MINUTES OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DATE: March 16, 2008

TIME: 3:45 p.m.

LOCATION: Board Room

ATTENDANCE:

Mr. Bernanke, Chairman
Mr. Kohn, Vice Chairman
Mr. Warsh (participated by telephone)
Mr. Kroszner
Mr. Mishkin (participated by telephone)

Office of the Secretary

Ms. Johnson, Secretary
Ms. Beattie, Assistant to the Secretary

Board Members

Ms. Smith, Director
Mr. Blanchard, Assistant to the Board
Mr. Skidmore, Assistant to the Board

Legal Division

Mr. Alvarez, General Counsel
Mr. Ashton, Deputy General Counsel
Mr. Van Der Weide, Assistant General Counsel

Division of Monetary Affairs

Mr. Madigan, Director

Division of Banking Supervision and Regulation

Mr. Cole, Director

Ms. Bailey, Deputy Director

Ms. Stefansson, Associate Director

Federal Reserve Bank of New York

Mr. Geithner, President (participated by telephone)

FINANCIAL MARKETS -- Promotion of orderly market functioning through an extension of credit to The Bear Stearns Companies Inc., establishment of a credit facility for primary securities dealers, and other actions.

Discussed.
Approved.
March 16, 2008.

At its meeting on March 14, 2008, the Board had authorized the Federal Reserve Bank of New York (New York Reserve Bank) to extend credit to JPMorgan Chase & Co. (JPMC) to provide financing on a nonrecourse basis to The Bear Stearns Companies Inc. (Bear Stearns), both in New York, New York, and possibly to other primary securities dealers. Today, Board members took up matters related to the acquisition of Bear Stearns by JPMC and establishment of a primary securities dealer credit facility.

JPMC/Bear Stearns loan. In connection with the proposed JPMC/Bear Stearns acquisition, and given the unusual and exigent circumstances, the Board authorized the New York Reserve Bank to make a nonrecourse loan of up to $30 billion that would be fully collateralized by a pool of Bear Stearns assets, if the Reserve Bank found that adequate credit accommodations were not available to the borrower from other banking sources. The loan must be fully secured to the satisfaction of the New York Reserve Bank under terms to be finalized by the Reserve Bank. The Board also approved the New York Reserve Bank's recommendation that the credit be extended at the rate for discounts and advances under the primary credit program (primary credit rate).

The evidence available to the Board indicated that Bear Stearns would have difficulty meeting its repayment obligations the next business day. Significant support, such as an acquisition of Bear Stearns or an immediate guarantee of its payment obligations, was necessary to avoid serious disruptions to financial markets. Although many potential investors had been invited to invest, Bear Stearns had determined that JPMC was the most suitable bidder. JPMC had requested assistance in financing a specific pool of assets that Bear Stearns had difficulty financing in the market and that JPMC believed added significant uncertainty to the level of risk it would assume at the same time it was acquiring the remainder of Bear Stearns. The discussion of the Board members included a consideration of probable terms of financing those assets, the position of the Department of the Treasury, and the authority for the financing.

Temporary exemptions from section 23A and capital requirements. In connection with the proposed JPMC/Bear Stearns acquisition, the Board granted an 18-month exemption requested by JPMorgan Chase Bank, National Association (JPMC Bank), Columbus, Ohio, from the requirements of section 23A of the Federal Reserve Act and the Board's Regulation W for certain extensions of credit or guarantees between JPMC Bank and Bear Stearns or any other affiliate of JPMC Bank regarding Bear Stearns assets. The exemption would apply only (1) for extensions of credit or guarantees that are fully collateralized and marked to market and remargined daily, (2) if JPMC guaranteed the performance of the affiliate for the benefit of JPMC Bank in connection with any exempt transaction, and (3) up to an aggregate amount of 50 percent of JPMC Bank's capital stock and surplus. The amount of the exemption would also decrease as assets of Bear Stearns were sold or matured. The Board delegated to the director of the Division of Banking Supervision and Regulation and the General Counsel, in consultation with the chairman of the Committee on Supervisory and Regulatory Affairs, authority to make minor modifications in the terms of this exemption.

The Board also granted an 18-month exemption to JPMC from the Board's risk-based and leverage capital requirements for bank holding companies. The exemption would allow JPMC to exclude the assets and exposures of Bear Stearns from its risk-weighted assets for purposes of applying the risk-based capital requirements at the parent bank holding company. JPMC would also be allowed to exclude the assets of Bear Stearns from the denominator of its tier 1 leverage capital ratio for purposes of applying the tier 1 leverage capital requirements at the parent bank holding company. The amount of each exemption would be reduced over time.

New credit facility for primary securities dealers. Given the unusual and exigent circumstances, the Board authorized the New York Reserve Bank to establish a facility to extend credit to primary securities dealers. Primary securities dealers would be able to access the new facility through each dealer's clearing bank. The credit must be secured to the satisfaction of the New York Reserve Bank and may be secured with a broad range of investment-grade debt securities. Credit under the new facility would be extended overnight and would be with recourse beyond the collateral to the primary securities dealer. The New York Reserve Bank must collect evidence that adequate credit accommodations are not available to the borrower from other banking sources. The Board also approved the New York Reserve Bank's recommendation that credit extended through the new facility would be at the primary credit rate.

The Board's decision to establish a facility for primary securities dealers was based on recent, rapidly changing developments. These developments demonstrated that there had been impairment of a broad range of financial markets in which primary dealers finance themselves. The available evidence also indicated that the dealers might have difficulty obtaining necessary financing for their operations from alternative sources. During their discussion of the new facility, Board members considered whether six months was an appropriate initial duration for the facility, and they asked about provisions in the new facility for protecting the Federal Reserve against credit risk.

Other actions. As noted in the discount rate minutes of today's meeting, the Board approved the request of the New York Reserve Bank for a reduction in the primary credit rate from 3-1/2 percent to 3-1/4 percent. In addition, the Board authorized an increase in the maximum maturity of loans under the primary credit program to 90 days (currently 30 days). The Board also approved the issuance of a press release that would announce the establishment of a primary securities dealer credit facility, the reduction in the primary credit rate and increase in the maximum maturity of primary credit loans, and the Board's approval of the financing arrangement announced by JPMC and Bear Stearns.

Participating in these determinations and voting for these actions:
Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Mishkin.

Background: None.

Implementation: Press release, March 16, and letter to JPMorgan Chase & Co., April 1, 2008 (approved by notation voting on April 1).

Jennifer J. Johnson
Secretary