in order to:

(i) raise awareness of terrorist financing and money laundering risks;
(ii) facilitate a better understanding of effective practices and programs to combat such risks, and
(iii) strengthen implementation of effective AML/CFT controls.

Asobancaria hosted the inaugural U.S.-LA PSD in Bogotá, Colombia in April 2007. The first PSD addressed comparative aspects of AML/CFT regulation and liability in Latin America and the U.S. It included discussions on cross-border barriers to supervision and compliance between our two regions, due diligence in managing correspondent accounts and relationships and managing risks associated with Non-Bank Financial Institutions.

FIBA took the lead and hosted the second PSD in conjunction with their annual AML conference in February of this year. The second PSD was structured as an intercessional, the objective being to gather PSD stakeholders six months after the inaugural dialogue, take stock and together brainstorm ideas for this, our third PSD in Sao Paulo. Those efforts identified key areas of concern particularly relevant to PSD "hot topics" such as correspondent banking and banking secrecy, as well as the role of law enforcement in AML/CFT implementation.

Which brings us to the present moment and our third PSD. Asobancaria, BAFT, FELABAN and FIBA remain core supporters of the PSD initiative and we are thrilled to welcome FEBRABAN and its members into this influential steering group. Over the course of the next two days we look forward to delving into the issues that continue to feature prominently for you, our PSD stakeholders.

We are joined here in Sao Paulo by many highly esteemed AML/CFT professionals from both the private and public sectors, and we especially thank our panelists and moderators for their participation. The two panels that will set the stage for the event this morning will address AML Regulation in Latin America and Financial Intelligence Units (FIUs) and Judicial Authority. Following these panels, this afternoon and tomorrow we will discuss four topics important to this dialogue in a more in-depth manner. Those four topics include Correspondent Banking, Banking Secrecy, Politically Exposed Persons (PEPs), and Operational Risks and AML Strategies. Today will provide an overview of each topic, while tomorrow will offer the opportunity for a more detailed, thorough and we hope free-flowing and informal discussion during small break-out sessions. At the end of each session, we will reconvene and present highlights – and compare and contrast conclusions – from the break-out discussions.

The principal objectives of today and tomorrow's *dialogue* in the context of the broader PSD initiative – what we encourage all participants to achieve – are:

- a better understanding of the money laundering and terrorist financing risks presented by correspondent banking and Politically Exposed Persons (PEPs) and how to address those risks through implementation of effective AML-CFT controls;
- a deeper knowledge of what is meant by bank secrecy and the challenges that it can present to AML/CFT, and how to overcome those challenges;
- greater awareness of the essential components of an organization's AML/CFT compliance strategy, and the tools and resources available to help address the unique operational risks of your institution and/or jurisdictions; and
- the development of relationships between private sector and public sector counterparts that will enable individuals and institutions to follow up on any AML/CFT related issues of interest or concern.

Like previous PSDs, we anticipate that the discussions today and tomorrow will help enhance the level of cooperation and coordination between regulators and financial sector operators within and across national boundaries. Latin American government participation at this and previous PSDs covers the gamut – from Central Banks and Ministries of Finance to Financial Intelligence Units and Bank Superintendents. On the U.S. regulatory side, we are pleased to have the Financial Crimes Enforcement Network (FinCEN) and the Federal Reserve present here in Sao Paulo, and to be able to rely on the continued support and involvement of the Office of the Comptroller of the Currency (OCC) and the Office of Foreign Assets Control (OFAC).

The PSD is a unique collaborative venue for the private sector to talk about its perspectives on risk, and the efficacy of different mitigation efforts. Our goal is that the PSD serve as a mechanism for collaborative and mutually beneficial discussions on regional AML/CFT priorities, on achieving harmonization between the benefits and the burdens of risk mitigation, on balancing the effective use of risk mitigation resources with practical considerations for financial institutions.

As part of our effort to ensure the PSD remain viable throughout the year and not just when we have the opportunity to meet such as today, we are pleased to announce that, thanks to FEBRABAN, the U.S.-LA PSD is now on-line and can be accessed through FEBRABAN's main page. On the PSD website, stakeholders can find comprehensive information on past and future PSDs. Since the PSD attracts a large group of regulatory and financial sector participants – including banks, consulting and law firms – from over 20 different countries, we anticipate the PSD website to have an even greater reach.

Additionally, we have begun outreach to the South American Financial Action Task Force (GAFISUD) in an effort to ensure private sector feedback is channeled to regulatory decision makers. We are excited that fellow PSD founder and President of the Brazilian Financial Intelligence Unit, Gustavo Rodrigues now leads the Financial Action Task Force (FATF), which is increasingly working with the international private sector to strengthen AML/CFT implementation. Our goal is to contribute to that process at the regional level. We believe that strengthening the GAFISUD relationship with the private sector would provide an opportunity to further advance discussions regarding AML/CFT implementation challenges, identify ways to address those challenges, and further promote international business with the Latin American region.

More immediately, we wish to highlight our appreciation for the work of FELABAN's Latin American Committee for the Prevention of Money Laundering and Financing of Terrorism (COPLAFT) and to reiterate our support as COPLAFT member associations commit to PSD deliverables. In addition to the overall objectives of this conference, we encourage COPLAFT members to identify topics that can be incorporated into their work plan. We have discussed with COPLAFT, for example, the idea of a jurisdictional risk assessment describing AML/CFT risks faced by certain industries throughout the region. We want to be a sounding board by offering to collaborate closely in this endeavor. We believe that such an undertaking could serve as a viable means of deepening public-private sector dialogue and cementing public-private relationships.

In conclusion, extend my gratitude to our panel facilitators, including those from the private and public sectors in the U.S. and across the Latin American region for their work and leadership in preparing us for today's dialogue. We must maximize this unique opportunity to develop insights and innovative solutions to the daily challenges of protecting our global financial community.

I look forward to continuing our work together to advance these goals.

Thank you, *muito obrigado* and *muchas gracias.*

September 19, 2008
hp-1147

Treasury Announces Guaranty Program for Money Market Funds

Washington- The U.S. Treasury Department today announced the establishment of a temporary guaranty program for the U.S. money market mutual fund industry. For the next year, the U.S. Treasury will insure the holdings of any publicly offered eligible money market mutual fund – both retail and institutional – that pays a fee to participate in the program.

President George W. Bush approved the use of existing authorities by Secretary Henry M. Paulson, Jr. to make available as necessary the assets of the Exchange Stabilization Fund for up to $50 billion to guarantee the payment in the circumstances described below.

Money market funds play an important role as a savings and investment vehicle for many Americans; they are also a fundamental source of financing for our capital markets and financial institutions. Maintaining confidence in the money market fund industry is critical to protecting the integrity and stability of the global financial system.

Concerns about the net asset value of money market funds falling below $1 have exacerbated global financial market turmoil and caused severe liquidity strains in world markets. In turn, these pressures have caused a spike in some short term interest and funding rates, and significantly heightened volatility in exchange markets. Absent the provision of such financing, there is a substantial risk of further heightened global instability.

Maintenance of the standard $1 net asset value for money market mutual funds is important to investors. If the net asset value for a fund falls below $1, this undermines investor confidence. The program provides support to investors in funds that participate in the program and those funds will not "break the buck".

This action should enhance market confidence and alleviate investors' concerns about the ability for money market mutual funds to absorb a loss. Investors in money market mutual funds with a net asset value that falls below $1 would be notified that their fund triggered the insurance program.

The Exchange Stabilization Fund was established by the Gold Reserve Act of 1934. This Act authorizes the Secretary of the Treasury, with the approval of the President, "to deal in gold, foreign exchange, and other instruments of credit and securities" consistent with the obligations of the U.S. government in the International Monetary Fund to promote international financial stability. More information on the Exchange Stabilization Fund can be found at

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

September 19, 2008
hp-1148

Media Advisory:
Secretary Paulson to Hold Press Conference on Comprehensive Approach to Market Developments

Washington, DC-- Treasury Secretary Henry M. Paulson, Jr. will hold a press conference at 10 a.m. (EDT) today at the Treasury Department to discuss a comprehensive approach to market developments.

WHO: Treasury Secretary Henry M. Paulson, Jr.

WHAT: Press Conference to Discuss Comprehensive Approach to Market Developments

WHEN: 10 a.m. (EDT), September 19, 2007

WHERE: Treasury Department
1500 Pennsylvania Avenue, NW
Washington, D.C.
Media Room (4121)

NOTE: Media without Treasury press credentials planning to attend should contact Frances Anderson in Treasury's Office of Public Affairs at (202) 622-2960 or (202) 528-9086 with the following information: name, Social Security number and date of birth. This information may also be emailed to frances.anderson@do.treas.gov.

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September 19, 2008
hp-1149

Statement by Secretary Henry M. Paulson, Jr. on Comprehensive Approach to Market Developments

Washington, DC-- Last night, Federal Reserve Chairman Ben Bernanke, SEC Chairman Chris Cox and I had a lengthy and productive working session with Congressional leaders. We began a substantive discussion on the need for a comprehensive approach to relieving the stresses on our financial institutions and markets.

We have acted on a case-by-case basis in recent weeks, addressing problems at Fannie Mae and Freddie Mac, working with market participants to prepare for the failure of Lehman Brothers, and lending to AIG so it can sell some of its assets in an orderly manner. And this morning we've taken a number of powerful tactical steps to increase confidence in the system, including the establishment of a temporary guaranty program for the U.S. money market mutual fund industry.

Despite these steps, more is needed. We must now take further, decisive action to fundamentally and comprehensively address the root cause of our financial system's stresses.

The underlying weakness in our financial system today is the illiquid mortgage assets that have lost value as the housing correction has proceeded. These illiquid assets are choking off the flow of credit that is so vitally important to our economy. When the financial system works as it should, money and capital flow to and from households and businesses to pay for home loans, school loans and investments that create jobs. As illiquid mortgage assets block the system, the clogging of our financial markets has the potential to have significant effects on our financial system and our economy.

As we all know, lax lending practices earlier this decade led to irresponsible lending and irresponsible borrowing. This simply put too many families into mortgages they could not afford. We are seeing the impact on homeowners and neighborhoods, with 5 million homeowners now delinquent or in foreclosure. What began as a sub-prime lending problem has spread to other, less-risky mortgages, and contributed to excess home inventories that have pushed down home prices for responsible homeowners.

A similar scenario is playing out among the lenders who made those mortgages, the securitizers who bought, repackaged and resold them, and the investors who bought them. These troubled loans are now parked, or frozen, on the balance sheets of banks and other financial institutions, preventing them from financing productive loans. The inability to determine their worth has fostered uncertainty about mortgage assets, and even about the financial condition of the institutions that own them. The normal buying and selling of nearly all types of mortgage assets has become challenged.

These illiquid assets are clogging up our financial system, and undermining the strength of our otherwise sound financial institutions. As a result, Americans' personal savings are threatened, and the ability of consumers and businesses to borrow and finance spending, investment, and job creation has been disrupted.

To restore confidence in our markets and our financial institutions, so they can fuel continued growth and prosperity, we must address the underlying problem.

The federal government must implement a program to remove these illiquid assets that are weighing down our financial institutions and threatening our economy. This troubled asset relief program must be properly designed and sufficiently large to

have maximum impact, while including features that protect the taxpayer to the maximum extent possible. The ultimate taxpayer protection will be the stability this troubled asset relief program provides to our financial system, even as it will involve a significant investment of taxpayer dollars. I am convinced that this bold approach will cost American families far less than the alternative – a continuing series of financial institution failures and frozen credit markets unable to fund economic expansion.

I believe many Members of Congress share my conviction. I will spend the weekend working with members of Congress of both parties to examine approaches to alleviate the pressure of these bad loans on our system, so credit can flow once again to American consumers and companies. Our economic health requires that we work together for prompt, bipartisan action.

As we work with the Congress to pass this legislation over the next week, other immediate actions will provide relief.

First, to provide critical additional funding to our mortgage markets, the GSEs Fannie Mae and Freddie Mac will increase their purchases of mortgage-backed securities (MBS). These two enterprises must carry out their mission to support the mortgage market.

Second, to increase the availability of capital for new home loans, Treasury will expand the MBS purchase program we announced earlier this month. This will complement the capital provided by the GSEs and will help facilitate mortgage availability and affordability.

These two steps will provide some initial support to mortgage assets, but they are not enough. Many of the illiquid assets clogging our system today do not meet the regulatory requirements to be eligible for purchase by the GSEs or by the Treasury program.

I look forward to working with Congress to pass necessary legislation to remove these troubled assets from our financial system. When we get through this difficult period, which we will, our next task must be to improve the financial regulatory structure so that these past excesses do not recur. This crisis demonstrates in vivid terms that our financial regulatory structure is sub-optimal, duplicative and outdated. I have put forward my ideas for a modernized financial oversight structure that matches our modern economy, and more closely links the regulatory structure to the reasons why we regulate. That is a critical debate for another day.

Right now, our focus is restoring the strength of our financial system so it can again finance economic growth. The financial security of all Americans – their retirement savings, their home values, their ability to borrow for college, and the opportunities for more and higher-paying jobs – depends on our ability to restore our financial institutions to a sound footing.

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September 20, 2008
hp-1150

FACT SHEET:
Proposed Treasury Authority to Purchase Troubled Assets

Washington – The Treasury Department has submitted legislation to the Congress requesting authority to purchase troubled assets from financial institutions in order to promote market stability, and help protect American families and the US economy. This program is intended to fundamentally and comprehensively address the root cause of our financial system's stresses by removing distressed assets from the financial system. When the financial system works as it should, money and capital flow to and from households and businesses to pay for home loans, school loans and investments that create jobs. As illiquid mortgage assets block the system, the clogging of our financial markets has the potential to significantly damage our financial system and our economy, undermining job creation and income growth. The following description reflects Treasury's proposal as of Saturday afternoon.

Scale and Timing of Asset Purchases. Treasury will have authority to issue up to $700 billion of Treasury securities to finance the purchase of troubled assets. The purchases are intended to be residential and commercial mortgage-related assets, which may include mortgage-backed securities and whole loans. The Secretary will have the discretion, in consultation with the Chairman of the Federal Reserve, to purchase other assets, as deemed necessary to effectively stabilize financial markets. Removing troubled assets will begin to restore the strength of our financial system so it can again finance economic growth. The timing and scale of any purchases will be at the discretion of Treasury and its agents, subject to this total cap. The price of assets purchases will be established through market mechanisms where possible, such as reverse auctions. The dollar cap will be measured by the purchase price of the assets. The authority to purchase expires two years from date of enactment.

Asset and Institutional Eligibility for the Program. To qualify for the program, assets must have been originated or issued on or before September 17, 2008. Participating financial institutions must have significant operations in the U.S., unless the Secretary makes a determination, in consultation with the Chairman of the Federal Reserve, that broader eligibility is necessary to effectively stabilize financial markets.

Management and Disposition of the Assets. The assets will be managed by private asset managers at the direction of Treasury to meet program objectives. Treasury will have full discretion over the management of the assets as well as the exercise of any rights received in connection with the purchase of the assets. Treasury may sell the assets at its discretion or may hold assets to maturity. Cash received from liquidating the assets, including any additional returns, will be returned to Treasury's general fund for the benefit of American taxpayers.

Funding. Funding for the program will be provided directly by Treasury from its general fund. Borrowing in support of this program will be subject to the debt limit, which will be increased by $700 billion accordingly. As with other Treasury borrowing, information on any borrowing related to this program will be publicly reported at the end of the following day in the Daily Treasury Statement. (http://www.fms.treas.gov/dts/)

Reporting. Within three months of the first asset purchases under the program, and semi-annually thereafter, Treasury will provide the appropriate Congressional committees with regular updates on the program.

September 21, 2008
hp1151

Treasury Provides Further Clarity For Guaranty Program for Money Market Funds

Washington – The U.S. Treasury Department is continuing to develop the specific details surrounding the temporary guaranty program for money market funds that was announced on September 19, 2008.

While these details are being finalized, Treasury is making the following clarifications:

1. All money market mutual funds that are regulated under Rule 2a-7 of the Investment Company Act of 1940 and are publicly offered and registered with the Securities and Exchange Commission will be eligible to participate in the program.

2. Eligible funds include both taxable and tax-exempt money market funds. The Treasury and the IRS intend to issue guidance that will confirm that participation in the temporary guaranty program will not be treated as a federal guaranty that jeopardizes the tax-exempt treatment of payments by tax-exempt money market funds.

3. The temporary guaranty program will be designed to provide coverage to shareholders for amounts held by them in such funds as of the close of business on September 19, 2008.

4. Further details on other aspects of the temporary guaranty program and the required documentation for funds to participate will be provided in the coming days.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

September 22, 2008
HP-1152

Statement by G-7 Finance Ministers and Central Bank Governors on Global Financial Market Turmoil

Washington, DC-- The Group of Seven Finance Ministers and Central Bank Governors released the following statement today:

The G-7 held a conference call today to discuss global financial markets. We reaffirm our strong and shared commitment to protect the integrity of the international financial system and facilitate liquid, smooth functioning markets, which are essential for supporting the health of the world economy.

We strongly welcome the extraordinary actions taken by the United States to enhance the stability of financial markets and address credit concerns, especially through its plan to implement a program to remove illiquid assets that are destabilizing financial institutions. We also strongly welcome the measures taken by other G-7 countries. Major central banks have been coordinating to address liquidity pressures in funding markets, which has been critical in addressing disruptions in global financial markets. Several regulators have taken decisive actions to combat market manipulation and stabilize financial markets, including a temporary ban on short selling of financial stocks.

We recognize the importance of making regulation more effective and bringing investors back into a liquid and stable marketplace. We remain committed to full and rapid implementation of the Financial Stability Forum (FSF) recommendations to enhance the resilience of the global financial system for the longer term. We look forward to the FSF report this fall on progress made in strengthening prudential supervision and regulation, improving firms' risk management practices, enhancing disclosure and transparency, and strengthening accounting frameworks.

We pledge to enhance international cooperation to address the ongoing challenges in the global economy and world markets and maintain heightened close cooperation between Finance Ministries, Central Banks and regulators. We are ready to take whatever actions may be necessary, individually and collectively, to ensure the stability of the international financial system.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

September 23, 2008
HP-1153

**Testimony by Secretary Henry M. Paulson, Jr.
before the Senate Banking Committee
on Turmoil in US Credit Markets: Recent Actions regarding
Government Sponsored Entities, Investment Banks and
other Financial Institutions**

Washington, DC--Chairman Dodd, Senator Shelby, members of the committee, thank you for the opportunity to appear before you today. I appreciate that this is a difficult period for the American people. I also appreciate that Congressional leaders and the Administration are working closely together so that we can help the American people by quickly enacting a program to stabilize our financial system.

We must do so in order to avoid a continuing series of financial institution failures and frozen credit markets that threaten American families' financial well-being, the viability of businesses both small and large, and the very health of our economy.

The events leading us here began many years ago, starting with bad lending practices by banks and financial institutions, and by borrowers taking out mortgages they couldn't afford. We've seen the results on homeowners – higher foreclosure rates affecting individuals and neighborhoods. And now we are seeing the impact on financial institutions. These bad loans have created a chain reaction and last week our credit markets froze – even some Main Street non-financial companies had trouble financing their normal business operations. If that situation were to persist, it would threaten all parts of our economy.

As we've worked through this period of market turmoil, we have acted on a case-by-case basis --- addressing problems at Fannie Mae and Freddie Mac, working with market participants to prepare for the failure of Lehman Brothers, and lending to AIG so it can sell some of its assets in an orderly manner. We have also taken a number of powerful tactical steps to increase confidence in the system, including a temporary guaranty program for the U.S. money market mutual fund industry. These steps have been necessary but not sufficient.

More is needed. We saw market turmoil reach a new level last week, and spill over into the rest of the economy. We must now take further, decisive action to fundamentally and comprehensively address the root cause of this turmoil.

And that root cause is the housing correction which has resulted in illiquid mortgage-related assets that are choking off the flow of credit which is so vitally important to our economy. We must address this underlying problem, and restore confidence in our financial markets and financial institutions so they can perform their mission of supporting future prosperity and growth.

We have proposed a program to remove troubled assets from the system. This troubled asset relief program has to be properly designed for immediate implementation and be sufficiently large to have maximum impact and restore market confidence. It must also protect the taxpayer to the maximum extent possible, and include provisions that ensure transparency and oversight while also ensuring the program can be implemented quickly and run effectively.

The market turmoil we are experiencing today poses great risk to US taxpayers. When the financial system doesn't work as it should, Americans' personal savings, and the ability of consumers and businesses to finance spending, investment and job creation are threatened.

The ultimate taxpayer protection will be the market stability provided as we remove the troubled assets from our financial system. I am convinced that this bold

approach will cost American families far less than the alternative – a continuing series of financial institution failures and frozen credit markets unable to fund everyday needs and economic expansion.

Over these past days, it has become clear that there is bipartisan consensus for an urgent legislative solution. We need to build upon this spirit to enact this bill quickly and cleanly, and avoid slowing it down with other provisions that are unrelated or don't have broad support. This troubled asset purchase program on its own is the single most effective thing we can do to help homeowners, the American people and stimulate our economy.

Earlier this year, Congress and the Administration came together quickly and effectively to enact a stimulus package that has helped hard-working Americans and boosted our economy. We acted cooperatively and faster than anyone thought possible. Today we face a much more challenging situation that requires bipartisan discipline and urgency.

When we get through this difficult period, which we will, our next task must be to address the problems in our financial system through a reform program that fixes our outdated financial regulatory structure, and provides strong measures to address other flaws and excesses. I have already put forward my recommendations on this subject. Many of you also have strong views, based on your expertise. We must have that critical debate, but we must get through this period first.

Right now, all of us are focused on the immediate need to stabilize our financial system, and I believe we share the conviction that this is in the best interest of all Americans.

Thank you.

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September 24, 2008
HP-1154

Testimony by Secretary Henry M. Paulson, Jr. before the House Committee on Financial Services Hearing on Turmoil in U.S. Credit Markets: Recent Actions regarding Government Sponsored Entities, Investment Banks and other Financial Institutions

Washington, DC-- Chairman Frank, Congressman Bachus, members of the committee, thank you for the opportunity to appear before you today. I appreciate that we are here to discuss an unprecedented program, but these are unprecedented times for the American people and our economy. I also appreciate that Congress and the Administration are working closely together so that we can help the American people by quickly enacting a program to stabilize our financial system.

We must do so in order to avoid a continuing series of financial institution failures and frozen credit markets that threaten American families' financial well-being, the viability of businesses both small and large, and the very health of our economy.

The events leading us here began many years ago, starting with bad lending practices by banks and financial institutions, and by borrowers taking out mortgages they couldn't afford. We've seen the results on homeowners – higher foreclosure rates affecting individuals and neighborhoods. And now we are seeing the impact on financial institutions.

These bad loans have created a chain reaction and last week our credit markets froze up – even some Main Street non-financial companies had trouble financing their normal business operations. If that situation were to persist, it would threaten all parts of our economy.

Every business in America relies on money flowing through the financial system smoothly every day – not only to borrow, expand and create jobs, but to finance their normal business operations and preserve existing jobs.

Since the housing correction began last summer, Treasury has examined many proposals as potential remedies for the turmoil that the correction has caused in our banking system. With the Federal Reserve, we have sought to address financial market stresses with as minimal exposure for the US taxpayer as possible. The Federal Reserve took bold steps to increase liquidity in the markets. And we worked together on a case-by-case basis – addressing problems at Fannie Mae and Freddie Mac, working with market participants to prepare for the failure of Lehman Brothers, and lending to AIG so it can sell some of its assets in an orderly manner.

We have also taken a number of powerful tactical steps to increase confidence in the system, including a temporary guaranty program for the U.S. money market mutual fund industry. These steps have been necessary but not sufficient. More is needed. We saw financial market turmoil reach a new level last week, and spill over into the rest of the economy. We must now take further, decisive action to fundamentally and comprehensively address the root cause of this turmoil.

And that root cause is the housing correction which has resulted in illiquid mortgage-related assets that are choking off the flow of credit which is so vitally important to our economy.

We must address this underlying problem, and restore confidence in our financial markets and financial institutions so they can perform their mission of supporting future prosperity and growth.

We have proposed a program to remove troubled assets from the system – a program we analyzed internally for months, and had hoped would never be necessary. Under our proposal, we would use market mechanisms available to small banks, credit unions, and thrifts, across the country – not just big banks. These mechanisms will help set values of complex, illiquid mortgage and mortgage-related securities to unclog our credit and capital markets, and make it easier for private investors to purchase these securities and for financial institutions to raise more capital.

This troubled asset purchase program has to be properly designed for immediate implementation and be sufficiently large to have maximum impact and restore market confidence. It must also protect the taxpayer to the maximum extent possible, and include provisions that ensure transparency and oversight while ensuring the program can be implemented quickly and run effectively, as it needs to get the job done.

I understand the view that I have heard from many of you on both sides of the aisle, urging that the taxpayer should share in the benefits of this plan to our financial system. Let me make clear – this entire proposal is about benefiting the American people, because today's fragile financial system puts their economic well-being at risk. When local banks and thrifts aren't able to function as they should, Americans' personal savings, and the ability of consumers and businesses to finance spending, investment and job creation are threatened.

The ultimate taxpayer protection will be stabilizing our system, so that all Americans can turn to financial institutions to meet their needs – financing a home improvement or a car or a college education, building retirement savings or starting a new business. The $700 billion program we have proposed is not a spending program. It is an asset purchase program, and the assets which are bought and held will ultimately be resold with the proceeds coming back to the government. Depending on the rate at which our housing market and economy recover, the loss to the taxpayers should be much less than the purchase price of the assets. And those purchases will be spread out over time, occurring as warranted by market conditions.

I am convinced that this bold approach will cost American families far less than the alternative – a continuing series of financial institution failures and frozen credit markets unable to fund everyday needs and economic expansion.

I understand that this is an extraordinary ask, but these are extraordinary times. I'm encouraged by the bipartisan consensus for an urgent legislative solution. We need to enact this bill quickly and cleanly, and avoid slowing it down with unrelated provisions or provisions that don't have broad support. This troubled asset purchase program on its own is the single most effective thing we can do to help homeowners, the American people and stimulate our economy.

Earlier this year, Congress and the Administration came together quickly and effectively to enact a stimulus package that has helped hard-working Americans and boosted our economy. We acted cooperatively and faster than anyone thought possible. Today we face a much more challenging situation that requires bipartisan discipline and urgency.

When we get through this difficult period, which we will, our next task must be to address the problems in our financial system through a reform program that fixes our outdated financial regulatory structure, and provides strong measures to address other flaws and excesses. I have already put forward my recommendations on this subject. Many of you also have strong views, and we must have that critical debate, but we must get through this period first.

Right now, all of us are focused on the immediate need to stabilize our financial system, and I believe we share the conviction that this is in the best interest of all Americans.

Now let's work together to get it done. Thank you.

September 24, 2008
2008-9-24-14-51-45-15270

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $71,878 million as of the end of that week, compared to $72, 510 million as of the end of the prior week.

I. Official reserve assets and other foreign currency assets (approximate market value, in US millions)

	September 5, 2008		
A. Official reserve assets (in US millions unless otherwise specified) [1]	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			71,878
(a) Securities	9,342	12,010	21,352
of which: issuer headquartered in reporting country but located abroad			0
(b) total currency and deposits with:			
(i) other national central banks, BIS and IMF	13,037	5,902	18,939
ii) banks headquartered in the reporting country			0
of which: located abroad			0
(iii) banks headquartered outside the reporting country			0
of which: located in the reporting country			0
(2) IMF reserve position [2]	4,703		
(3) SDRs [2]	9,353		
(4) gold (including gold deposits and, if appropriate, gold swapped) [3]	11,041		
--volume in millions of fine troy ounces	261.499		
(5) other reserve assets (specify)	6,491		
--financial derivatives			
--loans to nonbank nonresidents			
--other (foreign currency assets invested through reverse repurchase agreements)	6,491		
B. Other foreign currency assets (specify)			
--securities not included in official reserve assets			
--deposits not included in official reserve assets			
--loans not included in official reserve assets			
--financial derivatives not included in official reserve assets			
--gold not included in official reserve assets			
--other			

II. Predetermined short-term net drains on foreign currency assets (nominal value)

			Maturity breakdown (residual maturity)		
		Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Foreign currency loans, securities, and deposits					
--outflows (-)	Principal				
	Interest				
--inflows (+)	Principal				
	Interest				
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)					
(a) Short positions (-) [4]		-62,000	-62,000		
(b) Long positions (+)					
3. Other (specify)					
--outflows related to repos (-)					
--inflows related to reverse repos (+)					
--trade credit (-)					
--trade credit (+)					
--other accounts payable (-)					
--other accounts receivable (+)					

III. Contingent short-term net drains on foreign currency assets (nominal value)

		Maturity breakdown (residual maturity, where applicable)		
	Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Contingent liabilities in foreign currency				
(a) Collateral guarantees on debt falling due within 1 year				
(b) Other contingent liabilities				
2. Foreign currency securities issued with embedded options (puttable bonds)				
3. Undrawn, unconditional credit lines provided by:				
(a) other national monetary authorities, BIS, IMF, and other international organizations				
--other national monetary authorities (+)				
--BIS (+)				
--IMF (+)				
(b) with banks and other financial institutions headquartered in the reporting country (+)				
(c) with banks and other financial institutions headquartered outside the reporting country (+)				
Undrawn, unconditional credit lines provided to:				
(a) other national monetary authorities, BIS, IMF, and other international organizations				
--other national monetary authorities (-)				

--BIS (-)				
--IMF (-)				
(b) banks and other financial institutions headquartered in reporting country (-)				
(c) banks and other financial institutions headquartered outside the reporting country (-)				
4. Aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency				
(a) Short positions				
(i) Bought puts				
(ii) Written calls				
(b) Long positions				
(i) Bought calls				
(ii) Written puts				
PRO MEMORIA: In-the-money options				
(1) At current exchange rate				
(a) Short position				
(b) Long position				
(2) + 5 % (depreciation of 5%)				
(a) Short position				
(b) Long position				
(3) - 5 % (appreciation of 5%)				
(a) Short position				
(b) Long position				
(4) +10 % (depreciation of 10%)				
(a) Short position				
(b) Long position				
(5) - 10 % (appreciation of 10%)				
(a) Short position				
(b) Long position				
(6) Other (specify)				
(a) Short position				
(b) Long position				

IV. Memo items

(1) To be reported with standard periodicity and timeliness:	
(a) short-term domestic currency debt indexed to the exchange rate	
(b) financial instruments denominated in foreign currency and settled by other means (e.g., in domestic currency)	
--nondeliverable forwards	
--short positions	
--long positions	
--other instruments	
(c) pledged assets	
--included in reserve assets	
--included in other foreign currency assets	
(d) securities lent and on repo	6,646

--lent or repoed and included in Section I	
--lent or repoed but not included in Section I	
--borrowed or acquired and included in Section I	
--borrowed or acquired but not included in Section I	6,646
(e) financial derivative assets (net, marked to market)	
--forwards	
--futures	
--swaps	
--options	
--other	
(f) derivatives (forward, futures, or options contracts) that have a residual maturity greater than one year, which are subject to margin calls.	
--aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)	
(a) short positions (–)	
(b) long positions (+)	
--aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency	
(a) short positions	
(i) bought puts	
(ii) written calls	
(b) long positions	
(i) bought calls	
(ii) written puts	
(2) To be disclosed less frequently:	
(a) currency composition of reserves (by groups of currencies)	71,878
--currencies in SDR basket	71,878
--currencies not in SDR basket	
--by individual currencies (optional)	

Notes:

1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values.

2/ The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollar terms at the official SDR/dollar exchange rate for the reporting date. The entries for the latest week reflect any necessary adjustments, including revaluation, by the U.S. Treasury to IMF data for the prior month end.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce.

4/ The short positions reflect foreign exchange acquired under reciprocal currency arrangements with certain foreign central banks The foreign exchange acquired is not included in Section I, "official reserve assets and other foreign currency assets," of the template for reporting international reserves. However, it is included in the broader balance of payments presentation as "U.S. Government assets, other than official reserve assets/U.S. foreign currency holdings and U.S. short-term assets."

PRESS ROOM

September 24, 2008
2008-9-24-14-57-46-15331

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $71,535 million as of the end of that week, compared to $71,878 million as of the end of the prior week.

I. Official reserve assets and other foreign currency assets (approximate market value, in US millions)

	September 12, 2008		
A. Official reserve assets (in US millions unless otherwise specified) [1]	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			71,535
(a) Securities	9,264	11,946	21,210
of which: issuer headquartered in reporting country but located abroad			0
(b) total currency and deposits with:			
(i) other national central banks, BIS and IMF	12,734	5,872	18,606
ii) banks headquartered in the reporting country			0
of which: located abroad			0
(iii) banks headquartered outside the reporting country			0
of which: located in the reporting country			0
(2) IMF reserve position [2]	4,686		
(3) SDRs [2]	9,320		
(4) gold (including gold deposits and, if appropriate, gold swapped) [3]	11,041		
--volume in millions of fine troy ounces	261.499		
(5) other reserve assets (specify)	6,672		
--financial derivatives			
--loans to nonbank nonresidents			
--other (foreign currency assets invested through reverse repurchase agreements)	6,672		
B. Other foreign currency assets (specify)			
--securities not included in official reserve assets			
--deposits not included in official reserve assets			
--loans not included in official reserve assets			
--financial derivatives not included in official reserve assets			
--gold not included in official reserve assets			
--other			

II. Predetermined short-term net drains on foreign currency assets (nominal value)

			Maturity breakdown (residual maturity)		
		Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Foreign currency loans, securities, and deposits					
--outflows (-)	Principal				
	Interest				
--inflows (+)	Principal				
	Interest				
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)					
(a) Short positions (-) [4]		-62,000	-62,000		
(b) Long positions (+)					
3. Other (specify)					
--outflows related to repos (-)					
--inflows related to reverse repos (+)					
--trade credit (-)					
--trade credit (+)					
--other accounts payable (-)					
--other accounts receivable (+)					

III. Contingent short-term net drains on foreign currency assets (nominal value)

		Maturity breakdown (residual maturity, where applicable)		
	Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Contingent liabilities in foreign currency				
(a) Collateral guarantees on debt falling due within 1 year				
(b) Other contingent liabilities				
2. Foreign currency securities issued with embedded options (puttable bonds)				
3. Undrawn, unconditional credit lines provided by:				
(a) other national monetary authorities, BIS, IMF, and other international organizations				
--other national monetary authorities (+)				
--BIS (+)				
--IMF (+)				
(b) with banks and other financial institutions headquartered in the reporting country (+)				
(c) with banks and other financial institutions headquartered outside the reporting country (+)				
Undrawn, unconditional credit lines provided to:				
(a) other national monetary authorities, BIS, IMF, and other international organizations				
--other national monetary authorities (-)				

--BIS (-)				
--IMF (-)				
(b) banks and other financial institutions headquartered in reporting country (-)				
(c) banks and other financial institutions headquartered outside the reporting country (-)				
4. Aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency				
(a) Short positions				
(i) Bought puts				
(ii) Written calls				
(b) Long positions				
(i) Bought calls				
(ii) Written puts				
PRO MEMORIA: In-the-money options				
(1) At current exchange rate				
(a) Short position				
(b) Long position				
(2) + 5 % (depreciation of 5%)				
(a) Short position				
(b) Long position				
(3) - 5 % (appreciation of 5%)				
(a) Short position				
(b) Long position				
(4) +10 % (depreciation of 10%)				
(a) Short position				
(b) Long position				
(5) - 10 % (appreciation of 10%)				
(a) Short position				
(b) Long position				
(6) Other (specify)				
(a) Short position				
(b) Long position				

IV. Memo items

(1) To be reported with standard periodicity and timeliness:	
(a) short-term domestic currency debt indexed to the exchange rate	
(b) financial instruments denominated in foreign currency and settled by other means (e.g., in domestic currency)	
--nondeliverable forwards	
--short positions	
--long positions	
--other instruments	
(c) pledged assets	
--included in reserve assets	
--included in other foreign currency assets	
(d) securities lent and on repo	6,813

--lent or repoed and included in Section I	
--lent or repoed but not included in Section I	
--borrowed or acquired and included in Section I	
--borrowed or acquired but not included in Section I	6,813
(e) financial derivative assets (net, marked to market)	
--forwards	
--futures	
--swaps	
--options	
--other	
(f) derivatives (forward, futures, or options contracts) that have a residual maturity greater than one year, which are subject to margin calls.	
--aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)	
(a) short positions (–)	
(b) long positions (+)	
--aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency	
(a) short positions	
(i) bought puts	
(ii) written calls	
(b) long positions	
(i) bought calls	
(ii) written puts	
(2) To be disclosed less frequently:	
(a) currency composition of reserves (by groups of currencies)	71,535
--currencies in SDR basket	71,535
--currencies not in SDR basket	
--by individual currencies (optional)	

Notes:

1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values.

2/ The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollar terms at the official SDR/dollar exchange rate for the reporting date. The entries for the latest week reflect any necessary adjustments, including revaluation, by the U.S. Treasury to IMF data for the prior month end.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce.

4/ The short positions reflect foreign exchange acquired under reciprocal currency arrangements with certain foreign central banks. The foreign exchange acquired is not included in Section I, "official reserve assets and other foreign currency assets," of the template for reporting international reserves. However, it is included in the broader balance of payments presentation as "U.S. Government assets, other than official reserve assets/U.S. foreign currency holdings and U.S. short-term assets."

September 24, 2008
2008-9-24-15-5-35-15426

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $72,087 million as of the end of that week, compared to $71,535 million as of the end of the prior week.

I. Official reserve assets and other foreign currency assets (approximate market value, in US millions)

	September 19, 2008		
A. Official reserve assets (in US millions unless otherwise specified) [1]	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			72,087
(a) Securities	9,389	11,978	21,367
of which: issuer headquartered in reporting country but located abroad			0
(b) total currency and deposits with:			
(i) other national central banks, BIS and IMF	12,710	5,892	18,602
ii) banks headquartered in the reporting country			0
of which: located abroad			0
(iii) banks headquartered outside the reporting country			0
of which: located in the reporting country			0
(2) IMF reserve position [2]	4,709		
(3) SDRs [2]	9,366		
(4) gold (including gold deposits and, if appropriate, gold swapped) [3]	11,041		
--volume in millions of fine troy ounces	261.499		
(5) other reserve assets (specify)	7,002		
--financial derivatives			
--loans to nonbank nonresidents			
--other (foreign currency assets invested through reverse repurchase agreements)	7,002		
B. Other foreign currency assets (specify)			
--securities not included in official reserve assets			
--deposits not included in official reserve assets			
--loans not included in official reserve assets			
--financial derivatives not included in official reserve assets			
--gold not included in official reserve assets			
--other			

II. Predetermined short-term net drains on foreign currency assets (nominal value)

			Maturity breakdown (residual maturity)		
		Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Foreign currency loans, securities, and deposits					
--outflows (-)	Principal				
	Interest				
--inflows (+)	Principal				
	Interest				
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)					
(a) Short positions (-) [4]		-132,800	-132,800		
(b) Long positions (+)					
3. Other (specify)					
--outflows related to repos (-)					
--inflows related to reverse repos (+)					
--trade credit (-)					
--trade credit (+)					
--other accounts payable (-)					
--other accounts receivable (+)					

III. Contingent short-term net drains on foreign currency assets (nominal value)

		Maturity breakdown (residual maturity, where applicable)		
	Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Contingent liabilities in foreign currency				
(a) Collateral guarantees on debt falling due within 1 year				
(b) Other contingent liabilities				
2. Foreign currency securities issued with embedded options (puttable bonds)				
3. Undrawn, unconditional credit lines provided by:				
(a) other national monetary authorities, BIS, IMF, and other international organizations				
--other national monetary authorities (+)				
--BIS (+)				
--IMF (+)				
(b) with banks and other financial institutions headquartered in the reporting country (+)				
(c) with banks and other financial institutions headquartered outside the reporting country (+)				
Undrawn, unconditional credit lines provided to:				
(a) other national monetary authorities, BIS, IMF, and other international organizations				
--other national monetary authorities (-)				

--BIS (-)				
--IMF (-)				
(b) banks and other financial institutions headquartered in reporting country (-)				
(c) banks and other financial institutions headquartered outside the reporting country (-)				
4. Aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency				
(a) Short positions				
(i) Bought puts				
(ii) Written calls				
(b) Long positions				
(i) Bought calls				
(ii) Written puts				
PRO MEMORIA: In-the-money options				
(1) At current exchange rate				
(a) Short position				
(b) Long position				
(2) + 5 % (depreciation of 5%)				
(a) Short position				
(b) Long position				
(3) - 5 % (appreciation of 5%)				
(a) Short position				
(b) Long position				
(4) +10 % (depreciation of 10%)				
(a) Short position				
(b) Long position				
(5) - 10 % (appreciation of 10%)				
(a) Short position				
(b) Long position				
(6) Other (specify)				
(a) Short position				
(b) Long position				

IV. Memo items

(1) To be reported with standard periodicity and timeliness:	
(a) short-term domestic currency debt indexed to the exchange rate	
(b) financial instruments denominated in foreign currency and settled by other means (e.g., in domestic currency)	
--nondeliverable forwards	
--short positions	
--long positions	
--other instruments	
(c) pledged assets	
--included in reserve assets	
--included in other foreign currency assets	
(d) securities lent and on repo	7,152

--lent or repoed and included in Section I	
--lent or repoed but not included in Section I	
--borrowed or acquired and included in Section I	
--borrowed or acquired but not included in Section I	7,152
(e) financial derivative assets (net, marked to market)	
--forwards	
--futures	
--swaps	
--options	
--other	
(f) derivatives (forward, futures, or options contracts) that have a residual maturity greater than one year, which are subject to margin calls.	
--aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)	
(a) short positions (–)	
(b) long positions (+)	
--aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency	
(a) short positions	
(i) bought puts	
(ii) written calls	
(b) long positions	
(i) bought calls	
(ii) written puts	
(2) To be disclosed less frequently:	
(a) currency composition of reserves (by groups of currencies)	72,087
--currencies in SDR basket	72,087
--currencies not in SDR basket	
--by individual currencies (optional)	

Notes:

1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values.

2/ The items, "2. IMF Reserve Position" and "3. Special Drawing Rights (SDRs)," are based on data provided by the IMF and are valued in dollar terms at the official SDR/dollar exchange rate for the reporting date. The entries for the latest week reflect any necessary adjustments, including revaluation, by the U.S. Treasury to IMF data for the prior month end.

3/ Gold stock is valued monthly at $42.2222 per fine troy ounce.

4/ The short positions reflect foreign exchange acquired under reciprocal currency arrangements with certain foreign central banks. The foreign exchange acquired is not included in Section I, "official reserve assets and other foreign currency assets," of the template for reporting international reserves. However, it is included in the broader balance of payments presentation as "U.S. Government assets, other than official reserve assets/U.S. foreign currency holdings and U.S. short-term assets."

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

September 24, 2008
HP-1155

Advisory Committee on the Auditing Profession
Co-Chairs to Release Advisory Final Report

Treasury Advisory Committee on the Auditing Profession Co-Chairs Arthur Levitt, Jr. and Donald T. Nicolaisen will host a pen-and-pad press conference at 12:00 p.m. (EDT) Friday in New York City to discuss the final results of the Committee's recommendations to improve the auditing profession.

The press conference will follow the Committee's final vote during a public telephonic meeting at 10:00 a.m. Live audio for the meeting may be accessed at this website:

Who
Committee Co-Chair Arthur Levitt, Jr.
Committee Co-Chair Donald T. Nicolaisen

What
Pen-and-Pad Press Conference on Advisory Committee Final Report

When
Friday, September 26, 2008, 12:00 p.m. EDT

Where
520 Madison Avenue at 53rd Street
42nd Floor
New York City, N.Y.

Note
No cameras will be permitted into the briefing. Press should RSVP to Lisa Bogan at (212) 381-4860 or and enter through the entrance at 53rd Street.

Members of the media also may listen to the press conference by calling (202) 927-2255, pin number: 344918.

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

September 25, 2008
HP-1156

Remarks by Treasury Under Secretary for International Affairs
David H. McCormick
at
CLSA Hong Kong Investors' Forum

Washington, DC– The seeds of the significant challenges we face today were sown many years ago, beginning with a gradual weakening of lending practices by banks and financial institutions, and by greater willingness by borrowers to take out mortgages they couldn't afford. These factors combined with growing complexity and opaqueness in our capital markets are at the heart of the current market turmoil.

We are now paying the price. We've seen the results for homeowners--higher foreclosure rates affecting individuals and neighborhoods. And now we are seeing the impact on financial institutions. These weak loans have started a chain reaction, and last week, our credit markets tightened dramatically with even some non-financial companies around the country having difficulties financing their day-to-day business operations. If this situation was to persist, it would threaten all parts of the U.S. economy. In response to this worsening market turmoil, Treasury has undertaken a number of bold actions in recent months and recent days to stabilize the markets, mitigate the impact of a number of failing or troubled institutions, and address the underlying sources of market uncertainty.

Root Causes of the Market Turmoil

How did we come to this point? The story begins with an abnormally long period of benign economic conditions in the preceding decade marked by low interest rates, low inflation, and less volatile asset markets which led many to ignore the "risk" half of the risk-reward equation at the heart of financial markets. Investors around the world, who in preceding years had enjoyed above-historical returns on most types of investments, continued reaching for ever-higher gains. The financial-services industry created a variety of complicated new products to meet this demand. Regulators and investors alike showed a growing complacency toward risk. These factors blended into a dangerous cocktail of underlying conditions ripe for instability.

This imbalance between risk and reward was most evident in the U.S. housing market, where lenders significantly loosened credit standards--particularly for a new generation of adjustable-rate mortgages with low teaser rates, interest-only features, and low or no down payments. Yet aggressive financial innovation went well beyond mortgages. Banks and brokers created an alphabet soup of products with simple names like CDOs, CLOs and SIVs, which were in fact complex and opaque investment products and structures. They relied on bundling assets, particularly mortgages, to better distribute the investment risk, and the greater use of leverage or borrowing to generate higher returns. Credit-rating agencies responsible for assessing and rating these assets, as well as investors who purchased them, failed to question the chances of these underlying investments going bad.

Last summer these new vulnerabilities in our financial system became clear. Looser credit standards in the housing market, combined with an end to rapid home-price appreciation, led to a significant rise in delinquent mortgages. This in turn contributed to immediate and unexpected losses for investors and a reconsideration of the risk-reward relationship--first in housing, and soon after, across all asset classes. The shaken investor confidence in housing assets had a domino effect throughout world markets, ratcheting up demand for cash and liquidity, and curtailing the pace of the new lending and investment necessary for strong growth to continue.

Actions to Mitigate Risk and Stabilize Markets

Recognizing the risk to the U.S. economy of the housing downturn, the Treasury and Congress acted quickly during the winter to pass a $150 billion stimulus bill and brought together mortgage providers through the HOPE NOW alliance to help families avoid foreclosure on their homes. While we have tried to minimize the impact of the housing correction on the rest of the economy, we do not want to impede its progress. The sooner we turn the corner on housing, the sooner we will see home values stabilize, the sooner we will see more people buying homes, and the sooner housing will again contribute to economic growth. Still, it will take time to work through these stresses.

In the financial markets, progress has not moved in a straight line, and it is clear that many challenges lie ahead. There have been some positive developments. Since the market turmoil began, U.S. financial institutions (often under new management) have recorded losses of over $300 billion and raised over $200 billion in new capital. Yet, the events of the last few weeks – where we have acted on a case-by-case basis to address destabilizing financial conditions in several institutions – are evidence of continued weakness across the financial services sector.

Following the support provided by the Federal Reserve in March for an orderly resolution for Bear Stearns, U.S. authorities recently took action to help mitigate the impact of the bankruptcy of the fourth largest U.S. investment bank, Lehman Brothers, in early September. That same week, the Fed provided funding to American International Group (AIG) to address the systemic risk that would have resulted from a sudden collapse of the firm. In each of these cases, authorities sought to strike the appropriate balance between mitigating system risk while promoting market discipline, holding investors and management responsible, while protecting blameless market participants or consumers from collateral damage.

The cases of Fannie Mae and Freddie Mac, where in August the government took comprehensive and unprecedented action, deserve special mention, particularly given their significance to many foreign investors. These Government Sponsored Enterprises (GSEs) have become the largest sources of mortgage finance in the United States, touching 70 percent of mortgages originated in the first quarter. Their continued activity is critical in turning the corner on the housing situation and removing the underlying uncertainty in our financial markets and financial institutions.

Not surprisingly, the prolonged housing correction weakened the financial condition of both of these enterprises, and they faced a significant loss of confidence among investors. Fannie Mae and Freddie Mac are so large and so interwoven in our financial system, that if either of them were to fail, it would be harder for Americans to get home loans, auto loans, and other consumer credit. Business finance would be even harder to obtain, constraining job creation and our overall economic growth.

This past summer, investors began to express growing concerns over the stability of Fannie and Freddie and the uncertainty over the scope and strength of the long standing ambiguous promise of government support. In response, Secretary Paulson asked the Congress for authorities with regard to Fannie Mae and Freddie Mac in order to support our housing markets and the stability of our financial markets more broadly. Congressional leaders acted promptly and decisively with the needed legislation. In the days and weeks that followed, the Director of the Federal Housing Finance Agency (FHFA) Jim Lockhart, Federal Reserve Chairman Bernanke, and Secretary Paulson conducted a rigorous analysis of the situation, which led to the unpleasant but necessary decision to utilize these authorities.

This analysis showed that we had no choice but to act decisively to avert instability in our markets. Our goals are to support the availability of mortgage credit and protect taxpayers to the maximum extent possible. As a first critical step, the Regulator put Fannie and Freddie into conservatorship, allowing the government to take temporary control and make management changes at both institutions.

Under the control of the conservator FHFA, Treasury established contractual Preferred Stock Purchase Agreements with both institutions under which Treasury has committed up to $100 billion per institution to ensure that each GSE maintains a positive net worth. These Preferred Stock Purchase Agreements are intended to

explicitly address the underlying ambiguities in the GSE Congressional charters and to give the holders of Fannie Mae and Freddie Mac debt confidence in the promise of government support for their investments. Because the U.S. Government created these ambiguities and the resulting uncertainty, Secretary Paulson felt strongly that we had a responsibility to both avert and ultimately address the systemic risk now posed by the scale and breadth of the holdings of GSE debt and agency mortgage-backed securities.

The terms of these purchase agreements provide significant taxpayer protection. The existing shareholders of the GSEs will lose 100 percent of their investment before the American taxpayers lose a penny. Moreover, as part of the terms of this agreement, Treasury has received from each company $1 billion in senior preferred stock and warrants providing an option to purchase up to 79 percent of the companies' outstanding shares at a nominal price.

Second, Treasury has established a new, secured and temporary credit facility for Fannie Mae, Freddie Mac, and the Federal Home Loan Bank to fund, if necessary, their regular business activities in the capital markets. Finally, to further support the availability of mortgage financing for millions of Americans, Treasury is initiating a temporary program to purchase mortgage-backed securities issued by the GSEs. This will provide additional capital to the mortgage marketplace. There is no reason to expect taxpayer losses from this program, which will also expire in December 2009.

These steps are the best means of protecting taxpayers and stabilizing our markets, but they leave for future policymakers fundamental policy decisions about the role and structure of these enterprises. Our recent actions have afforded a "time out" – providing the stability, time, and flexibility for Congress and the current and next Administrations to address the inherent conflict in the GSE charters that requires they serve both the interests of private investors and a public mission.

A Comprehensive Policy Response

Despite the hardening of the government's support and involvement in Fannie Mae and Freddie Mac and the rapid and decisive resolutions of Bear Stearns, Lehman Brothers, and AIG, investors have become increasingly concerned over the possibility of other financial institution failures, making them reluctant to extend credit to one another.

This unwillingness to lend led to sharp increases in the cost of credit for financial and non-financial companies, increasing the risk that corporate America would be unable to roll over maturing corporate debt. In this environment, it was necessary for U.S. authorities to act decisively and comprehensively to provide capital, liquidity, and smooth market operations with the goals of stabilizing the markets and addressing the underlying sources of uncertainty.

First, central banks from around the world have acted together to provide additional liquidity for financial institutions. The Federal Reserve has established swap lines with nine central banks to reduce pressures in global short-term U.S. dollar markets. Additionally, Treasury implemented a temporary guaranty program for the U.S. money market mutual fund industry, which was experiencing a funding problem last week. This $50 billion guaranty program offers government insurance that was previously unavailable in order to address concerns about whether these investments are safe and accessible.

Second, we have a plan for providing much needed capital to address the root cause of the current stress in our financial system – the ongoing housing correction and the consequent buildup of illiquid mortgage-related assets. These troubled assets remain frozen on the balance sheets of banks and other financial institutions, constraining the flow of credit that is so vitally important to our economic growth. The failure to address the troubled mortgage-related assets would mean that every aspect of our financial and funding markets, ranging from consumer credit to money market funds, would continue to be impaired.

Treasury has proposed a $700 billion comprehensive program for removing these illiquid assets from the balance sheets of institutions within the financial system. As we work with Congress to pass this crucial legislation, we have also undertaken two immediate steps to ease further market pressures. First, the GSEs will

increase their purchases of mortgage-backed securities in their portfolios. Second, Treasury will expand the purchase of mortgage-backed securities through a program that we announced earlier this month. These two measures will provide some initial support to mortgage assets, but they will not address the broader issue of asset illiquidity that the troubled asset purchase program will.

Third, we have taken steps to improve market operations and integrity. The Securities and Exchange Commission took temporary emergency action to prohibit short selling in financial companies to protect the integrity and quality of the securities market and strengthen investor confidence. The SEC's exceptional actions for these extraordinary times were joined by regulators in the UK, France, Germany, and other countries in imposing temporary bans on short selling.

Conclusion

Ladies and Gentleman, now is the time to act quickly, decisively, and collaboratively with regulators and market participants around the world to restore stability and confidence to our markets. It will no doubt take time to work through the excesses that were built up over a number of years. U.S. policymakers are implementing policies that address our short-term economic challenges and rebuild faith in the market. When we emerge from this difficult period, our next task will be to strengthen the financial regulatory structure to forestall such excesses in the future. The interdependence of our global economy makes this challenge more complex, and it also makes our work with international counterparts to promote growth and financial stability all the more important.

Thank you.

-30-

September 26, 2008
HP-1157

Statement by Assistant Secretary for Public Affairs and Director of Policy Planning Michele Davis

Washington, DC-- Treasury issued the following statement by Assistant Secretary for Public Affairs and Director of Policy Planning Michele Davis:

"Secretary Paulson appreciates the hard work by members on both sides of the aisle to address the threat we face to our economy. Noting difficult credit market conditions, he urged members of both parties to complete legislation quickly. Treasury staff has been working with Congressional committee staff since Saturday. There are still open issues to be resolved, and we are committed to resolving them."

September 26, 2008
HP-1158

Fact Sheet: Final Report of the Advisory Committee on the Auditing Profession

The U.S. Treasury Department's Advisory Committee on the Auditing Profession adopted a Final Report containing more than 30 recommendations to improve the sustainability of the public company auditing profession. The report is separated into three sections by principal areas of focus.

Human Capital recommendations focused on improving accounting education and strengthening human capital, including:

- Implementation of accounting education curricula and content that continuously evolves to reflect current market developments to help prepare new entrants to the profession.
- Improvement of the representation and retention of minorities in the auditing profession through mentoring programs and recruiting at community colleges.
- Ensuring an adequate supply of qualified accounting faculty through public and private sector funding to meet future demands and help prepare students to execute high quality audits.
- Development and maintenance of demographic data on the accounting profession so that the profession can understand the human capital situation and its impact on the profession's future and sustainability.
- Study of the future of education for the accounting profession, including the potential for graduate schools of accounting, to determine the best way to educate students to deal with the challenging financial reporting and auditing environment.

Firm Structure and Finances recommendations focused on enhancing auditing firm governance, transparency, responsibility, communications, and audit quality, including:

- Creation of a national center at the Public Company Accounting Oversight Board to provide a forum for auditing firms and other market participants to share their fraud detection experiences in order to improve audit quality.
- Granting accountants licensed in one state with reciprocity to practice in other states to foster a more efficient operation of the capital markets given the multi-state operations of many public companies and multi-state practices of many auditing firms.
- Exploration of the feasibility of appointing independent members with full voting power to firm boards and/or advisory boards to improve the governance and transparency of auditing firms.
- Enhancement of disclosure requirements regarding public company auditor changes will improve transparency and enhance investor confidence.
- Enhancements to make the auditor's standard reporting model more useful to investors by including more relevant information, such as key accounting estimates and judgments.
- Mandating the engagement partner's signature on the auditor's report to improve accountability among auditing firms.
- Requirement for larger auditing firms to produce a public annual report with relevant firm information and file on a confidential basis with the PCAOB audited financial statements to improve transparency at auditing firms.

The Concentration and Competition recommendations focused on ways to increase audit market competition and auditor choice, including:

- Having the PCAOB monitor potential sources of catastrophic risk at auditing firms to prevent reduced auditor choice and significant market disruptions.

- Creation of a mechanism for the preservation and rehabilitation of troubled larger public company auditing firms to prevent reduced auditor choice and significant market disruptions.
- Development and publication of key indicators of audit quality and effectiveness to promote competition and choice in the industry based on audit quality.
- Promotion of the understanding of and compliance with auditor independence requirements to enhance investor confidence in the quality of audit processes and audits.
- Adoption of annual shareholder ratification of public company auditors by all public companies to enhance the audit committee's oversight to ensure that the auditor is suitable for the company's size and financial reporting needs.
- Enhancement of collaboration and coordination between the PCAOB and its foreign counterparts so that investors can be confident that auditing firms of all sizes are contributing effectively to audit quality.

September 26, 2008
HP-1159

Treasury Advisory Committee on the Auditing Profession Adopts Final Report

Washington - The U.S. Treasury Department's Advisory Committee on the Auditing Profession, led by co-chairs Arthur Levitt, Jr. and Donald T. Nicolaisen, voted today to adopt its Final Report containing more than 30 recommendations to improve the sustainability of the public company auditing profession.

"The Advisory Committee members, particularly Co-Chairs Levitt and Nicolaisen, have devoted a great amount of effort and time developing the recommendations to sustain a vibrant and robust auditing profession," said Treasury Secretary Henry M. Paulson, Jr. "Their work will contribute to and shape the necessary work of encouraging investor confidence in our financial markets."

Recommendations focused on three specific areas: improving accounting education and strengthening human capital; enhancing auditing firm governance, transparency, responsibility, communications, and audit quality; and increasing audit market competition and auditor choice. For more information, please see the Final Report Fact Sheet.

Secretary Paulson created the committee in May 2007 to examine key issues facing the auditing profession to encourage greater investor confidence. He tapped former Securities and Exchange Commission Chairman Levitt and former SEC Chief Accountant Nicolaisen as co-chairmen to lead the committee.

"The health of the U.S. accounting industry is an essential element in the coming decade of transparency which will impact every business, legislative, and rule-making judgment both domestically and internationally. Reliable numbers from accountants mindful of their public responsibilities are critical to the competitive success of U.S. companies," Co-Chair Levitt said. "The continuing health of auditing firms, both large and small, has been the mandate of a diverse commission representing both industry and investor interests. This final report will provide industry and policymakers with a template for change."

"This is the first study of its kind since enactment of Sarbanes-Oxley and the Committee's work reinforces the critical role of the independent auditor to enabling trust and confidence in our capital markets," said Co-Chair Nicolaisen. "The Committee members brought exceptional intellect and experience to the process and I'm extremely appreciative of their efforts to work toward consensus views. Their recommendations are sound and their enactment will strengthen the auditing profession."

Committee members represented a diverse set of views, including investors, auditors, financial institutions, large and small public companies, lawyers, former regulators, and universities.

Secretary Paulson hosted a conference at Georgetown University in March 2007 to examine ways to improve the competitiveness of U.S. capital markets. Secretary Paulson and conference participants identified financial reporting and investor confidence as major factor in our domestic markets' competitiveness. The Committee held its first meeting in October 2007.

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REPORTS

September 26, 2008
HP-1158

Fact Sheet: Final Report of the Advisory Committee on the Auditing Profession

The U.S. Treasury Department's Advisory Committee on the Auditing Profession adopted a Final Report containing more than 30 recommendations to improve the sustainability of the public company auditing profession. The report is separated into three sections by principal areas of focus.

Human Capital recommendations focused on improving accounting education and strengthening human capital, including:

- Implementation of accounting education curricula and content that continuously evolves to reflect current market developments to help prepare new entrants to the profession.
- Improvement of the representation and retention of minorities in the auditing profession through mentoring programs and recruiting at community colleges.
- Ensuring an adequate supply of qualified accounting faculty through public and private sector funding to meet future demands and help prepare students to execute high quality audits.
- Development and maintenance of demographic data on the accounting profession so that the profession can understand the human capital situation and its impact on the profession's future and sustainability.
- Study of the future of education for the accounting profession, including the potential for graduate schools of accounting, to determine the best way to educate students to deal with the challenging financial reporting and auditing environment.

Firm Structure and Finances recommendations focused on enhancing auditing firm governance, transparency, responsibility, communications, and audit quality, including:

- Creation of a national center at the Public Company Accounting Oversight Board to provide a forum for auditing firms and other market participants to share their fraud detection experiences in order to improve audit quality.
- Granting accountants licensed in one state with reciprocity to practice in other states to foster a more efficient operation of the capital markets given the multi-state operations of many public companies and multi-state practices of many auditing firms.
- Exploration of the feasibility of appointing independent members with full voting power to firm boards and/or advisory boards to improve the governance and transparency of auditing firms.
- Enhancement of disclosure requirements regarding public company auditor changes will improve transparency and enhance investor confidence.
- Enhancements to make the auditor's standard reporting model more useful to investors by including more relevant information, such as key accounting estimates and judgments.
- Mandating the engagement partner's signature on the auditor's report to improve accountability among auditing firms.
- Requirement for larger auditing firms to produce a public annual report with relevant firm information and file on a confidential basis with the PCAOB audited financial statements to improve transparency at auditing firms.

The Concentration and Competition recommendations focused on ways to increase audit market competition and auditor choice, including:

- Having the PCAOB monitor potential sources of catastrophic risk at auditing firms to prevent reduced auditor choice and significant market disruptions.

- Creation of a mechanism for the preservation and rehabilitation of troubled larger public company auditing firms to prevent reduced auditor choice and significant market disruptions.
- Development and publication of key indicators of audit quality and effectiveness to promote competition and choice in the industry based on audit quality.
- Promotion of the understanding of and compliance with auditor independence requirements to enhance investor confidence in the quality of audit processes and audits.
- Adoption of annual shareholder ratification of public company auditors by all public companies to enhance the audit committee's oversight to ensure that the auditor is suitable for the company's size and financial reporting needs.
- Enhancement of collaboration and coordination between the PCAOB and its foreign counterparts so that investors can be confident that auditing firms of all sizes are contributing effectively to audit quality.

September 26, 2008
HP-1160

McCormick Statement on the Clean Technology Fund

Washington – Undersecretary for International Affairs David H. McCormick issued the following statement on today's Clean Technology Fund pledging conference at the World Bank:

"Today's pledging conference at the World Bank was a major step forward in building the financial base of the new Clean Technology Fund, which now has the resources it needs to begin the important work of reducing greenhouse gas emissions growth in the developing world. With more than $5 billion in proposed contributions by seven donor countries, including $2 billion the administration has requested from Congress, the Fund is now in a position to launch in October and begin financing projects by early 2009. The United States is firmly committed to the Clean Technology Fund and its mission to help developing countries make transformational investments in clean technology that will be necessary to move them onto cleaner development paths."

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September 29, 2008
hp-1161

Treasury Announces Temporary Guarantee Program for Money Market Funds

Washington- The U.S. Treasury Department today opened its Temporary Guarantee Program for Money Market Funds. The U.S. Treasury will guarantee the share price of any publicly offered eligible money market mutual fund – both retail and institutional – that applies for and pays a fee to participate in the program.

All money market mutual funds that are regulated under Rule 2a-7 of the Investment Company Act of 1940, maintain a stable share price of $1, and are publicly offered and registered with the Securities and Exchange Commission will be eligible to participate in the program. Treasury first announced this program on Friday, September 19.

The temporary guarantee program provides coverage to shareholders for amounts that they held in participating money market funds as of the close of business on September 19, 2008. The guarantee will be triggered if a participating fund's net asset value falls below $0.995, commonly referred to as breaking the buck.

The program is designed to address temporary dislocations in credit markets. The program will exist for an initial three month term, after which the Secretary of the Treasury will review the need and terms for extending the program. Following the initial three month term, the Secretary has the option to renew the program up to the close of business on September 18, 2009. The program will not automatically extend for the full year without the Secretary's approval, and funds would have to renew their participation at the extension point to maintain coverage. If the Secretary chooses not to renew the program at the end of the initial three month period, the program will terminate.

To participate in the program, the Treasury Department will require money market funds with a net asset value per share greater than or equal to $0.9975 as of the close of business on September 19, 2008, to pay an upfront fee of 0.01 percent, 1 basis point, based on the number of shares outstanding on that date. Funds with net asset value per share of greater than or equal to $0.995 and below $0.9975 as of the close of business on September 19, 2008, will be required to pay an upfront fee of 0.015 percent, 1.5 basis points, based on the number of shares outstanding on that date. These fees will only cover the first three months of participation in the program.

Funds with a net asset value below $0.995 as of the close of business on September 19, 2008, may not participate in the program.

While the program protects the accounts of investors, each money market fund makes the decision to sign-up for the program. Investors cannot sign-up for the program individually. Funds should apply by October 8, 2008 for the program using the forms on the program webpage:

Eligible funds include both taxable and tax-exempt money market funds. The Treasury and the IRS issued guidance that confirmed that participation in the temporary guarantee program will not be treated as a federal guarantee that jeopardizes the tax-exempt treatment of payments by tax-exempt money market funds.

President George W. Bush approved the use of existing authorities by Secretary Henry M. Paulson, Jr. to make available as necessary the assets of the Exchange Stabilization Fund to guarantee the payment

The Exchange Stabilization Fund was established by the Gold Reserve Act of 1934, as amended, and has approximately $50 billion in assets. This Act authorizes the Secretary of the Treasury, with the approval of the President, "to deal in gold, foreign exchange, and other instruments of credit and securities" consistent with the obligations of the U.S. government in the International Monetary Fund to promote international financial stability. More information on the Exchange Stabilization Fund can be found at

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September 28, 2008
HP-1162

Statement by Secretary Henry M. Paulson, Jr. on Emergency Economic Stabilization Act

Washington, DC -- Treasury issued the following statement by Secretary Henry M. Paulson, Jr. on the Emergency Economic Stabilization Act of 2008:

I thank my colleagues on both sides of the aisle for their hard work over a very short time period to craft strong legislation that will enable us to strengthen our financial markets and promote the flow of credit to businesses and consumers that is so vital to our economic growth and prosperity. This bill provides the necessary tools to deploy up to $700 billion to address the urgent needs in our financial system, whether that be by purchasing troubled assets broadly, insuring troubled assets, or averting the potential systemic risk from the disorderly failure of a large financial institution. I am confident this legislation gives us the flexibility to unclog our financial markets and increase the ability of our financial institutions to deliver the credit that will help create jobs. We are taking the steps needed to be ready to begin implementing this legislation as soon as it is signed.

Members on both sides were focused on the right things – creating an effective program that can be implemented quickly and effectively, and doing everything possible to protect the taxpayers.

Quick, effective and bipartisan action sends a signal to investors large and small, here and abroad, that we are committed to taking the necessary actions to protect our financial system and our economy. The American people will recognize the leadership you have all shown to protect them – to preserve their access to credit, and preserve jobs.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

September 29, 2008
hp-1163

Frequently Asked Questions About Treasury's Temporary Guarantee Program for Money Market Funds

Media Advisory October 16, 2008

How does an investor sign up to participate in the Treasury's Temporary Guarantee Program for Money Market Funds?

While the program protects the shares of all money market fund investors as of September 19, 2008, each money market fund makes the decision to sign up for the program. Investors cannot sign up for the program individually.

How will investors know if their money market fund participates in the program?

Investors should contact their money market fund directly to determine if it is participating in the program.

What type of funds does the program cover?

All money market mutual funds that are regulated under Rule 2a-7 of the Investment Company Act of 1940, are publicly offered, are registered with the Securities and Exchange Commission and maintain a stable share price of $1 will be eligible to participate in the program. This includes both taxable and non-taxable funds.

Is an investor in a fund that is managed like a money market fund but that is not registered with the SEC covered?

No, the program only covers money market funds that are regulated under Rule 2a-7 of the Investment Company Act of 1940, are publicly offered, are registered with the Securities and Exchange Commission and maintain a stable share price of $1 will be eligible to participate in the program. This includes both taxable and non-taxable funds.

When will my fund be covered by the program?

Each fund must decide to participate in the program. If your fund participates in the program, your investment as of September 19, 2008 will be covered.

How much of an investor's money market fund is insured? Is there a limit to the amount of coverage the Program can provide?

The program provides a guarantee based on the number of shares held in a specific fund at the close of business on September 19, 2008. Provided the specific fund is participating in the Program, there is no limit on the amount of shares that can be covered, provided the designated shareholder of record owned the shares as of September 19, 2008.

What happens if the number of shares an investor holds in a specific fund increases above the level at the close of business on September 19, 2008?

The program provides a guarantee based on the number of shares held in a specific fund at the close of business on September 19, 2008. Any increase in the number of shares held in a specific fund after the close of business on September

19, 2008 will not be guaranteed.

Examples Include:

1. If an investor owned 100 shares in a specific money market fund as of close of business September 19, 2008, but owns 150 shares in the same fund on the day a Guarantee Event occurs, then that investor will be guaranteed only for 100 shares. The fund, upon liquidation, will distribute proceeds from the assets to the extent available to the shareholder for the additional 50 shares, at net asset value.
2. If an investor owned no shares in a specific fund as of close of business September 19, 2008, but owns 100 shares in a fund on the day a Guarantee Event occurs, none of the investor's shares are guaranteed by the program and the investor will receive the net asset value directly from the fund.

What happens if the number of shares an investor holds in a specific fund decreases below the level held at the close of business on September 19, 2008?

The program provides a guarantee based on the number of shares held in a specific fund at the close of business on September 19, 2008. If a Guarantee Event occurs and an investor holds less than the level of shares originally held in the specific fund on September 19, 2008, only the amount of shares held when the Guarantee Event occurs will be covered.

Examples Include:

1. For example, if an investor owned 100 shares in a specific money market fund as of close of business September 19, 2008, but owns 50 shares in the same fund on the day a Guarantee Event occurs, then that investor will be guaranteed for 50 shares.

Assume an investor owns shares at the close of business on September 19, 2008 in a specific fund that is participating in the Program. What happens if the investor transfers funds from the specific fund held on September 19, 2008 to another fund that is also participating in the Program?

The program provides a guarantee based on the number of shares held in a specific fund at the close of business on September 19, 2008. Any contribution after the close on September 19, 2008 to another fund that is participating in the program – even one that is in the same fund family – will not be covered.

Assume an investor owns shares at the close of business on September 19, 2008 in a specific fund that is participating in the Program. Assume that after the close on September 19, 2008 the investor transfers funds from the specific fund held on September 19, 2008 to another fund. Can the investor now transfer funds back to the original fund held on September 19, 2008 and still be covered? What happens if the investor transfers all of his funds and the balance goes to zero?

The program provides a guarantee based on the number of shares held in a specific fund at the close of business on September 19, 2008. The number of shares held by the investor in a specific fund may fluctuate – including reaching a zero balance – provided that at all times the investor maintains his account with the same fund family, broker, or other intermediary where the shares were originally held. If the account is closed and the investor reopens a new account, even if it is with the same institution where the shares were originally held, it will not be covered.

Examples Include

1. If an investor owned 100 shares in a specific fund as of close of business September 19, 2008, subsequently sold the 100 shares, and then repurchased 100 shares in the same specific fund prior to a Guarantee Event, the investor would be covered for 100 shares.
2. If an investor owned 100 shares in a specific fund as of close of business September 19, 2008, subsequently sold the 100 shares, and then

repurchased 125 shares in the same specific fund prior to a Guarantee Event, the investor would be covered for only 100 shares.
3. If an investor owned 100 shares in a specific fund as of close of business September 19, 2008, subsequently sold the 100 shares, and then repurchased 100 shares in another fund that is participating in the program, the investor would not be covered.

Assume an investor owns shares in a participating fund at the close of business on September 19, 2008 in one ownership structure (e.g. directly, through a broker or other intermediary, or through another vehicle like a 401 (k) or IRA). Can the investor transfer his shares in the same specific fund and hold them through a different ownership structure (i.e. to a new direct ownership structure, a new broker or other intermediary, or a new vehicle like a 401(k) or IRA) and still be covered?

No. Transferring shares from one ownership structure to another would be deemed to be a new investment made after September 19, 2008 and would not be eligible for coverage.

What if another fund in an investor's fund family breaks the buck before this program starts? Is the investor covered?

The program provides a guarantee on a fund-by-fund basis up to the amount of shares held as of the close of business on September 19, 2008. The performance of a different fund, even one in the same fund family of the investor's fund, doesn't affect the investor's fund's eligibility. Investors should contact their fund to determine if their fund participates in the program.

When does the program terminate?

The program is designed to address temporary dislocations in credit markets. The program will be in effect for an initial three month term, after which the Secretary of the Treasury will review the need and terms for the program and the costs to provide the coverage. The Secretary has the option to extend the program up to the close of business on September 18, 2009. In order to maintain coverage, funds would have to renew their participation in the program after each extension. If the Secretary chooses not to extend the program at the end of the initial three month period, the program will terminate.

Who provides this guarantee? Are investors able to get all of their money back whenever they want?

The U.S. Treasury Department, through the Exchange Stabilization Fund, is providing this guarantee. In the event that a participating fund breaks the buck and liquidates, a guarantee payment should be made to investors through their fund within approximately 30 days, subject to possible extensions at the discretion of the Treasury.

Is shareholder in a fund that broke the buck before September 19, 2008 covered?

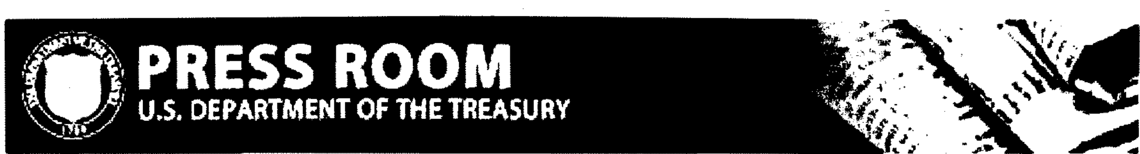
No. This does not meet the program's eligibility criteria noted above.

What should shareholders in a participating fund that breaks the buck do? Who should they call?

If your fund enrolled in the program you will be covered and do not need to take any action. Shareholders should contact their fund directly.

Who should a fund contact if it has further questions about this program?

Please e-mail the Treasury Department at



September 29, 2008
HP-1164

Statement by Secretary Paulson on the Sale of Wachovia Bank

Washington – Treasury issued the following statement by Secretary Henry M. Paulson, Jr. on the sale of Wachovia Bank:

"I commend the action taken by Chairman Bair and the FDIC today to facilitate the sale of Wachovia Bank to Citigroup in an orderly fashion to mitigate potential market disruptions. I agree with the FDIC and the Federal Reserve that a failure of Wachovia would have posed a systemic risk. As a result of this transaction, all Wachovia depositors will be protected and Wachovia's senior and subordinated debt will be assumed by Citigroup. The FDIC's actions help to mitigate potential systemic risk to our financial system. As I have said before, in this period of market stress, we are committed to taking all actions necessary to protect our financial system and our economy."

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September 29, 2008
HP-1165

Treasury Releases New Guidance Helping Soldiers Keep Health FSAs Funds

Washington, DC--The Treasury Department and Internal Revenue Service today issued Notice 2008-82, which protects reservists from losing funds in their health Flexible Spending Arrangement (health FSA) accounts after being called to active duty.

The Heroes Earnings Assistance and Relief Tax Act of 2008, enacted June 17, 2008, provided a special rule allowing "qualified reservist distributions" (QRDs) of unused amounts in a health FSA to reservists called to active duty. Under the existing rules for health FSAs, distributions could only be made to reimburse substantiated medical expenses, and any funds left unspent at the end of the plan year would be lost. This special rule allows reservists to make a distribution before leaving for active duty so as not to lose those savings.

The guidance clarifies that:

- The provision is optional for employers;
- Health FSAs must be amended if an employer wants to allow QRDs; a transition rule allows plans to be amended effective retroactively to provide for QRDs prior to January 1, 2010;
- QRDs are included in the income and wages for the reservist;
- Employees may request a QRD when they receive an order or call to active duty, and before the last day of the plan year (and grace period, if applicable); and
- Employers may allow employees to continue to participate in the health FSA after the QRD if amounts remain in the health FSA.

Notice 2008-82 is attached.

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REPORTS

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Part III - Administrative, Procedural, and Miscellaneous
Cafeteria Plans

Notice 2008-82

PURPOSE AND BACKGROUND

Section 114 of the Heroes Earnings Assistance and Relief Tax Act of 2008 (the HEART Act), enacted June 17, 2008, Pub. L. No. 110-245, amended section 125 of the Internal Revenue Code to provide a special rule allowing distributions of unused amounts in a health Flexible Spending Arrangement (health FSA) to reservists ordered or called to active duty. Section 114 of the HEART Act applies to distributions made on or after June 18, 2008.

Generally, new subsection 125(h) provides that a plan or other arrangement does not fail to be a cafeteria plan or health FSA merely because the arrangement provides, in certain circumstances, for "qualified reservist distributions" (QRDs) to an employee of all or a portion of the balance of the employee's unused amounts in the health FSA. This notice provides guidance on QRDs from health FSAs. It also includes a transition rule allowing plans to be retroactively amended for QRDs made before January 1, 2010.

QUALIFIED RESERVIST DISTRIBUTION

In general, a QRD is a distribution to an individual of all or a portion of the balance in the employee's health FSA if: (1) the individual is a member of a reserve component ordered or called to active duty for a period of 180 days or more or for an indefinite period and (2) the request for distribution is made during the period beginning with the order or call to active duty and ending on the last day of the plan year (or grace period, if applicable, under Prop. Treas. Reg. § 1.125-1(e)) that includes the date of the order or

call to active duty. QRDs are an exception to the rule that a health FSA may not make distributions other than reimbursements of substantiated medical expenses. See Prop. Treas. Reg. § 1.125-6.

QRD OPTIONAL WITH EMPLOYER

A cafeteria plan is not required to provide for a QRD. The decision of whether to allow a QRD from a health FSA is optional with the employer.

PLAN MUST BE AMENDED

A QRD may not be made before the cafeteria plan is amended to provide for a QRD from a health FSA. Pursuant to the requirements of Prop. Treas. Reg. §1.125-1(c), a plan may be amended at any time on a prospective basis. The QRD amendment must apply uniformly to all participants in the cafeteria plan.

TRANSITION RULE FOR QRDS MADE BEFORE JANUARY 1, 2010

Notwithstanding the general rule that amendments to cafeteria plans and health FSAs may only be effective prospectively from the date of the plan amendment and that a QRD may not be made before the cafeteria plan is first amended to provide for QRDs, a plan may be amended retroactively to permit QRDs requested on or before December 31, 2009, provided that the QRD satisfies the other requirements in this notice. The retroactive amendment must be made by December 31, 2009, and be effective retroactively to the date of the first QRD paid under the plan, but not prior to June 18, 2008. This transition rule does not extend the period during which an employee may request a QRD. Thus, regardless of when the plan is amended, the transition rule does not allow an employee to request a QRD with respect to a plan year after the last day of

the plan year (or grace period, if applicable) during which the order or call to active duty occurred.

EMPLOYEES WHO MAY RECEIVE QRDs

An employee who is, by reason of being a member of a reserve component (as defined in 37 U.S.C. § 101[1]), ordered or called to active duty for a period of 180 days or more or for an indefinite period may request a QRD. An individual ordered or called to active duty before June 18, 2008 is eligible for a QRD if the individual's period of active duty continues after June 18, 2008 and meets the duration requirements in this notice. A QRD may not be made based on an order or call to active duty of any individual other than the employee, including the spouse of the employee.

After an employee requests a QRD and before the employer may distribute an amount, the employer must first receive a copy of the order or call to active duty. An employer may rely on the order or call to determine the period that the employee has been ordered or called to active duty. If the order or call specifies that the period of active duty is for 180 days or more or is indefinite, the employee is eligible for a QRD, and the employee's eligibility is not affected if the actual period of active duty is less than 180 days or is otherwise changed.

If the period specified in the order or call is less than 180 days, a QRD is not allowed. However, subsequent calls or orders that increase the total period of active

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[1] Under paragraph 24 of section 101 of title 37 of the United States Code, the term "reserve component" means--

(A) the Army National Guard of the United States;
(B) the Army Reserve;
(C) the Navy Reserve;
(D) the Marine Corps Reserve;
(E) the Air National Guard of the United States;
(F) the Air Force Reserve;
(G) the Coast Guard Reserve; or
(H) the Reserve Corps of the Public Health Service.

duty to 180 days or more will qualify an employee for a QRD. Thus, for example, if an employee is ordered or called to active duty for 120 days, and his or her order or call is subsequently extended for an additional 60 days, that individual qualifies for a QRD.

AMOUNT AVAILABLE AS A QRD

If a cafeteria plan provides for QRDs, the cafeteria plan amendment should indicate how the plan will determine an employee's health FSA balance for purposes of making QRDs. See uniform coverage rules in Prop. Treas. Reg. § 1.125-5(d). The cafeteria plan may provide that the amount available as a QRD will be:

(1) the entire amount elected for the health FSA for the plan year minus health FSA reimbursements received as of the date of the QRD request;

(2) the amount contributed to the health FSA as of the date of the QRD request minus health FSA reimbursements received as of the date of the QRD request; or

(3) some other amount (not exceeding the entire amount elected for the health FSA for the plan year minus reimbursements).

If the cafeteria plan amendment does not indicate how the plan will determine the amount available as a QRD, then the amount available shall be the amount contributed to the health FSA as of the date of the QRD request minus health FSA reimbursements received as of the date of the QRD request.

A QRD may only be made with respect to an employee's health FSA balance in existence on or after June 18, 2008. A QRD may not be made with respect to amounts (1) forfeited on or before June 18, 2008, (2) attributable to a prior plan year (including a plan year ending on or before June 18, 2008), or (3) attributable to non-health FSAs.

CAFETERIA PLAN QRD PROCEDURES

The cafeteria plan may specify a process for employees to request a QRD. The cafeteria plan may specify how many QRDs may be made with respect to an employee during the same plan year. A plan must permit an employee to submit health FSA claims for medical expenses incurred before the date a QRD is requested and must pay or reimburse substantiated claims for those medical expenses. With respect to medical expenses incurred after the date a QRD is requested, the plan may either:

(1) permit employees to continue to submit health FSA claims incurred before the end of the health FSA plan year (and grace period, if applicable); or

(2) terminate an employee's right to submit claims.

WHEN TO REQUEST A QRD AND MAKE A DISTRIBUTION

An employee must request a QRD on or after the date of the order or call to active duty, and before the last day of plan year (or grace period, if applicable) during which the order or call to active duty occurred. An employer must pay the QRD to the employee within a reasonable time, but not more than sixty days after the request for a QRD has been made. A QRD may not be made with respect to a plan year ending before the order or call to active duty. In addition, a QRD may only be made on or after the effective date of amendment of the plan to provide for QRDs. But see above for a transition rule for QRDs made before January 1, 2010.

CAFETERIA PLAN NONDISCRIMINATION RULES

QRDs must be uniformly available to all plan participants. The QRD amounts are disregarded for purposes of the cafeteria plan nondiscrimination rules.

TAXATION OF A QRD

A QRD is included in the gross income and wages of the employee, and is subject to employment taxes. The employer must report the QRD as wages on the employee's Form W-2 for the year in which the QRD is paid to the employee. The amount reported as wages is reduced by any amount in the health FSA representing after-tax contributions (such as COBRA continuation premiums).

EFFECTIVE DATE

New section 125(h) is effective for a QRD made on or after June 18, 2008.

EFFECT ON OTHER DOCUMENTS

Future guidance will amend the § 125 Income Tax Regulations to provide an exception for QRDs as described in new § 125(h).

COMMENTS REQUESTED

The IRS and the Treasury Department request comments on the amendment made by section 114 of the HEART Act, including the guidance set forth in this notice and on any other issues concerning QRDs.

Comments should be submitted on or before [Insert date ninety days after publication], and should include a reference to Notice 2008-82. Send submissions to CC:PA:LPD:PR (Notice 2008-82), Room 5203, Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044. Submissions may be hand delivered **Monday through Friday** between the hours of 8 a.m. and 4 p.m. to CC:PA:LPD:PR (Notice 2008-82), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue, NW, Washington, DC 20044, or sent electronically, via the

following e-mail address: *Notice.comments@irscounsel.treas.gov*. Please include "Notice 2008-82" in the subject line of any electronic communication. All material submitted will be available for public inspection and copying.

DRAFTING INFORMATION

The principal author of this notice is Mireille Khoury of the Office of Division Counsel/Associate Chief Counsel (Tax Exempt and Government Entities). However, other individuals participated in its development. For further information regarding this notice contact Ms. Khoury at (202) 622-6080 (not a toll-free call).

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

September 29, 2008
HP-1167

Statement by Assistant Secretary Michele Davis on Emergency Economic Stabilization Act Vote

Washington, DC-- Treasury Assistant Secretary for Public Affairs and Director of Policy Planning Michele Davis issued the following statement on the Emergency Economic Stabilization Act of 2008 vote:

"The Secretary will be consulting with the President, the Chairman of the Federal Reserve, and Congressional leaders on next steps. In the meantime, we stand ready to work with fellow regulators and use all the tools at our disposal, as we have over the last several months, to protect our financial markets and our economy."

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September 25, 2008
HP-1166

Dep Sec Kimmitt Remarks at Treasury's Iftaar Dinner

Dear friends, I am honored to be here today to host this Iftaar at the Treasury Department.

I know that Ramadan is a special time of year for Muslims, and I am pleased that you have chosen to join me for an Iftaar. It is an opportunity for Treasury to thank and honor you all for the many contributions you make to the American economy and to America's place in the rest of the world. America is extremely diverse, and we treasure that quality. You represent the best that is America, and are integral to our nation's vitality, prosperity, and growth.

Ramadan represents a time of special devotion to family, to kindness and to charity. With this in mind, I would like to highlight the Department of the Treasury's efforts to engage with both the charitable sector and affected communities to advance our mutual interests in a free, open, tolerant and charitable society: one that encourages charitable and humanitarian activities, while at the same time protecting those efforts from abuse.

Providing effective and safe delivery of charitable services in regions at high risk for illicit finance activities may require creating alternative distribution mechanisms. Such distribution outlets are achieved through global, charitable partners supported by the U.S. Government. The aim is straightforward - to provide a safe and effective way for individuals to contribute into critical regions, where aid is desperately needed such as the West Bank and Gaza. Such partnerships also aim to weaken the hold that terrorist organizations have on vulnerable populations by harnessing a competitive force – the generosity of the American people.

Under the leadership of Dr. Ziad Asali, the American Charities for Palestine (ACP) and USAID are doing just that through their recent partnership established in August of this year. ACP, a U.S. non-profit organization, raises funds from the American charitable sector and donor communities and transfers these funds to USAID in order to finance specific projects in health care and education that USAID is administering in the Palestinian Territories. It is our hope that this type of collaboration will take root and serve as a model for other areas of concern, as well as encompass other funding streams including that of the international community.

In addition to our efforts in protecting the integrity of giving, the Treasury Department is actively engaged in promoting investment and economic development in the Palestinian Territories. In May 2008, President Bush asked me to lead a Presidential delegation, which included Dr. Asali and also Rob Mosbacher, President and CEO of OPIC, who are with us this evening, to join President Abbas and Prime Minister Fayyad at the Palestine Investment Conference in Bethlehem. This conference was truly a historic and groundbreaking event. During my trip to the region, I discussed the importance of developing a vibrant, healthy private sector and urged the Palestinian Authority to continue to improve the climate for business.

The Treasury Department supports other U.S. Government initiatives to promote investment in the Palestinian economy. Last December, for example, President Bush and Secretary Rice formally launched the U.S.-Palestinian Public Private Partnership, which is led by my friend and colleague Walter Isaacson, who heads the Aspen Institute. The Partnership is developing quick-impact projects to promote job creation in the West Bank, including establishing an Arabic-language call center

and five youth development and resource centers designed to prepare youth for full and productive participation in the Palestinian society and economy. By building a vibrant economy in the Palestinian Territories that is led by the private sector, we will help improve the lives of people, enhance stability, and bolster prospects for lasting peace.

Our goal with these initiatives is to enhance the humanitarian, financial, and economic relationships with Muslim communities here and around the world. We appreciate that, as members of the global community, we all stand to benefit from greater coordination, cooperation, and mutual respect – understanding the world we live in, and contributing to that world in the best way we can.

In this spirit, I look forward to continuing our work together, and am proud of the progress we are achieving. I especially thank you for your participation, compassion, and leadership in moving this dialogue forward.

I thank you again for coming to the Treasury Department today and Ramadan Kareem.

September 29, 2008
HP-1167

Statement by Assistant Secretary Michele Davis on Emergency Economic Stabilization Act Vote

Washington, DC-- Treasury Assistant Secretary for Public Affairs and Director of Policy Planning Michele Davis issued the following statement on the Emergency Economic Stabilization Act of 2008 vote:

"The Secretary will be consulting with the President, the Chairman of the Federal Reserve, and Congressional leaders on next steps. In the meantime, we stand ready to work with fellow regulators and use all the tools at our disposal, as we have over the last several months, to protect our financial markets and our economy."

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September 29, 2008
hp1168

Statement by Secretary Henry M. Paulson, Jr. on Emergency Economic Stabilization Act Vote

Washington, DC-- Secretary Henry M. Paulson, Jr. made the following statement on the Emergency Economic Stabilization Act of 2008 vote in the House:

I'm disappointed in today's vote, but leaders on both sides of the aisle worked hard. I've spoken to them and I know they share my great disappointment.

We have experienced significant turmoil in our financial markets in the last few days, including the collapse of Washington Mutual and Wachovia here and the failure of two major financial institutions in Europe. Markets around the world are under stress, and that reduces the availability of credit that businesses across America depend on to meet payroll and to purchase inventories.

Families, too, feel the credit crunch as it becomes more difficult to get car loans or a student loan.

I and my colleagues at the Fed and the SEC continue to address the market challenges we are facing on a daily basis. I am committed to continuing to work with my fellow regulators to use all the tools available to protect our financial system and our economy.

Our tool kit is substantial but insufficient. Therefore, I will continue to work with Congressional leaders to find a way forward to pass a comprehensive plan to stabilize our financial system and protect the American people by limiting the prospects of further deterioration in our economy.

We've got much work to do. This is much too important to simply let fail.

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September 30, 2008
hp-1169

Treasury Designates FARC International Commission Members

Washington, DC-- The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today designated eight international representatives of the Revolutionary Armed Forces of Colombia (FARC), a narco-terrorist organization. Today's action was taken pursuant to the Foreign Narcotics Kingpin Designation Act (Kingpin Act), which applies economic sanctions against significant foreign narcotics traffickers and organizations, like the FARC.

"Today's designation exposes eight 'International Commission members' of the FARC," said Adam J. Szubin, Director of OFAC. "Through their service to the FARC as international representatives and negotiators, these persons provide material support to a narco-terrorist organization. OFAC is relentless in its pursuit of exposing those who fuel and support the terrorist activities of the FARC."

The following eight individuals designated today have been identified as the key members of the FARC's International Commission: Jairo Alfonso Lesmes Bulla ("Javier Calderon"), Efrain Pablo Trejo Freire, Orlay Jurado Palomino ("Commander Hermes"), Ovidio Salinas Perez ("El Embajador"), Jorge Davalos Torres, Francisco Antonio Cadena Collazos ("El Cura Camilo"), Nubia Calderon de Trujillo ("Esperanza"), and Liliana Lopez Palacios ("Olga Lucia Marin"). These International Commission members represent the FARC in Argentina, Chile, Uruguay, Paraguay, Brazil, Peru, Ecuador, Venezuela, Panama, Mexico, and Canada.

As representatives of the FARC and members of its International Commission, these individuals work abroad to obtain recruits, support, and protection for the FARC's acts of terrorism. Some are also themselves violent criminals. On August 6, 2008, Colombian authorities arrested Jairo Alfonso Lesmes Bulla, the FARC's International Commission member for Argentina, Chile, Uruguay, and Paraguay, in Bogota, Colombia for plotting to assassinate the former Interior and Justice Minister Fernando Londoño Hoyos and the brother of Colombian Vice President Francisco Santos. Orlay Jurado Palomino, the FARC International Commission member for Venezuela, is wanted in Colombia on charges of kidnapping, rebellion, and terrorism. In August 2005, the Brazilian Federal Police arrested Francisco Antonio Cadena Collazos, the FARC's International Commission Member for Brazil, in Sao Paulo at the request of Colombian authorities on criminal charges of rebellion. The Brazilian government later released Cadena Collazos and granted him refugee status. Nubia Calderon de Trujillo was recently granted asylum by Nicaragua, even though she is a member of an internationally recognized narco-terrorist organization.

In 2003, President George W. Bush identified the FARC as a significant foreign narcotics trafficker, or drug kingpin, pursuant to the Kingpin Act. In 2001, the State Department designated the FARC as a Specially Designated Global Terrorist pursuant to Executive Order 13224, and in 1997 the State Department designated the FARC as a Foreign Terrorist Organization. This OFAC action continues ongoing efforts under the Kingpin Act to apply financial measures against significant foreign narcotics traffickers and their organizations worldwide. In addition to the 75 drug kingpins that have been designated by the President, 468 businesses and individuals have been designated by OFAC pursuant to the Kingpin Act since June 2000.

Today's action freezes any assets the designated entities and individuals may have under U.S. jurisdiction and prohibits U.S. persons from conducting financial or commercial transactions involving those assets. Penalties for violations of the Kingpin Act range from civil penalties of up to $1,075,000 per violation to more

severe criminal penalties. Criminal penalties for corporate officers may include up to 30 years in prison and fines of up to $5,000,000. Criminal fines for corporations may reach $10,000,000. Other individuals face up to 10 years in prison for criminal violations of the Kingpin Act and fines pursuant to Title 18 of the United States Code.

For a complete list of the individuals and entities designated today, please visit: http://www.treasury.gov/offices/enforcement/ofac/actions/index.shtml

To view previous OFAC actions directed against the FARC, please visit:

- Treasury Action against the FARC on September 12, 2008.
- Treasury Action against the FARC on July 31, 2008.
- Treasury Action against the FARC on May 7, 2008.
- Treasury Action against the FARC on April 22, 2008.
- Treasury Action against the FARC on January 15, 2008.
- Treasury Action against the FARC on November 1, 2007.
- Treasury Action against the FARC on September 28, 2006.
- Treasury Action against the FARC on February 19, 2004.

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REPORTS

- Designation Chart

Revolutionary Armed Forces of Colombia (FARC)

September 2008

U.S. Department of the Treasury
Office of Foreign Assets Control

Foreign Narcotics Kingpin Designation Act

FARC-EP

FARC Designated by the President as a Significant Foreign Narcotics Trafficker on May 29, 2003

FARC
INTERNATIONAL COMMISSION MEMBERS

Nubia CALDERON DE TRUJILLO
"Esperanza"
DOB 25 Mar 1956
CC 36159126 (Colombia)

FARC Representative for Ecuador

Francisco Antonio CADENA COLLAZOS
"El Cura Camilo"
DOB 1 Jan 1947
CC 4904771 (Colombia)

FARC Representative for Brazil

Jairo Alfonso LESMES BULLA
"Javier Calderon"
DOB 25 Mar 1947
CC 17164408 (Colombia)

FARC Representative for Argentina, Chile, Uruguay, Paraguay

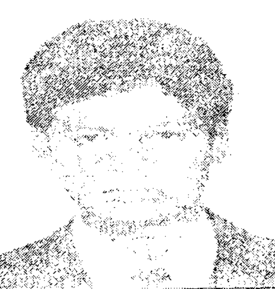
Arrested in Colombia Aug 2008

Ovidio SALINAS PEREZ
"Juan Antonio Rojas"
DOB 3 Jul 1945
CC 17125959 (Colombia)

FARC Representative for Panama

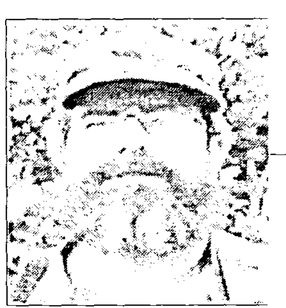
Efrain Pablo TREJO FREIRE
"Pablo Trejos Freyre"
DOB 07 Jun 1951
CC 13004986 (Colombia)

FARC Representative for Peru



Jorge DAVALOS TORRES
DOB 14 Dec 1972
CC 94377215 (Colombia)

FARC Representative for Canada



Orlay JURADO PALOMINO
"Commander Hermes"
DOB 9 Feb 1950
CC 7245990 (Colombia)

FARC Representative for Venezuela

INTERPOL Arrest Warrants

Liliana LOPEZ PALACIOS
"Olga Lucia Marin"
DOB 21 Sep 1961
CC 51708175 (Colombia)

FARC Representative for Mexico

September 30, 2008
HP-1170

Assistant Secretary Swagel to Hold Monthly Economic Briefing

Assistant Secretary for Economic Policy Phillip Swagel will hold a media briefing to review economic indicators from the last month and discuss the state of the U.S. economy. The event is open to the media:

Who
Assistant Secretary for Economic Policy Phillip Swagel

What
Economic Media Briefing

When
Friday, October 3, 10:00 a.m. EDT

Where
Treasury Department
Media Room (4121)
1500 Pennsylvania Avenue, NW
Washington, D.C.

Note
Media without Treasury press credentials should contact Frances Anderson at (202) 622-2960, or with the following information: full name, Social Security number, and date of birth.