



# Quarterly Report on Federal Reserve Balance Sheet Developments

August 2014

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM





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# Purpose

The Federal Reserve prepares this quarterly report as part of its efforts to enhance transparency about its balance sheet, financial information, and monetary policy tools, and to ensure appropriate accountability to the Congress and the public.

The appendix of this report contains information about the transparency provisions of the Dodd-

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Note: Financial information in this report has not been audited. Financial data are audited annually and are available at [www.federalreserve.gov/monetarypolicy/bst\\_fedfinancials.htm](http://www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm).

Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) and the Federal Reserve's efforts to meet the requirements of those provisions.

For prior editions of this report (which was published from June 2009 to August 2012 as the "Monthly Report on Credit and Liquidity Programs and the Balance Sheet") and other resources, please visit the Board's public website at [www.federalreserve.gov/monetarypolicy/clbsreports.htm](http://www.federalreserve.gov/monetarypolicy/clbsreports.htm).



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# Abbreviations

|        |   |       |   |
|--------|---|-------|---|
| ABS    | Asset-backed securities   | MBS   | Mortgage-backed securities                            |
| CAMELS | Capital, Assets, Management, Earnings, Liquidity, and Sensitivity | NRSRO | Nationally recognized statistical rating organization |
| CMBS   | Commercial mortgage-backed securities                             | OIS   | Overnight index swap                                  |
| CMO    | Collateralized mortgage obligations                               | OMO   | Open market operation                                 |
| CUSIP  | Committee on Uniform Security Identification Procedures           | SBA   | Small Business Administration                         |
| FCB    | Foreign central bank  | SOMA  | System Open Market Account                            |
| FOMC   | Federal Open Market Committee                                     | TAF   | Term Auction Facility                                 |
| FRBNY  | Federal Reserve Bank of New York                                  | TALF  | Term Asset-Backed Securities Loan Facility            |
| GSE    | Government-sponsored enterprise                                   | TARP  | Troubled Asset Relief Program                         |
| JPMC   | JPMorgan Chase & Co.  | TDF   | Term Deposit Facility                                 |
| LLC    | Limited liability company   | VIE   | Variable interest entity                              |
| LSAP   | Large-scale asset purchase program                                |       |   |



# Overview

## Recent Developments

The Overview section of this report highlights recent developments in the operations of the Federal Reserve's monetary policy tools and presents data describing changes in the assets, liabilities, and total capital of the Federal Reserve System as of June 30, 2014.

### FOMC Slows Pace of Additional Asset Purchases

- On June 18, 2014, and on July 30, 2014, the Federal Open Market Committee (FOMC) announced that in light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions since the inception of the current asset purchase program, the Committee decided to make further measured reductions in the pace of its asset purchases. Following these two announcements, beginning in August the Committee will add to its holdings of agency mortgage-backed securities (MBS) at a pace of \$10 billion per month and will add to its holdings of longer-term Treasury securities at a pace of \$15 billion per month. Additional information is available at [www.federalreserve.gov/newsevents/press/monetary/20140618a.htm](http://www.federalreserve.gov/newsevents/press/monetary/20140618a.htm) and [www.federalreserve.gov/newsevents/press/monetary/20140730a.htm](http://www.federalreserve.gov/newsevents/press/monetary/20140730a.htm).

### Federal Reserve Board Publishes Quarterly Financial Report

- On August 22, 2014, the Federal Reserve Board published the "Federal Reserve Banks Combined Quarterly Financial Report" for the second quarter of 2014, which includes summary information on the combined financial position and results of operations of the 12 Reserve Banks and several consolidated variable interest entities (VIEs). All financial information included in the report is unaudited. The report is available on the Federal

Reserve Board's website at [www.federalreserve.gov/monetarypolicy/bst\\_fedfinancials.htm#quarterly](http://www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm#quarterly).

### Federal Reserve Announces New Collateral Margins

- On June 3, 2014, the Federal Reserve announced a new schedule of margins applicable to collateral pledged by depository institutions to secure discount window loans and for payment system risk purposes. The new margins are part of the Federal Reserve's continuing efforts to ensure effective risk-management policies and procedures in its lending programs to depository institutions. The changes, which were effective on July 1, 2014, stem from the most recent review of margins and valuation practices that the Federal Reserve periodically conducts, as well as the incorporation of updated market data. They reflect data and methodological improvements that better account for differences in various risk characteristics across collateral types. Additional information is available at [www.frbdiscountwindow.org](http://www.frbdiscountwindow.org).

### FRBNY Concludes Treasury Operations Counterparty Pilot Program and Announces Mortgage Operations Counterparty Pilot Program

- On August 5, 2014, the Federal Reserve Bank of New York (FRBNY) announced the conclusion of the Treasury Operations Counterparty Pilot Program, a program in which a few small broker-dealers acted as counterparties in Treasury market operations it conducted for the System Open Market Account (SOMA) portfolio. Also on August 5, 2014, the FRBNY announced the introduction of a pilot program for a few small broker-dealers to act as new counterparties in its agency MBS market operations. Participants in this pilot program, who have yet to be selected, will participate in FRBNY operations to conduct secondary market outright purchases or sales of agency MBS along

with primary dealers. The program will run for about one year. More information is available on the FRBNY's website at [newyorkfed.org/newsevents/news/markets/2014/an140805.html](http://newyorkfed.org/newsevents/news/markets/2014/an140805.html).

### **Federal Reserve System Selected Assets, Liabilities, and Total Capital**

Table 1 reports selected assets and liabilities and total capital of the Federal Reserve System and presents the change in these components over selected intervals. The Federal Reserve publishes its complete bal-

ance sheet each week in the H.4.1 statistical release, "Factors Affecting Reserve Balances of Depository Institutions and Consolidated Statement of Condition of Reserve Banks," available at [www.federalreserve.gov/releases/h41/](http://www.federalreserve.gov/releases/h41/).

Figure 1 displays the levels of selected Federal Reserve assets and liabilities, securities holdings, and credit extended through liquidity facilities since April 2010.

**Table 1. Assets, liabilities, and capital of the Federal Reserve System**

Billions of dollars

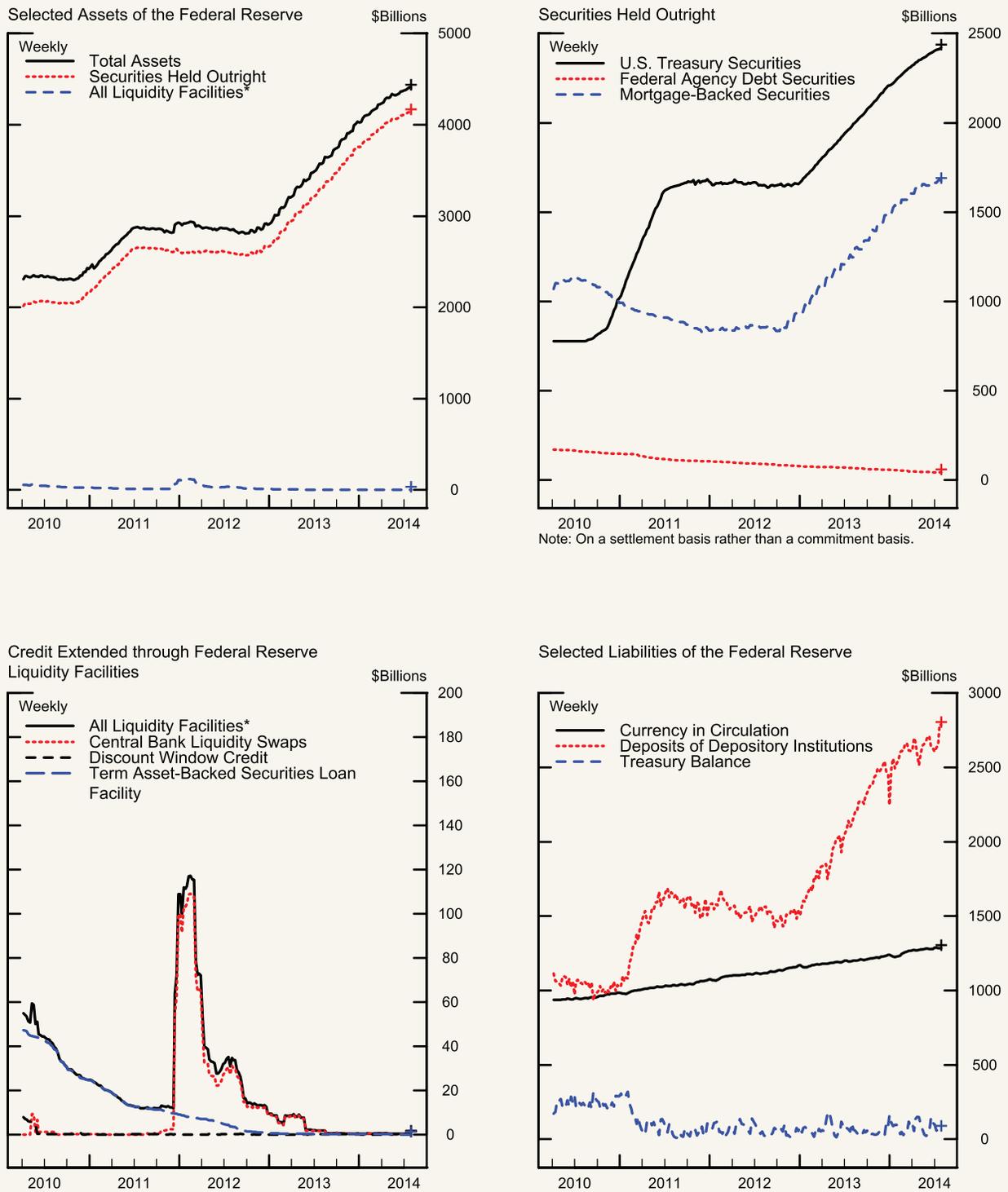
| Item   | Current<br>July 30, 2014 | Change from<br>April 30, 2014 | Change from<br>July 31, 2013 |
|--|--------------------------|-------------------------------|------------------------------|
| <b>Total assets</b>  | <b>4,407</b>             | <b>+111</b>                   | <b>+835</b>                  |
| <b>Selected assets</b>   |                          |                               |                              |
| Securities held outright   | 4,137                    | +110                          | +841                         |
| U.S. Treasury securities <sup>1</sup>  | 2,420                    | +70                           | +438                         |
| Federal agency debt securities <sup>1</sup>  | 42                       | -3                            | -24                          |
| Mortgage-backed securities <sup>2</sup>  | 1,674                    | +42                           | +427                         |
| Memo: Overnight securities lending <sup>3</sup>                                    | 8                        | -4                            | +                            |
| Memo: Net commitments to purchase mortgage-backed securities <sup>4</sup>          | 62                       | +12                           | -27                          |
| Unamortized premiums on securities held outright <sup>5</sup>                      | 209                      | -1                            | +5                           |
| Unamortized discounts on securities held outright <sup>5</sup>                     | -19                      | -1                            | -15                          |
| Lending to depository institutions <sup>6</sup>                                    | *                        | +                             | +                            |
| Central bank liquidity swaps <sup>7</sup>  | *                        | -*                            | -1                           |
| Lending through the Term Asset-Backed Securities Loan Facility (TALF) <sup>8</sup> | *                        | -*                            | -*                           |
| Net portfolio holdings of TALF LLC <sup>9</sup>                                    | *                        | -*                            | -*                           |
| Support for specific institutions <sup>10</sup>                                    | 2                        | +                             | +                            |
| Net portfolio holdings of Maiden Lane LLC <sup>10</sup>                            | 2                        | +                             | +                            |
| Net portfolio holdings of Maiden Lane II LLC <sup>10</sup>                         | *                        | -*                            | -*                           |
| Net portfolio holdings of Maiden Lane III LLC <sup>10</sup>                        | *                        | -*                            | -*                           |
| Foreign currency denominated assets <sup>11</sup>                                  | 24                       | -1                            | -*                           |
| <b>Total liabilities</b>   | <b>4,350</b>             | <b>+110</b>                   | <b>+834</b>                  |
| <b>Selected liabilities</b>  |                          |                               |                              |
| Federal Reserve notes in circulation   | 1,242                    | +13                           | +88                          |
| Reverse repurchase agreements <sup>12</sup>  | 229                      | -97                           | +138                         |
| Foreign official and international accounts <sup>12</sup>                          | 113                      | -4                            | +22                          |
| Others <sup>12</sup>   | 116                      | -92                           | +116                         |
| Term deposits held by depository institutions                                      | 0                        | 0                             | -12                          |
| Other deposits held by depository institutions                                     | 2,786                    | +271                          | +665                         |
| U.S. Treasury, general account   | 70                       | -78                           | -40                          |
| Other deposits <sup>13</sup>   | 10                       | +3                            | +1                           |
| <b>Total capital</b>   | <b>56</b>                | <b>+</b>                      | <b>+1</b>                    |

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

\*Less than \$500 million.

<sup>1</sup> Face value.<sup>2</sup> Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. The current face value shown is the remaining principal balance of the securities.<sup>3</sup> Securities loans under the overnight facility are off-balance-sheet transactions. These loans are shown here as a memo item to indicate the portion of securities held outright that have been lent through this program.<sup>4</sup> Current face value. Includes commitments associated with outright purchases, dollar rolls, and coupon swaps.<sup>5</sup> Reflects the premium or discount, which is the difference between the purchase price and the face value of the securities that has not been amortized. For U.S. Treasury and Federal agency debt securities, amortization is on a straight-line basis. For mortgage-backed securities, amortization is on an effective-interest basis.<sup>6</sup> Total of primary, secondary, and seasonal credit.<sup>7</sup> Dollar value of the foreign currency held under these agreements valued at the exchange rate to be used when the foreign currency is returned to the foreign central bank.<sup>8</sup> Book value.<sup>9</sup> As of July 30, 2014, TALF LLC had purchased no assets from the Federal Reserve Bank of New York.<sup>10</sup> Fair value, reflecting values as of June 30, 2014. Fair value reflects an estimate of the price that would be received upon selling an asset if the transaction were to be conducted in an orderly market on the measurement date. Fair values are updated quarterly.<sup>11</sup> Revalued daily at current foreign currency exchange rates.<sup>12</sup> Cash value of agreements, which are collateralized by U.S. Treasury securities, federal agency debt securities, and mortgage-backed securities.<sup>13</sup> Includes deposits held at the Reserve Banks by international and multilateral organizations, government-sponsored enterprises, and designated financial market utilities.

Figure 1. Credit and liquidity programs and the Federal Reserve's balance sheet



+ indicates most recent data point. Data are shown through 7/30/2014.  
 \* All Liquidity Facilities includes primary credit, secondary credit, seasonal credit, Term Asset-Backed Securities Loan Facility, and central bank liquidity swaps.

# Monetary Policy Tools

The Federal Reserve currently uses several tools to implement monetary policy in support of its statutory mandate to foster maximum employment and stable prices.

The Federal Reserve conducts open market operations (OMOs) in domestic markets. OMOs can be permanent, including the outright purchase and sale of Treasury securities, government-sponsored enterprise (GSE) debt securities, and federal agency and GSE MBS; or temporary, including the purchase of these securities under agreements to resell, and the sale of these securities under agreements to repurchase. The authority to conduct OMOs is granted under Section 14 of the Federal Reserve Act, and the range of securities that the Federal Reserve is authorized to purchase and sell is relatively limited. OMOs are conducted by the Trading Desk at the Federal Reserve Bank of New York (FRBNY), which acts as agent for the FOMC. The FRBNY's traditional counterparties for OMOs are the primary dealers with which the FRBNY trades U.S. government and select other securities.<sup>1</sup> Since 2009, the FRBNY has designated other counterparties for certain OMO programs.

OMOs have been used historically to adjust the supply of reserve balances so as to keep the federal funds rate around the target federal funds rate established by the FOMC. In recent years, the Federal Reserve has also developed other tools to strengthen its control of short-term interest rates and to reduce the large quantity of reserves held by the banking system when needed.

<sup>1</sup> A current list of primary dealers is available on the FRBNY's website at [www.newyorkfed.org/markets/pridealers\\_current.html](http://www.newyorkfed.org/markets/pridealers_current.html). Information on the FRBNY's administration of its relationships with primary dealers—including requirements for business standards, financial condition and supervision, and compliance and controls—is available at [www.newyorkfed.org/markets/pridealers\\_policies.html](http://www.newyorkfed.org/markets/pridealers_policies.html) and [www.newyorkfed.org/markets/pridealers\\_faq\\_100111.html](http://www.newyorkfed.org/markets/pridealers_faq_100111.html).

The Federal Reserve provides short-term liquidity to domestic banks and other depository institutions through the discount window. In addition, because of the global nature of bank funding markets, the Federal Reserve has established liquidity arrangements with foreign central banks as part of coordinated international efforts.

## Permanent Open Market Operations

### Recent Developments

- On June 18, 2014, the FOMC announced that in light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions since the inception of the current asset purchase program, the Committee decided to make a further measured reduction in the pace of its asset purchases. Specifically, beginning in July, the Committee would add to its holdings of agency MBS at a pace of \$15 billion per month rather than \$20 billion per month, and would add to its holdings of longer-term Treasury securities at a pace of \$20 billion per month rather than \$25 billion per month. On July 30, 2014, the FOMC announced a further measured reduction in the pace of asset purchases, to a pace of \$10 billion per month for agency MBS and \$15 billion per month for longer-term Treasury securities. Additional information is available at [www.federalreserve.gov/newsevents/press/monetary/20140618a.htm](http://www.federalreserve.gov/newsevents/press/monetary/20140618a.htm) and [www.federalreserve.gov/newsevents/press/monetary/20140730a.htm](http://www.federalreserve.gov/newsevents/press/monetary/20140730a.htm).
- Between April 30, 2014, and July 30, 2014, SOMA's holdings of Treasury securities increased, as purchases continued under the FOMC's purchase program for longer-term Treasury securities.
- The SOMA's holdings of agency debt declined between April 30, 2014, and July 30, 2014, because of principal payments. Holdings of agency MBS increased, as purchases continued under the FOMC's agency MBS purchase plan announced

on September 13, 2012, and as principal payments from agency debt and agency MBS are reinvested in agency MBS under the FOMC's reinvestment policy announced on September 21, 2011.

- On August 5, 2014, the FRBNY announced the conclusion of the Treasury Operations Counterparty Pilot Program, a program in which a few small broker-dealers acted as counterparties in Treasury market operations it conducted for the SOMA portfolio. More information is available on the FRBNY's website at [www.newyorkfed.org/newsevents/news/markets/2014/an140805.html](http://www.newyorkfed.org/newsevents/news/markets/2014/an140805.html).
- Also on August 5, 2014, the FRBNY announced the introduction of a pilot program for a few small broker-dealers to act as new counterparties in its agency MBS market operations. Pilot program participants, who have yet to be selected, will participate in FRBNY operations to conduct secondary market outright purchases or sales of agency MBS along with primary dealers. Pilot program participants will be subject to appropriate size limitations on aggregate daily bids and unsettled awards to be determined by the FRBNY and commensurate with the firm's capital position. Similar to the recently concluded Treasury Operations Counterparty Pilot Program, the FRBNY's intent in conducting the Mortgage Operations Counterparty Pilot Program is to explore ways to broaden access to monetary policy operations, and to determine the extent to which additional counterparties beyond the primary dealers can augment the FRBNY's operational capacity and resiliency in its monetary policy operations. The program will run for about one year. More information is available on the FRBNY's website at [www.newyorkfed.org/markets/moc\\_announcement.html](http://www.newyorkfed.org/markets/moc_announcement.html) and [www.newyorkfed.org/markets/moc\\_faqs.html](http://www.newyorkfed.org/markets/moc_faqs.html).

## Background

Permanent OMOs are outright purchases or sales of securities for the SOMA, the Federal Reserve's portfolio. Traditionally, permanent OMOs have been used to accommodate the longer-term factors driving the expansion of the Federal Reserve's balance sheet, principally the trend growth of currency in circulation. More recently, the expansion of SOMA securities holdings has been driven by large-scale asset purchase programs (LSAPs), which are described in more detail below. In 2011 and 2012, permanent

**Table 2. Domestic SOMA securities holdings**

Billions of dollars

| Security type   | Total par value as of July 30, 2014 | Total par value as of April 30, 2014 |
|---|-------------------------------------|--------------------------------------|
| U.S. Treasury bills   | 0                                   | 0                                    |
| U.S. Treasury notes and bonds, nominal                        | 2,307                               | 2,240                                |
| U.S. Treasury notes and bonds, inflation-indexed <sup>1</sup> | 114                                 | 110                                  |
| Federal agency debt securities <sup>2</sup>                   | 42                                  | 45                                   |
| MBS <sup>3</sup>  | 1,674                               | 1,632                                |
| <b>Total SOMA securities holdings</b>                         | <b>4,137</b>                        | <b>4,027</b>                         |

Note: Unaudited. Components may not sum to total because of rounding. Does not include investments denominated in foreign currencies or unsettled transactions.

<sup>1</sup> Includes inflation compensation.

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

<sup>3</sup> Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities.

open market operations were also used to extend the average maturity of securities held in the SOMA.<sup>2</sup>

The composition of the SOMA is presented in [table 2](#). The Federal Reserve's outright holdings of securities are reported weekly in tables 1, 3, 8, and 9 of the H.4.1 statistical release.

On September 28, 2012, the Federal Reserve began the regular publication of transaction-level information on individual open market transactions. In accordance with the Dodd-Frank Act, this information will be made available on a quarterly basis and with an approximately two-year lag. The transaction-level detail supplements the extensive aggregate information the Federal Reserve has previously provided in weekly, monthly, and quarterly reports, and is available at [www.newyorkfed.org/markets/OMO\\_transaction\\_data.html](http://www.newyorkfed.org/markets/OMO_transaction_data.html).

On February 20, 2013, the FRBNY announced the introduction of a pilot program for a few small broker-dealers to participate in FRBNY operations to conduct outright purchases or sales of U.S. Treasury securities along with primary dealers. Four firms participated in the pilot program. These new counterparties were not eligible to participate in other types

<sup>2</sup> Information on the maturity extension program is available at [www.federalreserve.gov/monetarypolicy/maturityextensionprogram.htm](http://www.federalreserve.gov/monetarypolicy/maturityextensionprogram.htm) and [www.newyorkfed.org/markets/opoly/operating\\_policy\\_110921.html](http://www.newyorkfed.org/markets/opoly/operating_policy_110921.html).

of OMOs. The program ran for about one year—a period long enough for the FRBNY to evaluate the benefits and costs of a wider range of participants in its SOMA operations—and concluded on July 31, 2014.

## Large-Scale Asset Purchase Programs

From March 2009 through March 2010, the Federal Reserve purchased direct obligations of the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Home Loan Banks; MBS guaranteed by Fannie Mae, Freddie Mac, and the Government National Mortgage Association (Ginnie Mae); and longer-term Treasury securities.<sup>3</sup> More information on these actions is available at [www.federalreserve.gov/monetarypolicy/bst\\_openmarkets.htm](http://www.federalreserve.gov/monetarypolicy/bst_openmarkets.htm).

In November 2010, the FOMC decided to expand its holdings of securities and announced that in order to promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the FOMC intended to purchase a further \$600 billion of longer-term Treasury securities by the end of the second quarter of 2011. The last purchase under this program occurred in June 2011.

In August 2010, the FOMC announced that it would reinvest principal payments from agency debt and agency MBS in longer-term Treasury securities in order to maintain domestic securities holdings in the SOMA portfolio at the level intended under the LSAPs. In September 2011, the FOMC announced that it would begin reinvesting these principal payments in agency MBS.

On September 13, 2012, the FOMC announced that it would increase policy accommodation by purchasing additional agency MBS at a pace of \$40 billion per month. More information is available at [www.federalreserve.gov/newsevents/press/monetary/20120913a.htm](http://www.federalreserve.gov/newsevents/press/monetary/20120913a.htm).

<sup>3</sup> The settlement of all remaining outstanding MBS from these purchases was completed in August 2010.

On December 12, 2012, the FOMC announced that it would continue purchasing additional agency MBS at a pace of \$40 billion per month. The FOMC also announced that it would begin purchasing longer-term Treasury securities following the completion of its maturity extension program (described above), initially at a pace of \$45 billion per month. In addition, the FOMC decided to resume rolling over maturing Treasury securities at auction. More information is available on the Federal Reserve Board's website at [www.federalreserve.gov/newsevents/press/monetary/20121212a.htm](http://www.federalreserve.gov/newsevents/press/monetary/20121212a.htm).

On December 18, 2013, the FOMC announced that in light of cumulative progress toward maximum employment and improvement in the outlook for labor market conditions, it would modestly slow the pace of its additional MBS and longer-term Treasury securities purchases, and it would likely further reduce the pace of asset purchases in measured steps if incoming information broadly supports its expectation of ongoing improvement in labor market conditions and inflation moving back toward its 2 percent longer-run objective. Since December 2013, the FOMC has made further measured reductions in the pace of asset purchases. Additional information is available in the FOMC statements from December 2013 through 2014 at [www.federalreserve.gov/monetarypolicy/fomccalendars.htm](http://www.federalreserve.gov/monetarypolicy/fomccalendars.htm).

## Temporary Open Market Operations and Other Reserve Management Tools

### Recent Developments

- Beginning the week of May 19, 2014, the Federal Reserve conducted a series of eight seven-day Term Deposit Facility (TDF) test operations. Over these operations, the maximum award amount was increased gradually to \$10 billion per counterparty, and the interest rate paid was increased in small steps to 30 basis points. The results of these operations are available at [www.federalreserve.gov/monetarypolicy/tdf.htm](http://www.federalreserve.gov/monetarypolicy/tdf.htm). These operations were designed to ensure the operational readiness of the TDF and to provide eligible institutions with an opportunity to gain familiarity with term deposit

procedures. The development of the TDF and the ongoing TDF test operations are a matter of prudent planning and have no implications for the near-term conduct of monetary policy. Additional information about term deposits is available through the TDF Resource Center at [www.frb services.org/centralbank/term\\_deposit\\_facility.html](http://www.frb services.org/centralbank/term_deposit_facility.html).

## Repos and Reverse Repos

Temporary OMOs are typically used to address reserve needs that are deemed to be transitory in nature. These operations are either repos or reverse repos. Under a repo, the FRBNY Trading Desk buys a security under an agreement to resell that security in the future. A repo is the economic equivalent of a collateralized loan; the difference between the purchase and sale prices reflects the interest on the loan.

Under a reverse repo, the Trading Desk sells a security under an agreement to repurchase that security in the future. A reverse repo is the economic equivalent of collateralized borrowing. Reverse repos are a tool that can be used for managing money market interest rates and are expected to provide the Federal Reserve with greater control over short-term rates.<sup>4</sup>

Repo and reverse repo operations are conducted as competitive multiple-price auctions. Reverse repo operations can also be conducted in a fixed-rate format in which bids by participating institutions are awarded in full up to a maximum bid amount at a predetermined interest rate. Amounts outstanding under repos and reverse repos are reported weekly in tables 1, 2, 8, and 9 of the H.4.1 statistical release.

In addition, the Federal Reserve has long operated an overnight securities lending facility as a vehicle to address market pressures for specific Treasury securities. Since July 9, 2009, this facility has also lent housing-related GSE debt securities that are particularly sought after. Amounts outstanding under this facility are reported weekly in table 1A of the H.4.1 statistical release.

## Expanded Counterparties for Reverse Repos

Since late 2009, the FRBNY has taken steps to expand the types of counterparties for reverse repos to include entities other than primary dealers. This initiative is intended to enhance the Federal Reserve's

capacity to conduct large-scale reverse repo operations to drain reserves beyond what could likely be conducted through primary dealers. The additional counterparties are not eligible to participate in transactions conducted by the FRBNY other than reverse repos.

In 2010 and 2011, the FRBNY initiated three waves of counterparty expansions aimed at domestic money market funds. With each wave, the set of eligibility criteria was broadened to allow more and smaller money market funds to participate as counterparties. In addition, in July 2011, the FRBNY announced that it had accepted two GSEs—Freddie Mac and Fannie Mae—as reverse repo counterparties. In December 2011 and April 2012, the FRBNY announced that several banks had been accepted as reverse repo counterparties. In August 2012, the FRBNY released another round of criteria for the acceptance of banks, savings associations, GSEs, and domestic money market funds as counterparties; institutions accepted under these criteria were announced in January 2013.

Acceptance as a counterparty does not constitute a public endorsement by the FRBNY of any listed counterparty and should not substitute for prudent counterparty risk management and due diligence. Further information on reverse repo counterparties is available on the FRBNY's website at [www.newyorkfed.org/markets/rrp\\_announcements.html](http://www.newyorkfed.org/markets/rrp_announcements.html) and [www.newyorkfed.org/markets/expanded\\_counterparties.html](http://www.newyorkfed.org/markets/expanded_counterparties.html).

## Repo and Reverse Repo Transactions

The FRBNY periodically conducts triparty repo and reverse repo transactions as technical exercises to ensure operational readiness at the Federal Reserve, the major clearing banks, the primary dealers, and other counterparties. The transactions are a matter of prudent advance planning by the Federal Reserve. They do not represent any change in the stance of monetary policy, and no inference should be drawn about the timing of any change in the stance of monetary policy in the future.

In December 2009, the FRBNY conducted its first set of small-scale, real-value, triparty reverse repos with primary dealers. Additional series of small-scale reverse repos have been conducted since 2009, some of which were open to the sets of expanded counterparties (money market mutual funds, GSEs, banks, and savings associations).

<sup>4</sup> Reverse repos may also be executed with foreign official and international account holders as part of a service offering.

In August 2012, the FRBNY conducted a series of small-value repo transactions with primary dealers using all eligible collateral types. The FRBNY had not conducted a repo since December 2008, and since that time six primary dealers had been added and there had been several changes to the infrastructure of the repo market. Additional series of repos have been conducted since 2012.

In September 2013, the FRBNY began conducting as a technical exercise a series of daily overnight reverse repo transactions with all eligible counterparties using Treasury collateral. These operations are being conducted using a fixed-rate format in which bids by participating institutions are awarded in full (up to a maximum bid amount) at a predetermined interest rate. They are intended to provide operational experience with larger transactional flows and additional information about how such operations might improve interest rate control regardless of the size of the Federal Reserve's balance sheet. On January 29, 2014, the FRBNY announced that it had been authorized by the FOMC to continue conducting as an operational exercise the series of daily overnight reverse repurchase (reverse repo) transactions that began in September 2013. The authorization to conduct this exercise was extended one year, through January 30, 2015.

Additional details and the results of these operations are available on the FRBNY website at [www.newyorkfed.org/markets/op\\_policies.html](http://www.newyorkfed.org/markets/op_policies.html) and [www.newyorkfed.org/markets/omo/dmm/temp.cfm](http://www.newyorkfed.org/markets/omo/dmm/temp.cfm).

## Term Deposit Facility

The TDF is a program through which the Federal Reserve Banks offer interest-bearing term deposits to eligible institutions. A term deposit is a deposit with a specific maturity date. The TDF was established to facilitate the conduct of monetary policy by providing a tool that may be used to manage the aggregate quantity of reserve balances held by depository institutions and, in particular (as with reverse repos), to support a reduction in monetary accommodation at the appropriate time. An increase in term deposits outstanding drains reserve balances because funds to pay for them are removed from the accounts of participating institutions for the life of the term deposit.

Term deposits may be awarded either through (1) a competitive single-price auction with a noncompetitive bidding option (which allows institutions to

place small deposits at the rate determined in the competitive portion of the operation), (2) a fixed-rate format with full allotment up to a maximum tender amount at an interest rate specified in advance, or (3) a floating-rate format with full allotment up to a maximum tender amount at an interest rate set equal to the sum of the interest rate paid on excess reserves plus a fixed spread.

Beginning in June 2010, the Federal Reserve has periodically conducted TDF test offerings as a matter of prudent planning. These offerings are designed to ensure the operational readiness of the TDF and to provide eligible institutions with an opportunity to gain familiarity with term deposit procedures; they have no implications for the near-term conduct of monetary policy. Additional information about term deposits, auction results, and future test operations is available through the TDF Resource Center at [www.frb services.org/centralbank/term\\_deposit\\_facility.html](http://www.frb services.org/centralbank/term_deposit_facility.html).

## Discount Window Lending

### Recent Developments

- On June 3, 2014, the Federal Reserve announced a new schedule of margins applicable for collateral pledged by depository institutions to secure discount window loans and for payment system risk purposes. The new margins are part of the Federal Reserve's continuing efforts to ensure effective risk-management policies and procedures in its lending programs to depository institutions. The changes, which were effective on July 1, 2014, reflect data and methodological improvements that better account for differences in various risk characteristics across collateral types. Additional information is available at [www.frbdiscountwindow.org](http://www.frbdiscountwindow.org).
- Credit provided to depository institutions through the discount window remains generally around its historically usual level. As presented in table 5, discount window credit outstanding on July 30, 2014, was \$0.2 billion, and the lendable value of collateral pledged by borrowing institutions on that date was \$0.9 billion.

### Background

The discount window helps to relieve liquidity strains for individual depository institutions and for the banking system as a whole by providing a source of funding in times of need. Much of the statutory

framework that governs lending to depository institutions is contained in Section 10B of the Federal Reserve Act, as amended. The general policies that govern discount window lending are set forth in the Federal Reserve Board's Regulation A.

Depository institutions have, since 2003, had access to three types of discount window credit: primary credit, secondary credit, and seasonal credit. Primary credit is available to depository institutions in generally sound financial condition with few administrative requirements, at an interest rate that is 50 basis points above the FOMC's target rate for federal funds. Secondary credit may be provided to depository institutions that do not qualify for primary credit, subject to review by the lending Reserve Bank, at an interest rate that is 50 basis points above the rate on primary credit. Seasonal credit provides short-term funds to smaller depository institutions that experience regular seasonal swings in loans and deposits. The interest rate on seasonal credit is a floating rate based on market funding rates.

On September 28, 2012, the Federal Reserve began the regular publication of detailed information on individual discount window loans. In accordance with the Dodd-Frank Act, this information will be made available on a quarterly basis and with an approximately two-year lag. The disclosure includes the name and identifying details of the depository institution, the amount borrowed, the interest rate paid, and information identifying the types and amount of collateral pledged. This detailed information supplements the extensive aggregate information the Federal Reserve has previously provided in weekly, monthly, and quarterly reports, and is available on the Federal Reserve's public website at [www.federalreserve.gov/newsevents/reform\\_quarterly\\_transaction.htm](http://www.federalreserve.gov/newsevents/reform_quarterly_transaction.htm).

During the financial crisis, the Federal Reserve modified the terms and conditions of the discount window lending programs in order to promote orderly market functioning. Information about these actions is available on the Federal Reserve's public website at [www.federalreserve.gov/monetarypolicy/bst\\_lendingdepository.htm](http://www.federalreserve.gov/monetarypolicy/bst_lendingdepository.htm) and [www.frbdiscountwindow.org](http://www.frbdiscountwindow.org).

In extending credit through the discount window, the Federal Reserve closely monitors the financial condition of depository institutions using a four-step process designed to minimize the risk of loss to the Federal Reserve posed by weak or failing borrowers. The

**Table 3. Discount window credit outstanding to depository institutions**

Daily average borrowing for each class of borrower from May 1, 2014, to July 30, 2014

| Type and size of borrower                    | Average number of borrowers <sup>1</sup> | Average borrowing (\$ billions) <sup>2</sup> |
|--|--|--|
| <b>Commercial banks<sup>3</sup></b>          |  |  |
| Assets: more than \$50 billion               | *  | **   |
| Assets: \$5 billion to \$50 billion          | *  | **   |
| Assets: \$250 million to \$5 billion         | 5  | **   |
| Assets: less than \$250 million              | 30                                       | 0.1  |
| <b>Thrift institutions and credit unions</b> | 4  | **   |
| <b>Total</b>                                 | <b>40</b>                                | <b>0.1</b>                                   |

Note: Unaudited. Includes primary, secondary, and seasonal credit. Size categories based on total domestic assets from Call Report data as of March 31, 2014. Components may not sum to totals because of rounding.

\*Fewer than one borrower.

\*\*Less than \$50 million.

<sup>1</sup> Average daily number of depository institutions with credit outstanding. Over this period, a total of 614 institutions borrowed.

<sup>2</sup> Average daily borrowing by all depositories in each category.

<sup>3</sup> Includes branches and agencies of foreign banks.

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

At the heart of the condition-monitoring process is an internal rating system that provides a framework for identifying institutions that may pose undue risks to the Federal Reserve. The rating system relies mostly on information from each institution's primary supervisor, including CAMELS ratings, to identify potentially problematic institutions and classify them according to the severity of the risk they pose to the Federal Reserve.<sup>5</sup> Having identified insti-

<sup>5</sup> CAMELS (Capital, Assets, Management, Earnings, Liquidity, and Sensitivity) is a rating system employed by banking regulators to assess the soundness of commercial banks and thrifts. Similar rating systems are used for other types of depository institutions.

**Table 4. Concentration of discount window credit outstanding to depository institutions**

May 1, 2014, to July 30, 2014

| Rank by amount of borrowing | Number of borrowers | Daily average borrowing (\$ billions) |
|-----------------------------|---------------------|---------------------------------------|
| Top five                    | 5                   | *                                     |
| Next five                   | 5                   | *                                     |
| Other                       | 30                  | 0.1                                   |
| Total                       | 40                  | 0.1                                   |

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

\*Less than \$50 million.

tutions that pose a higher risk, the Federal Reserve then puts in place a standard set of risk controls that become increasingly stringent as the risk posed by an institution grows; individual Reserve Banks may implement additional risk controls to further mitigate risk if they deem it necessary.

## Collateral

All extensions of discount window credit by the Federal Reserve must be secured to the satisfaction of the lending Reserve Bank by “acceptable collateral.”

Assets accepted as collateral are assigned a lendable value deemed appropriate by the Reserve Bank; lendable value is determined as the market price of the asset, less a haircut. When a market price is not available, a haircut is applied to an internally modeled fair market value estimate. Haircuts reflect credit risk and, for traded assets, the historical volatility of the asset’s price and the liquidity of the market in which the asset is traded; the Federal Reserve’s haircuts are generally in line with typical market practice. A borrower may be required to pledge additional collateral if its financial condition weakens. Collateral is pledged by depository institutions under the terms and conditions specified in the Federal Reserve Banks’ standard lending agreement, Operating Circular No. 10, available at [www.frbservices.org/files/regulations/pdf/operating\\_circular\\_10.pdf](http://www.frbservices.org/files/regulations/pdf/operating_circular_10.pdf).

Discount window loans are generally made with recourse to the borrower beyond the pledged collateral. Nonetheless, collateral plays an important role in mitigating the credit risk associated with these extensions of credit. The Federal Reserve generally accepts as collateral for discount window loans any assets that meet regulatory standards for sound asset quality. This category of assets includes most per-

**Table 5. Lendable value of collateral pledged by borrowing depository institutions**

Billions of dollars, as of July 30, 2014

| Type of collateral  | Lendable value |
|---|----------------|
| <b>Loans</b>  |                |
| Commercial  | 0.3            |
| Residential mortgage  | 0              |
| Commercial real estate                                      | 0.1            |
| Consumer  | 0.3            |
| <b>Securities</b>   |                |
| U.S. Treasury/agency  | 0.1            |
| Municipal   | *              |
| Corporate market instruments                                | *              |
| MBS/CMO: agency-guaranteed                                  | 0.1            |
| MBS/CMO: other  | 0              |
| Asset-backed  | 0              |
| International (sovereign, agency, municipal, and corporate) | 0              |
| <b>Other</b>  |                |
| Term Deposit Facility deposits                              | 0              |
| Total   | 0.9            |

Note: Unaudited. Collateral pledged by borrowers of primary, secondary, and seasonal credit as of the date shown. Total primary, secondary, and seasonal credit on this date was \$0.2 billion. The lendable value of collateral pledged by all depository institutions, including those without any outstanding loans, was \$1,420 billion. Lendable value is value after application of appropriate haircuts. Components may not sum to total because of rounding.

\*Less than \$50 million.

forming loans and most investment-grade securities, although for some types of securities (including commercial mortgage-backed securities (CMBS), collateralized debt obligations, collateralized loan obligations, and certain non-dollar-denominated foreign securities) only very high-quality securities are accepted. An institution may not pledge as collateral any instruments that the institution or its affiliates have issued. To ensure that they can borrow from the Federal Reserve should the need arise, many depository institutions that do not have an outstanding discount window loan nevertheless routinely pledge collateral. As presented in table 6, depository institutions that borrow from the Federal Reserve generally maintain collateral in excess of their current borrowing levels.

The Federal Reserve periodically reviews its collateral margins and valuation practices. The current lending margins on discount window collateral took effect on July 1, 2014, and reflect the results from the most recent such review, as well as the incorporation of updated market data. Additional information on collateral margins is available on the Discount Window and Payments System Risk public website, [www.frbdiscountwindow.org](http://www.frbdiscountwindow.org).

**Table 6. Discount window credit outstanding to borrowing depository institutions—percent of collateral used**

As of July 30, 2014

| Percent of collateral used   | Number of borrowers | Total borrowing (\$ billions) |
|------------------------------|---------------------|-------------------------------|
| More than 0 and less than 25 | 13                  | 0.1                           |
| 25 to 50                     | 11                  | *                             |
| 50 to 75                     | 11                  | 0.1                           |
| 75 to 90                     | 6                   | *                             |
| More than 90                 | 9                   | *                             |
| <b>Total</b>                 | <b>50</b>           | <b>0.2</b>                    |

Note: Unaudited. Components may not sum to totals because of rounding.  
\*Less than \$50 million.

## Liquidity Arrangements with Foreign Central Banks

### Recent Developments

- Between April 30, 2014, and July 30, 2014, dollar liquidity extended under the central bank liquidity swap arrangements decreased from \$0.3 billion to \$0.1 billion. As presented in [table 7](#), all outstanding swaps are with the European Central Bank. Detailed information about swap operations is available at [www.federalreserve.gov/newsevents/press/monetary/20131031a.htm](http://www.federalreserve.gov/newsevents/press/monetary/20131031a.htm).

### Background

Because of the global character of bank funding markets, the Federal Reserve has at times coordinated with other central banks to provide liquidity. In

**Table 7. Amounts outstanding under dollar liquidity swaps**

As of July 30, 2014

| Central bank          | Total amount outstanding (\$ billions) | Individual transaction amount (\$ billions) | Settlement date | Term     | Interest rate |
|-----------------------|--|---|-----------------|----------|---------------|
| Bank of Canada        | 0                                      | 0   | —               | —        | —             |
| Bank of England       | 0                                      | 0   | —               | —        | —             |
| Bank of Japan         | 0                                      | 0   | —               | —        | —             |
| European Central Bank | 0.1                                    | 0.1   | 7/24/2014       | 7-day    | 0.60%         |
| Swiss National Bank   | 0                                      | 0   | —               | —        | —             |
| <b>Total</b>          | <b>0.1</b>                             | <b>0.1</b>                                  | <b>—</b>        | <b>—</b> | <b>—</b>      |

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

December 2007, the Federal Reserve entered into agreements to establish temporary currency arrangements (central bank liquidity swap lines) with the European Central Bank and the Swiss National Bank in order to provide liquidity in U.S. dollars. Subsequently, the FOMC authorized swap lines with the Reserve Bank of Australia, the Banco Central do Brasil, the Bank of Canada, the Bank of Japan, Danmarks Nationalbank, the Bank of England, the Bank of Korea, the Banco de Mexico, the Reserve Bank of New Zealand, Norges Bank, the Monetary Authority of Singapore, and Sveriges Riksbank. Two types of temporary swap lines were established: U.S. dollar liquidity swap lines and foreign currency liquidity swap lines. These temporary arrangements expired on February 1, 2010.

In May 2010, temporary U.S. dollar liquidity swap lines were reestablished with the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank in order to address the reemergence of strains in global U.S. dollar short-term funding markets. In December 2010, the FOMC authorized an extension of the arrangements through August 1, 2011. In June 2011, the FOMC authorized another extension of the arrangements through August 1, 2012. On November 30, 2011, the FOMC and these five foreign central banks (FCBs) agreed to reduce the rate on these swap arrangements from the U.S. dollar overnight index swap (OIS) rate plus 100 basis points to the OIS rate plus 50 basis points and extended the authorization of these swap arrangements through February 1, 2013. In addition, as a contingency measure, the FOMC agreed to establish temporary foreign currency liquidity swap arrangements that would allow for the Federal Reserve to access liquidity, if necessary, in any of these foreign central banks' respective currencies. In December 2012, the FOMC and these five FCBs authorized an extension of the temporary U.S. dollar and foreign currency liquidity swap arrangements through February 1, 2014.

The temporary swap arrangements helped to ease strains in financial markets and mitigate their effects on economic conditions. In January 2014, the Federal Reserve and FCBs converted these temporary swap lines to standing arrangements that will remain in place until further notice and will continue to serve as a prudent liquidity backstop. The standing arrangements constitute a network of bilateral swap lines among the six central banks that allow provision of liquidity in each jurisdiction in any of the five cur-

rencies foreign to that jurisdiction. Additional information is available at [www.federalreserve.gov/newsevents/press/monetary/20131031a.htm](http://www.federalreserve.gov/newsevents/press/monetary/20131031a.htm).

Since the establishment of the central bank liquidity swap lines in 2007, the Federal Reserve has at times provided U.S. dollar liquidity to FCBs but has not drawn any foreign currency. The FRBNY operates the swap lines under the authority granted under Section 14 of the Federal Reserve Act and in compliance with authorizations, policies, and procedures established by the FOMC. Additional information is available at [www.newyorkfed.org/markets/liquidity\\_swap.html](http://www.newyorkfed.org/markets/liquidity_swap.html) and [www.federalreserve.gov/monetarypolicy/bst\\_swapfaqs.htm](http://www.federalreserve.gov/monetarypolicy/bst_swapfaqs.htm).

U.S. dollar liquidity swaps consist of two transactions. When an FCB draws on its swap line with the FRBNY, the FCB transfers a specified amount of its currency to the FRBNY in exchange for dollars at the prevailing market exchange rate. The FRBNY holds the foreign currency in an account at the FCB. The dollars that the FRBNY provides are then deposited in an account that the FCB maintains at the FRBNY. At the same time, the FRBNY and the FCB enter into a binding agreement for a second transaction that obligates the FCB to return the U.S. dollars and the FRBNY to return the foreign currency on a specified future date at the same exchange rate as the initial transaction. Because the swap transactions will be unwound at the same exchange rate

used in the initial transaction, the recorded value of the foreign currency amounts is not affected by changes in the market exchange rate. At the conclusion of the second transaction, the FCB compensates the FRBNY at a market-based interest rate.

When the FCB lends the dollars it obtained by drawing on its swap line to institutions in its jurisdiction, the dollars are transferred from the FCB account at the FRBNY to the account of the bank that the borrowing institution uses to clear its dollar transactions. The FCB is obligated to return the dollars to the FRBNY under the terms of the agreement. Neither the FRBNY nor the Federal Reserve is counterparty to the loan extended by the FCB. The FCB bears the credit risk associated with the loans it makes to institutions in its jurisdiction.

The foreign currency that the Federal Reserve acquires in these transactions is recorded as an asset on the Federal Reserve's balance sheet and is shown in tables 1, 8, and 9 of the weekly H.4.1 statistical release in the line entitled "Central bank liquidity swaps." U.S. dollar liquidity swaps have maturities ranging from overnight to three months. Table 2 of the H.4.1 statistical release reports the maturity distribution of the outstanding U.S. dollar liquidity swaps. Detailed information about drawings on the swap lines by the participating FCBs is presented on the FRBNY's website at [www.newyorkfed.org/markets/fxswap](http://www.newyorkfed.org/markets/fxswap).



# Special Lending Facilities

During the financial crisis, the Federal Reserve created a number of special lending facilities to stabilize the financial system and support economic activity. Some of these facilities provided liquidity to borrowers and investors in important financial markets. These facilities were closed by 2010; however, some loans made under the Term Asset-Backed Securities Loan Facility (TALF), which is closed to new lending, remain outstanding and will mature by the end of October 2014.<sup>6</sup>

Other programs supported certain specific institutions in order to avert disorderly failures that could have resulted in severe dislocations and strains for the financial system as a whole and harmed the U.S. economy. While the loans made by the Federal Reserve under these programs have been repaid, the Federal Reserve will continue to receive cash flows generated from assets remaining in the portfolios established in connection with such support, principally that of Maiden Lane LLC.

## Term Asset-Backed Securities Loan Facility

### Recent Developments

- As of July 30, 2014, less than \$50 million in TALF loans remained outstanding. TALF LLC, a limited liability company formed to purchase and manage assets received by the FRBNY from the TALF program, remains in operation, but as of July 30, 2014, TALF LLC had purchased no assets from the FRBNY.

<sup>6</sup> For information on closed facilities, refer to [www.federalreserve.gov/monetarypolicy/expiredtools.htm](http://www.federalreserve.gov/monetarypolicy/expiredtools.htm). For further information, including detailed transaction-level data on these facilities, refer to [www.federalreserve.gov/newsevents/reform\\_transaction.htm](http://www.federalreserve.gov/newsevents/reform_transaction.htm).

**Table 8. TALF: Number of borrowers and loans outstanding**  
As of July 30, 2014

| Lending program | Number of borrowers | Borrowing (\$ billions) <sup>1</sup> |
|-----------------|---------------------|--------------------------------------|
| Non-CMBS        | 0                   | 0                                    |
| CMBS            | 2                   | *                                    |
| <b>Total</b>    | <b>2</b>            | <b>*</b>                             |

Note: Unaudited. "Number of borrowers" may exceed total because borrowers may be included in more than one category. "Borrowing" amounts may not sum to total because of rounding.  
\*Less than \$50 million.  
<sup>1</sup> Book value.

- Due to recent repayments in full of certain loans, no TALF loans will remain outstanding after October 29, 2014.

### Background

On November 25, 2008, the Federal Reserve announced the creation of the TALF under the authority of Section 13(3) of the Federal Reserve Act. The TALF is a funding facility under which the FRBNY was authorized to extend up to \$200 billion of credit to holders of eligible asset-backed securities (ABS).<sup>7</sup> The TALF was intended to assist financial markets in accommodating the credit needs of consumers and businesses of all sizes by facilitating the issuance of ABS collateralized by a variety of consumer and business loans; it was also intended to improve market conditions for ABS more generally. TALF loans backed by CMBS or by ABS backed by government guaranteed loans have maturities of up to five years; all other TALF loans had three-year maturities. Using funds authorized under the Troubled Asset Relief Program (TARP) of the Emergency Economic Stabilization Act of 2008, the Treas-

<sup>7</sup> For additional information on the TALF, refer to [www.federalreserve.gov/monetarypolicy/bst\\_lendingother.htm](http://www.federalreserve.gov/monetarypolicy/bst_lendingother.htm).

ury committed to provide \$20 billion in credit protection to the FRBNY in connection with the TALF to support the \$200 billion of authorized lending value under the program. This commitment was reduced to \$4.3 billion in July 2010 to reflect the fact that only \$43 billion of TALF loans were outstanding when the program was closed to new lending, and was further reduced to \$1.4 billion in June 2012 to reflect the amount of loans that remained outstanding at that time as the program wound down. In January 2013, the commitment was eliminated because the accumulated fees and income collected through the TALF and held by TALF LLC exceeded the remaining amount of TALF loans outstanding, and the credit protection from the Treasury was no longer deemed necessary. The TALF remains a joint Treasury-Federal Reserve program, and the Treasury and Federal Reserve will continue to consult on the administration of the program.

The Federal Reserve closed the TALF for new loan extensions against newly issued CMBS on June 30, 2010, and for new loans against all other types of collateral on March 31, 2010. All TALF loans were extended by the FRBNY. All three-year TALF loans have matured, and the remaining five-year TALF loans will mature no later than October 29, 2014.

Eligible collateral for TALF loans included U.S. dollar-denominated ABS backed by student loans, auto loans, credit card loans, equipment loans, floor-plan loans, insurance premium finance loans, loans guaranteed by the Small Business Administration (SBA), residential mortgage servicing advances, or commercial mortgages. Only ABS backed by student loans, SBA-guaranteed loans, and commercial mortgages were eligible collateral for five-year TALF loans. At the time a TALF loan was extended, all eligible collateral was required to have a credit rating in the highest investment-grade rating category from two or more eligible nationally recognized statistical rating organizations (NRSROs) and could not have a credit rating below the highest investment-grade rating category from an eligible NRSRO. Certain collateral also had to pass an internal risk assessment by the FRBNY.

Additionally, all or substantially all of the credit exposures underlying eligible ABS were required to be exposures to U.S.-domiciled obligors or with respect to real property located in the United States or its territories. Except for ABS for which the underlying credit exposures are SBA-guaranteed loans, eli-

**Table 9. TALF collateral by underlying loan type**

Billions of dollars, as of July 30, 2014

| Type of collateral             | Value |
|--------------------------------|-------|
| <b>By underlying loan type</b> |       |
| Commercial mortgages           | *     |
| Newly issued                   | 0     |
| Legacy                         | *     |
| Small business                 | 0     |
| Student loan                   | 0     |
| Total                          | *     |

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

\*Less than \$50 million.

gible newly issued ABS must have been issued on or after January 1, 2009. Eligible legacy CMBS must have been issued before January 1, 2009, must be senior in payment priority to all other interests in the underlying pool of commercial mortgages, and must meet certain other criteria designed to protect the Federal Reserve and the Treasury from credit risk. Collateral would not be accepted from a particular borrower if the collateral was backed by loans originated or securitized by that borrower or its affiliate except in very limited circumstances.

The loans provided through the TALF were designed to be limited in recourse to the collateral, generally allowing borrowers the option of surrendering the collateral to the FRBNY in full satisfaction of the TALF loan. The FRBNY's loan is secured by the ABS collateral, with the FRBNY lending an amount equal to the market value of the ABS, less a haircut. The haircut is a buffer that protects the FRBNY against a decline in the collateral's value. The Federal Reserve set initial haircuts for each type of eligible collateral to reflect an assessment of the risk and maturity of the various types of eligible ABS. Breakdowns of TALF collateral by underlying loan type and credit rating are presented in tables 9 and 10, respectively.

## TALF LLC

TALF LLC was formed to purchase and manage any ABS that might be surrendered by a TALF borrower or otherwise claimed by the FRBNY in connection with its enforcement rights to the TALF collateral. In certain limited circumstances, TALF LLC may also purchase TALF program loans from the FRBNY. TALF LLC has committed to purchase, for a fee, all

**Table 10. TALF collateral by rating**

Billions of dollars, as of July 30, 2014

| Type of collateral   | Value    |
|--|----------|
| <b>Asset-backed securities with minimum rating of:<sup>1</sup></b> |          |
| AAA/Aaa  | *        |
| <b>Total</b>   | <b>*</b> |

Note: Unaudited. Data represent the face value of collateral.

\*Less than \$50 million.

<sup>1</sup> Eligible ABS collateral for the TALF was required to have a credit rating in the highest investment-grade rating category from at least two eligible NRSROs and could not have a credit rating below the highest investment-grade rating category from an eligible NRSRO. When pledged collateral is downgraded below the highest investment-grade rating, existing loans against the collateral remain outstanding.

such assets at a price equal to the TALF loan, plus accrued but unpaid interest.<sup>8</sup>

Purchases of these securities are funded through the fees received by TALF LLC and any interest TALF LLC has earned on its investments. Prior to January 15, 2013, in the event that such funding had proven insufficient, the TARP and the FRBNY would have provided additional funding to TALF LLC to finance additional asset purchases; however, the accumulated fees and income collected through TALF and held by TALF LLC now exceed the remaining amount of TALF loans outstanding, and such credit protection is no longer deemed necessary. In addition, TALF LLC has repaid in full the outstanding principal and accrued interest on subordinated funding previously provided by the Treasury. The Federal Reserve Board has also authorized TALF LLC to begin distributions from the accumulated fees and income earned by TALF LLC since inception to the Treasury and the FRBNY in the amount by which such accumulated fees and income exceeds the current outstanding TALF loan balance plus funds reserved for future expenses of TALF LLC. The Treasury receives 90 percent of the distributions, and the FRBNY receives 10 percent.<sup>9</sup> Financial information on TALF LLC is reported weekly in tables 1, 2, 7, 8, and 9 of the H.4.1 statistical release.

<sup>8</sup> As of July 30, 2014, TALF LLC had purchased no assets from the FRBNY.

<sup>9</sup> As of July 30, 2014, TALF LLC had paid \$0.6 billion in interest and distributions of excess fees and income to the Treasury.

**Table 11. Issuers of CMBS that collateralize outstanding TALF loans**

As of July 30, 2014

| Issuers  |
|--|
| Banc of America Commercial Mortgage Trust 2006-1             |
| Bear Stearns Commercial Mortgage Securities Trust 2005-PWR10 |

## Maiden Lane LLC

### Recent Developments

- Assets remaining in the Maiden Lane LLC portfolio will be sold as market conditions warrant and if the sales represent good value for the public. In accordance with the Maiden Lane LLC agreements, the FRBNY will receive all future cash flows generated from these asset sales. As of July 30, 2014, net portfolio holdings of Maiden Lane LLC were valued at \$1.7 billion. Additional information on the holdings of Maiden Lane LLC is available at [www.newyorkfed.org/markets/maidenlane.html](http://www.newyorkfed.org/markets/maidenlane.html).

### Background

In March 2008, the FRBNY and JPMorgan Chase & Co. (JPMC) entered into an arrangement related to financing provided by the FRBNY to facilitate JPMC's acquisition of The Bear Stearns Companies, Inc. (Bear Stearns). In connection with the transaction, the Federal Reserve Board authorized the FRBNY, under Section 13(3) of the Federal Reserve Act, to extend credit to a Delaware limited liability company, Maiden Lane LLC, to partially fund the purchase of a portfolio of mortgage-related securities, residential and commercial mortgage loans, and associated hedges from Bear Stearns. In the second quarter of 2008, the FRBNY lent approximately \$28.2 billion to Maiden Lane LLC. In addition, JPMC made a subordinated loan to Maiden Lane LLC that was available to absorb first any losses that may have been realized.

On June 14, 2012, the FRBNY announced that its loan to Maiden Lane LLC had been repaid in full, with interest. This repayment marked the retirement of the remaining debt owed to the FRBNY from the crisis-era intervention with Bear Stearns. On November 15, 2012, the FRBNY announced that net proceeds from additional sales of securities in Maiden

Lane LLC enabled the full repayment of the subordinated loan made by JPMC plus accrued interest. In accordance with the Maiden Lane LLC agreements, the FRBNY will receive all future cash flows generated from the remaining Maiden Lane LLC assets.<sup>10</sup> The FRBNY will continue to sell the remaining assets from the Maiden Lane LLC portfolio as market conditions warrant and if the sales represent good value for the public. Additional information is available at [www.newyorkfed.org/newsevents/news/markets/2012/an120614.html](http://www.newyorkfed.org/newsevents/news/markets/2012/an120614.html) and [www.newyorkfed.org/markets/maidenlane.html](http://www.newyorkfed.org/markets/maidenlane.html).

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<sup>10</sup> Through July 30, 2014, the net realized gain/income for the FRBNY from the Maiden Lane LLC transactions, representing the amount of accrued interest earned on the loan, was \$765 million.

Detailed information on the terms of the FRBNY loan, the holdings of Maiden Lane LLC (including the CUSIP number, descriptor, and the current principal balance or notional amount outstanding for nearly all of the holdings of Maiden Lane LLC with the exception of residential whole loans), and the sale of Maiden Lane LLC assets (including lists of assets sold from Maiden Lane LLC and the total amount purchased by each counterparty) is published on the FRBNY website at [www.newyorkfed.org/markets/maidenlane.html](http://www.newyorkfed.org/markets/maidenlane.html). The assets of Maiden Lane LLC are presented weekly in tables 1, 8, and 9 of the H.4.1 statistical release. Additional details on the accounts of Maiden Lane LLC are presented in table 4 of the H.4.1 statistical release.

# Federal Reserve Banks' Financial Information

The Federal Reserve publishes annual audited financial statements and quarterly unaudited financial reports presenting summary information on the combined financial position and results of operations of the Reserve Banks. The combined information includes the accounts and results of operations of the 12 Reserve Banks and several consolidated VIEs. Annual audited financial statements are available on the Federal Reserve Board's website at [www.federalreserve.gov/monetarypolicy/bst\\_fedfinancials.htm](http://www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm), and quarterly unaudited financial reports are available at [www.federalreserve.gov/monetarypolicy/bst\\_fedfinancials.htm#quarterly](http://www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm#quarterly).

## Recent Developments

- On August 22, 2014, the Federal Reserve Board published the "Federal Reserve Banks Combined Quarterly Financial Report" for the second quarter of 2014, which includes summary information on the combined financial position and results of operations of the 12 Reserve Banks and several consolidated VIEs. All financial information included in the report is unaudited. The report is available on the Federal Reserve Board's website at

[www.federalreserve.gov/monetarypolicy/bst\\_fedfinancials.htm#quarterly](http://www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm#quarterly).

- The average daily balance of the Federal Reserve SOMA holdings was approximately \$4.1 trillion during the first half of 2014. Net earnings from the portfolio were approximately \$58.0 billion; most of the earnings were attributable to interest income on Treasury securities and federal agency and GSE MBS.
- Interest earned from Federal Reserve lending programs was approximately \$1 million during the first half of 2014; interest earned on loans made by the TALF accounted for most of the total.
- Total net income for the consolidated VIEs was \$86 million during the first half of 2014; net income for Maiden Lane LLC accounted for most of the total.
- After providing for the payment of dividends and reserving an amount necessary to equate surplus with capital paid in, the Reserve Banks remitted \$51.0 billion to the Treasury during the first half of 2014.



# Appendix

## Federal Reserve Disclosure Requirements and Other Provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 was signed into law.<sup>11</sup> The act included changes designed to promote transparency while protecting monetary policy independence and the efficacy of the Federal Reserve's liquidity programs and OMOs. In addition, the act modified the Federal Reserve's authority to provide emergency liquidity to nondepository institutions under Section 13(3) of the Federal Reserve Act and prohibits (with certain exceptions) lending through the discount window to institutions that are registered as swap dealers or major swap participants.

### Disclosure Requirements

As provided by the Dodd-Frank Act, on December 1, 2010, the Federal Reserve posted to its public website detailed information about entities that received loans or other financial assistance under a Section 13(3) credit facility between December 1, 2007, and July 21, 2010, and about persons or entities that participated in the agency MBS purchase program, used foreign currency liquidity swap lines, or borrowed through the Term Auction Facility (TAF) during that time frame. This disclosure includes more than 21,000 individual credit and other transactions conducted to stabilize markets during the financial crisis, restore the flow of credit to American families and businesses, and support economic recovery and job creation in the aftermath of the crisis. The Federal Reserve's disclosure about these transactions

is available at [www.federalreserve.gov/newsevents/reform\\_transaction.htm](http://www.federalreserve.gov/newsevents/reform_transaction.htm).

As required by the Dodd-Frank Act, the Federal Reserve also posted an audit webpage, available at [www.federalreserve.gov/newsevents/reform\\_audit.htm](http://www.federalreserve.gov/newsevents/reform_audit.htm). This page is updated as reports and other information become available.

The Dodd-Frank Act also established a framework for the delayed disclosure of information on entities that, after July 21, 2010, received a loan from the discount window under Section 10B of the Federal Reserve Act or from a Section 13(3) facility, or participated in OMO transactions. Generally, this framework requires the Federal Reserve to publicly disclose certain information about these discount window borrowers and OMO counterparties approximately two years after the relevant loan or transaction; information about borrowers under future Section 13(3) facilities will be disclosed one year after the authorization for the facility is terminated. Information to be disclosed will include the names and identifying details of each borrower or counterparty, the amount borrowed, the interest rate paid, and information identifying the types and amounts of collateral pledged or assets transferred in connection with the borrowing or transaction. The disclosures of discount window borrowers and OMO counterparties commenced in September 2012; the information is available at [www.federalreserve.gov/newsevents/reform\\_quarterly\\_transaction.htm](http://www.federalreserve.gov/newsevents/reform_quarterly_transaction.htm) and [www.newyorkfed.org/markets/OMO\\_transaction\\_data.html](http://www.newyorkfed.org/markets/OMO_transaction_data.html).

### Other Provisions

The Dodd-Frank Act modified the Federal Reserve's authority to provide emergency liquidity to nondepository institutions under Section 13(3) of the Federal Reserve Act in light of other amendments that provide the U.S. government with new authority to resolve failing, systemically important nonbank financial institutions in an orderly manner. Going

<sup>11</sup> The full text of the Dodd-Frank Act is available at [www.gpo.gov/fdsys/pkg/BILLS-111hr4173enr/pdf/BILLS-111hr4173enr.pdf](http://www.gpo.gov/fdsys/pkg/BILLS-111hr4173enr/pdf/BILLS-111hr4173enr.pdf).

forward, any emergency lending programs and facilities authorized by the Federal Reserve under Section 13(3) of the Federal Reserve Act must have broad-based eligibility and must be approved by the Secretary of the Treasury.

Section 716 of the Dodd-Frank Act prohibits the Federal Reserve from extending discount window credit to “swaps entities,” subject to certain exceptions. A swaps entity includes a person that is registered as a swap dealer, security-based swap dealer, major swap participant, or major security-based swap participant under the Commodity Exchange Act or Securities Exchange Act of 1934, other than an insured depository institution that is registered as a major swap participant or major security-based swap participant.<sup>12</sup> The provisions of section 716

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<sup>12</sup> See 78 FR 34545 (June 10, 2012). On June 5, 2013, the Federal Reserve Board issued an interim final rule to clarify that unin-

became effective on July 16, 2013. Accordingly, in early July 2013 the Federal Reserve amended its Operating Circular No. 10, the standard lending agreement under which institutions borrow from the discount window, in order to comply with the requirements of section 716. Under the amended Operating Circular No. 10, each time that a borrower requests an advance, it must be, and is deemed to represent, that it is not a swaps entity (as defined above), or it is a swaps entity that is eligible to receive the advance pursuant to one or more subsections of section 716 of the Dodd-Frank Act.

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insured U.S. branches and agencies of foreign banks are treated as insured depository institutions for purposes of section 716. The interim final rule also set out the process for state member banks and uninsured state branches and agencies of foreign banks to apply to the Board for the compliance transition period provided for in section 716.



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