

September 2009



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

Board of Governors of the Federal Reserve System

Purpose

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

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

the goals of monetary policy, specifically, “to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.” Since the summer of 2007, the Federal Reserve has undertaken a number of important steps aimed at providing liquidity to important financial markets and institutions to support overall financial stability. Financial stability is a critical prerequisite for achieving sustainable economic growth, and all of the Federal Reserve’s actions during the crisis have been directed toward achieving its statutory monetary policy objectives.

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

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Overview

Recent Developments

- Continued improvements in financial market conditions have been accompanied by further declines in credit extended through many of the Federal Reserve's liquidity programs.
- Borrowing from the Term Securities Lending Facility (TSLF) dropped to zero on August 14, 2009, and the amount of credit outstanding under the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF) fell below \$100 million on August 26, 2009.
- The Federal Reserve announced on August 28, 2009, that the amount of Term Auction Facility (TAF) credit offered at the September auctions would be reduced to \$75 billion from \$100 billion in August.
- The Federal Reserve has continued to purchase large volumes of Treasury, agency, and agency-guaranteed mortgage-backed securities (MBS) under its large-scale asset purchase programs. Effective September 1, 2009, the Federal Reserve began to accept on-the-run agency securities—the most recently issued securities—for purchase.

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

(\$ billions)

Item	Current August 26, 2009	Change from July 29, 2009	Change from August 27, 2008
Total assets	2,078	+75	+1,166
Selected assets:			
Securities held outright	1,485	+140	+1,005
U.S. Treasury securities ¹	745	+49	+265
Agency securities ¹	117	+11	+117
Agency-guaranteed mortgage-backed securities ²	623	+80	+623
Memo: TSLF ³	0	-3	-117
Memo: Overnight securities lending ³	13	+4	+6
Memo: Net commitments to purchase MBS ⁴	140	+5	+140
Lending to depository and other financial institutions	252	-23	+83
Primary, secondary, and seasonal credit	31	-5	+12
TAF	221	-17	+71
PDCF	0	0	0
AMLF	*	-1	+
Foreign central bank liquidity swaps ⁵	60	-28	-7
Lending through other credit facilities	84	-14	+84
Net portfolio holdings of CPFF LLC ⁶	49	-18	+49
TALF	35	+5	+35
Support for specific institutions	101	-3	+72
Credit extended to AIG, net ⁷	39	-3	+39
Net portfolio holdings of Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs ⁸	62	+	+33
Total liabilities	2,028	+74	+1,157
Selected liabilities:			
Federal Reserve notes in circulation	870	-1	+74
Deposits of depository institutions	862	+115	+843
U.S. Treasury, general account	13	-45	+8
U.S. Treasury, supplementary financing account	200	0	+200
Other deposits	*	-1	-*
Total capital	51	+1	+10

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

* Less than \$500 million.

1. Face value.

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

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

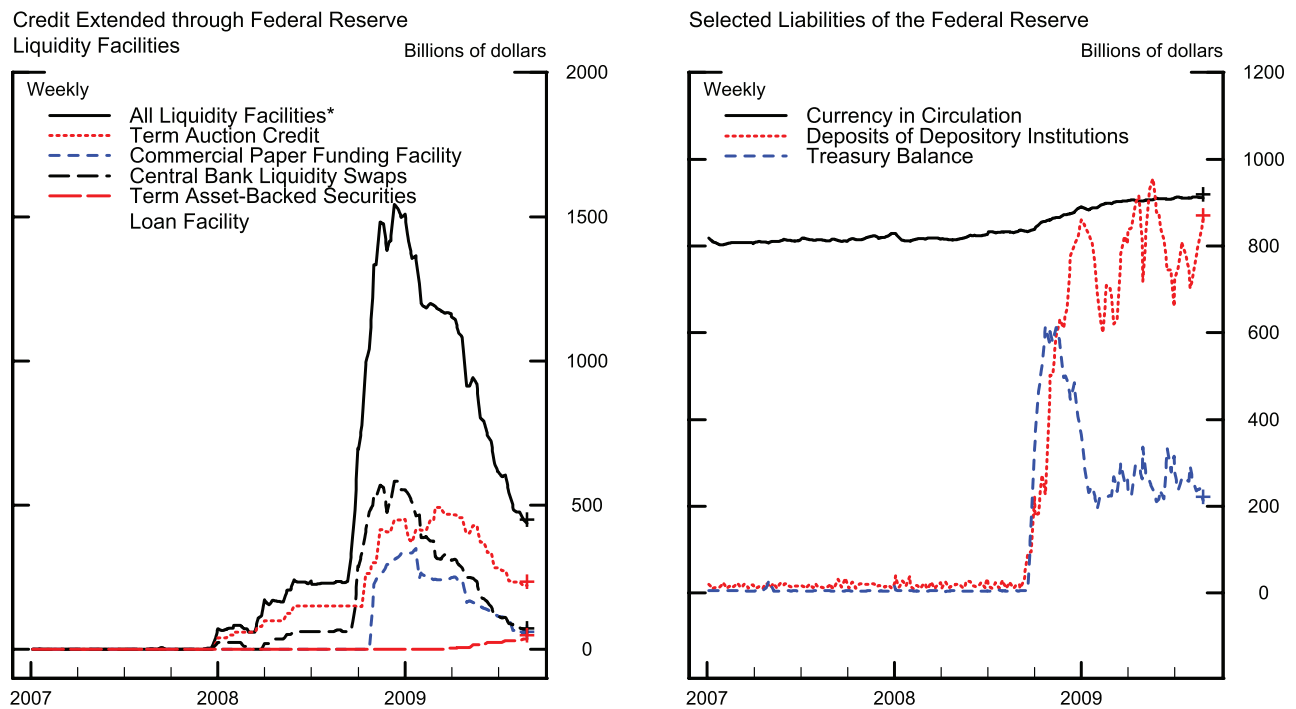
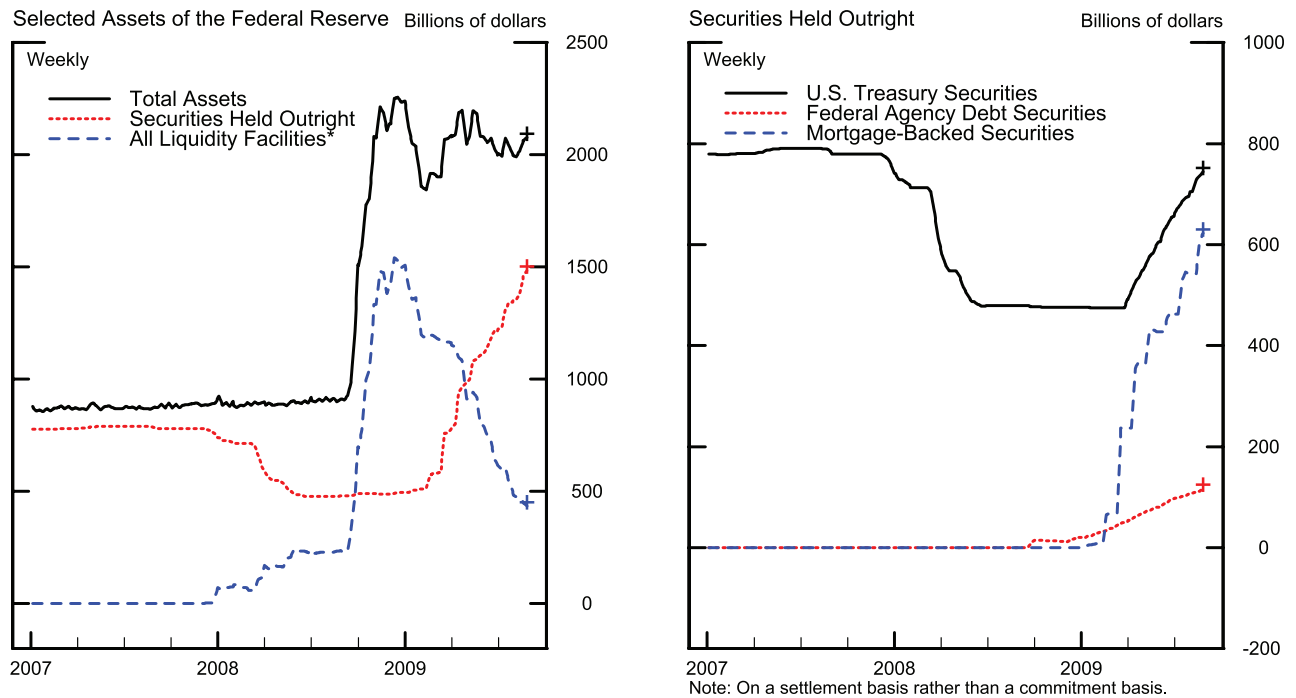
4. Current face value. These generally settle within 180 days and include commitments associated with outright transactions as well as dollar rolls.

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

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

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

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

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

+ indicates most recent data point. Data are shown through 8/26/2009.

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

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- On September 1, 2009, the Federal Reserve Bank of New York named four non-primary dealer broker-dealers as agents for the Term Asset-Backed Securities Loan Facility (TALF). These agents will represent borrowers in accessing the facility.
 - Information on the portfolio composition and ratings of securities in the Maiden Lane LLC, Maiden Lane II LLC, and Maiden Lane III LLC as of June 30, 2009, is presented in this report.

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

System Open Market Account (SOMA) Portfolio

Recent Developments

- The SOMA portfolio has continued to expand in recent weeks, reflecting Federal Reserve purchases of securities under the large-scale asset purchase programs (LSAPs) announced by the Federal Open Market Committee (FOMC). Effective September 1, 2009, the Federal Reserve began to accept on-the-run agency securities—the most recently issued securities—for purchase in order to mitigate market dislocations and promote overall market functioning. Prior to this date, purchases were focused on off-the-run agency securities.
- As of August 26, 2009, the Federal Reserve had purchased about \$268 billion in Treasury securities, \$117 billion in agency debt, and \$623 billion in mortgage-backed securities (MBS) as part of the FOMC's LSAPs.
- About 82 percent of the Treasuries purchased have been nominal Treasury securities in the two to 10 year maturity range, and about 13 percent have been in nominal securities with maturities greater than 10 years. The remainder of the purchases has been Treasury Inflation-Protected Securities (TIPS) and nominal securities maturing in less than two years.
- As of August 26, 2009, approximately 83 percent of SOMA MBS holdings were in 4 and 4.5 percent coupon securities.

Background

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

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

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

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

Table 2. System Open Market Account (SOMA) Holdings
As of August 26, 2009

Security type	Total par value (\$ billions)
U.S. Treasury bills	18
U.S. Treasury notes and bonds	676
Treasury Inflation-Protected Securities ¹	44
Agency securities ²	117
Agency-guaranteed mortgage-backed securities ³	623
Total SOMA holdings	1,479

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

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

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

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

The Federal Reserve's approach to the implementation of monetary policy has evolved considerably since 2007, and particularly so since late 2008. The FOMC has established a near-zero target range for the federal funds rate, implying that the very large volume of reserve balances provided through the various liquidity facilities is consistent with the FOMC's funds rate objectives. In addition, OMOs have provided increasing amounts of reserve balances. To help reduce the cost and increase the availability of credit for the purchase of houses, on November 25, 2008, the Federal Reserve announced that it would buy direct obligations of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks and MBS guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. The Federal Reserve determined that supporting the MBS "dollar roll" market promotes the goals of the MBS purchase program. Dollar roll transactions, which consist of a purchase of securities combined with an agreement to sell securities in the future, provide short-term financing to the MBS market. Because of principal and interest payments and occasional delays in the settlement of transactions, the Federal Reserve also has some cash associated with the MBS purchase program. The FOMC has authorized purchases of up to \$1.25 trillion of agency MBS and up to \$200 billion of agency direct obligations by the end of this year. The FRBNY announced in August that it would streamline the set of external investment managers for the agency-guaranteed MBS purchase program, reducing the number of investment managers from four to two. These changes were not performance related. The FRBNY had anticipated that it would adjust its use of external investment managers as it gained more experience with the program. The Federal Reserve's outright holdings of mortgage-backed securities are reported weekly in tables 1, 3, 9, and 10 of the H.4.1 statistical release.

In March 2009, the FOMC announced that it would also purchase up to \$300 billion of longer-term Treasury securities to help improve conditions in private credit markets. The Federal Reserve has purchased a range of securities across the maturity spectrum, including TIPS. The bulk of purchases have been in intermediate maturities. In August 2009, the FOMC announced that in order to promote a smooth transition in markets as purchases of these Treasury securities are completed, it has decided to gradually slow the pace of these transactions and anticipates that the purchases will be completed by the end of October. The Federal Reserve conducts purchases through regular auctions; auction results are posted to the FRBNY website at www.newyorkfed.org/markets/openmarket.html.

Liquidity Swaps

Recent Developments

- Use of the Federal Reserve's foreign central bank dollar liquidity swaps has continued to decline, consistent with a general improvement of conditions in short-term funding markets.
- As shown in Table 3, as of August 26, 2009, total dollar liquidity extended to foreign central banks had dropped to \$60 billion.

Background

Because of the global character of bank funding markets, the Federal Reserve has worked with other central banks in providing liquidity to financial markets and institutions. As part of these efforts, the FRBNY has entered into agreements to establish temporary reciprocal currency arrangements (central bank liquidity swap lines) with a number of foreign central banks. Two types of temporary swap lines have been established—dollar liquidity lines and foreign-currency liquidity lines.

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

Dollar Liquidity Swaps

On December 12, 2007, the FOMC announced that it had authorized dollar liquidity swap lines with the European Central Bank and the Swiss National Bank to provide liquidity in U.S. dollars to overseas markets.

Table 3. Amounts Outstanding under Dollar Liquidity Swaps

Central bank	Amount (\$ billions) 8/26/2009	Amount (\$ billions) 12/31/2008
Bank of Canada	0	0
Banco de Mexico	3	0
European Central Bank	43	291
Swiss National Bank	*	25
Bank of Japan	3	123
Bank of England	*	33
Danmarks Nationalbank	2	15
Reserve Bank of Australia	0	23
Sveriges Riksbank	3	25
Norges Bank	1	8
Reserve Bank of New Zealand	0	0
Bank of Korea	6	10
Banco Central do Brasil	0	0
Monetary Authority of Singapore	0	0
Total	60	554

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

* Less than \$500 million.

Subsequently, the FOMC authorized dollar liquidity swap lines with additional central banks. The FOMC has authorized through February 1, 2010, the arrangements between the Federal Reserve and each of the following central banks: the Reserve Bank of Australia, the Banco Central do Brasil, the Bank of Canada, the Bank of Japan, Danmarks Nationalbank, the Bank of England, the European Central Bank, the Bank of Korea, the Banco de Mexico, the Reserve Bank of New Zealand, Norges Bank, the Monetary Authority of Singapore, Sveriges Riksbank, and the Swiss National Bank.

Swaps under these lines consist of two transactions. When a foreign central bank (FCB) draws on its swap line with the FRBNY, the FCB sells a specified amount of its currency to the FRBNY in exchange for dollars at the prevailing market exchange rate. The FRBNY holds the foreign currency in an account at the FCB. The dollars that the FRBNY provides are deposited in an account that the FCB maintains at the FRBNY. At the same time, the FRBNY and the FCB enter into a binding agreement for a second transaction that obligates the FCB to buy back its currency on a specified future date at the same exchange rate. The second transaction unwinds the first. Because the swap transaction will be unwound at the same exchange rate used in the initial transaction, the recorded value of the foreign currency amounts is not affected by changes in the market exchange rate. At the conclusion of the second transaction, the FCB pays interest at a market-based rate to the FRBNY.

When the FCB lends the dollars it obtained by drawing on its swap line to institutions in its jurisdiction, the dollars are transferred from the FCB account at the FRBNY to the account of the bank that the borrowing institution uses to clear its dollar transactions.

The FCB remains obligated to return the dollars to the FRBNY under the terms of the agreement, and the FRBNY is not a counterparty to the loan extended by the FCB. The FCB bears the credit risk associated with the loans it makes to institutions in its jurisdiction.

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

Foreign-Currency Liquidity Swap Lines

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

Lending Facilities to Support Overall Market Liquidity

Lending to Depository Institutions

Recent Developments

- Credit provided to depository institutions through the discount window and the Term Auction Facility (TAF) has continued to decline, primarily reflecting reductions in loans outstanding under the TAF.
- TAF auctions continue to be undersubscribed and, as a result, the auction rate has been equal to the minimum bid rate of 25 basis points for some time.
- The September TAF auctions have been reduced in size to \$75 billion from \$100 billion in August, which represents the third consecutive month of reduction in auction offering amounts. Offered amounts have been reduced in light of improving market conditions.
- As indicated in Table 6, total collateral pledged by depository institutions with discount window loans outstanding on August 26, 2009, was \$540 billion, more than twice the amount of credit outstanding.

Background

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

Table 4. Discount Window Credit Outstanding to Depository Institutions

Daily average borrowing for each class of borrower over four weeks ending August 26, 2009

Type and size of borrower	Average number of borrowers ¹	Average borrowing (\$ billions) ²
Commercial banks ³		
Assets: more than \$50 billion	17	104
Assets: \$5 billion to \$50 billion	51	130
Assets: \$250 million to \$5 billion	140	17
Assets: less than \$250 million	111	1
Thrift institutions and credit unions	47	8
Total	365	260

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

1. Average daily number of depository institutions with credit outstanding. Over this period, a total of 538 institutions borrowed.

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

3. Includes branches and agencies of foreign banks.

Table 5. Discount Window Credit Outstanding to Depository Institutions—Concentration at Largest Borrowers

For four weeks ending August 26, 2009

Ranking	Number of borrowers	Daily average borrowing (\$ billions)
Rank by amount of borrowing		
Top five	5	91
Next five	5	39
Other	355	130
Total	365	260

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

window lending are set forth in the 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. Secondary credit may be provided to depository institutions that do not qualify for primary credit, subject to review by the lending Reserve Bank. Seasonal credit provides short-term funds to smaller depository institutions that experience regular seasonal swings in loans and deposits. In December 2007, the Federal Reserve introduced the TAF, which provides credit through an auction mechanism to depository institutions in generally sound financial condition. All regular discount window loans and TAF loans must be fully collateralized to the satisfaction of the lending Reserve Bank, with an appropriate "haircut" applied to the value of the collateral.

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

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

As of August 26, 2009

Type of collateral	Lendable value (\$ billions)
Loans	
Commercial	113
Residential mortgage	3
Commercial real estate	40
Consumer	37
Securities	
U.S. Treasury/agency	8
Municipal	28
Corporate market instruments	39
MBS/Collateralized Mortgage Obligations (CMO):	
Agency-guaranteed	34
MBS/CMO: Other	31
Asset-backed	150
International (sovereign, agency, municipal, and corporate)	57
Total	540

Note: Unaudited. Collateral pledged by borrowers of primary, secondary, seasonal, and TAF credit as of the date shown. Total primary, secondary, seasonal, and TAF credit on this date was \$252 billion. The lendable value of collateral pledged by all depository institutions, including those without any outstanding loans, was \$1,548 billion. Lendable value is value after application of appropriate haircuts. Components may not sum to total because of rounding.

and when necessary—relevant information about those institutions identified as posing higher risk. The fourth step is implementing appropriate measures to mitigate the risks posed by such entities.

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

Collateral

All extensions of credit by the Federal Reserve must be secured to the satisfaction of the lending Reserve Bank by "acceptable collateral." Assets accepted as collateral are assigned a lendable value deemed appropriate by the Reserve Bank; lendable value is determined as the market price of the asset less a haircut.

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

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

As of August 26, 2009

Type of security and rating	Lendable value (\$ billions)
U.S. Treasury, agency, and agency-guaranteed securities..	142
Other securities	
AAA	207
Aa/AA ¹	48
A ²	68
Baa/BBB ³	26
Other investment-grade ⁴	95
Total	587

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

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

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

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

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

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

Discount window loans and extensions of credit through the TAF are made with recourse to the borrower beyond the pledged collateral. Nonetheless, collateral plays an important role in mitigating the credit risk associated with these extensions of credit. The Federal Reserve generally accepts as collateral for discount window loans and TAF credit any assets that meet regulatory standards for sound asset quality. This category of assets includes most performing loans and most investment-grade securities, although for some types of securities (including commercial mortgage-backed securities, collateralized debt obligations, collateralized loan obligations, and certain non-dollar-denominated foreign securities) only AAA-rated securities are accepted. Institutions may not pledge as collateral any instruments that they or their affiliates have issued. Additional collateral is required for discount window and TAF loans with remaining maturity of more than 28 days—for these loans, borrowing only

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

As of August 26, 2009

Percent of collateral used	Number of borrowers	Total borrowing (\$ billions)
Over 0 and under 25	106	18
25 to 50	109	70
50 to 75	105	106
75 to 90	43	56
Over 90	9	2
Total	372	252

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

up to 75 percent of available collateral is permitted. To ensure that they can borrow from the Federal Reserve should the need arise, many depository institutions that do not have an outstanding discount window or TAF loan nevertheless routinely pledge collateral.

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

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

Lending to Primary Dealers

Recent Developments

- Borrowing from the Term Securities Lending Facility (TSLF) fell to zero on August 14, 2009, reflecting further improvements in secured funding markets. There has been no borrowing at the Primary Dealer Credit Facility (PDCF) since mid-May.

Table 9. Credit Outstanding to Primary Dealers

As of August 26, 2009

Number of borrowers	Borrowing under Primary Dealer Credit Facility (PDCF) (\$ billions)	Borrowing under Term Securities Lending Facility (TSLF) (\$ billions)
0	0	0

Note: Unaudited. Borrowing figures represent total amounts of PDCF and TSLF credit extended on August 26, 2009. The total reported for the TSLF represents the par value of securities lent.

Background

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

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

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

Table 10. Concentration of Borrowing at the PDCF and TSLF

As of August 26, 2009

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

Note: Unaudited.
NA - Not applicable.

term, fixed-rate TSLF loans from the System Open Market Account (SOMA) portfolio in exchange for program-eligible collateral. The TOP is intended to enhance the effectiveness of the TSLF by offering added liquidity over periods of heightened collateral market pressures, such as quarter-end dates. The Federal Reserve Board has authorized the extension of credit from the TSLF through February 1, 2010. TSLF Schedule 1 and TOP auctions, however, were suspended effective July 2009 in light of considerably lower use of the facility.

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

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

Collateral

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

Transactions under the TSLF involve lending securities rather than cash; a dealer borrows Treasury securities from the Federal Reserve and provides another security as collateral. Eligible collateral is determined by the Federal Reserve. Currently, two schedules of collateral are defined. Schedule 1 collateral is Treasury, agency, and agency-guaranteed MBS. Schedule 2 collateral is investment-grade corporate, municipal, mortgage-backed, and asset-backed securities, as well as Schedule 1 collateral. Haircuts on posted collateral are determined by the FRBNY using methods consis-

Table 11. PDCF Collateral

As of August 26, 2009

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

Note: Unaudited. Collateral pledged by borrowers of PDCF and related credit to primary dealers as of the date shown. Credit on that date totaled \$0 billion. Lendable value is value after application of appropriate haircuts.

Table 12. PDCF Collateral by Rating

As of August 26, 2009

Type of collateral	Lendable value (\$ billions)
U.S. Treasury/agency securities	0
Other securities	
Aaa/AAA	0
Aa/AA	0
A	0
Baa/BBB	0
Ba/BB	0
B/B	0
Caa/CCC or below	0
Unrated securities	0
Equity	0
Total	0

Note: Unaudited. Collateral pledged by borrowers of PDCF and related credit to primary dealers as of the date shown. Credit on that date totaled \$0 billion. Lendable value is value after application of appropriate haircuts.

Table 13. TSLF Collateral

As of August 26, 2009

Type of collateral	Lendable value (\$ billions)
Securities	
U.S. Treasury/agency	0
Municipal	0
Corporate	0
MBS/CMO: agency-guaranteed	0
MBS/CMO: other	0
Asset-backed	0
Total	0

Note: Unaudited. Collateral pledged by borrowers of TSLF as of the date shown. Borrowing on the date shown was \$0 billion. Lendable value is value after application of appropriate haircuts.

Table 14. TSLF Collateral by Rating

As of August 26, 2009

Type of collateral	Lendable value (\$ billions)
U.S. Treasury, agency, and agency-guaranteed securities ..	0
Other securities	
Aaa/AAA	0
Aa/AA	0
A/A-1	0
Baa/BBB	0
Total	0

Note: Unaudited. Collateral pledged by borrowers of TSLF as of the date shown. Borrowing on that date was \$0 billion. Lendable value is value after application of appropriate haircuts. TSLF collateral must be investment-grade.

tent with current market practices. Breakdowns of TSLF collateral by asset type and credit rating are shown in Tables 13 and 14, respectively.

Commercial Paper Funding Facility (CPFF)

Recent Developments

- The amount of commercial paper held in the CPFF has continued to decline steadily in recent weeks. Improvements in market conditions have allowed more borrowers to obtain financing from private investors in the commercial paper market or from other sources.

Background

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

The CPFF was announced on October 7, 2008 and purchases of commercial paper began on October 27. This program is administered by the FRBNY, and the assets and liabilities of the LLC are consolidated onto the balance sheet of the FRBNY. The net assets of the LLC are shown in tables 1, 9, and 10 of the weekly H.4.1 statistical release, and primary accounts of the LLC are presented in table 7 of the H.4.1 statistical release. The Federal Reserve Board has authorized the extension of credit from the CPFF through February 1, 2010.

Table 15. CPFF Concentration of Largest Issuers

For four weeks ending August 26, 2009

Rank	Number of borrowers	Daily average borrowing (\$ billions)
Rank by amount of commercial paper		
Top five issuers	5	26
Next five issuers	5	12
Other issuers	21	15
Total	31	54

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

Table 16. CPFF Commercial Paper Holdings by Type

As of August 26, 2009

Type of commercial paper	Value (\$ billions)
Unsecured commercial paper	
Issued by financial firms	12
Issued by nonfinancial firms	*
Asset-backed commercial paper	32
Total	45

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

* Less than \$500 million.

Table 17. CPFF Commercial Paper Holdings by Rating

As of August 26, 2009

Type of collateral	Value (\$ billions)
Commercial paper with rating ¹	
A-1/P-1/F-1	44
Split-rated	*
Downgraded after purchase	*
Total	45

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

* Less than \$500 million.

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

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

Recent Developments

- The amount of credit outstanding under the AMLF declined to \$79 million on August 26, 2009, in concert with the overall improvement in funding markets.

Background

The AMLF is a lending facility that finances the purchase of high-quality asset-backed commercial paper from money market mutual funds (MMMFs) by U.S. depository institutions and bank holding companies. The program is intended to assist money funds that hold such paper in meeting the demands for redemptions by investors and to foster liquidity in the asset-backed commercial paper (ABCP) market and money markets more generally. The loans extended through the AMLF are non-recourse loans; as a result, the Federal Reserve has rights to only the collateral securing the loan if the borrower elects not to repay. To help ensure that the AMLF is used for its intended purpose of providing a temporary liquidity backstop to

Table 18. AMLF Number of Borrowers and Amount Outstanding

Daily average for four weeks ending August 26, 2009

Lending program	Number of borrowers	Borrowing (\$ billions)
Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF)	*	**

Note: Unaudited.

* Three or fewer borrowers.

** Less than \$500 million.

MMMFs, the Federal Reserve has established a redemption threshold for use of the facility. Under this requirement, a MMMF must experience material outflows—defined as at least 5 percent of net assets in a single day or at least 10 percent of net assets within the prior five business days—before the ABCP that it sells would be eligible collateral for AMLF loans to depository institutions and bank holding companies. Any eligible ABCP purchased from a MMMF that has experienced redemptions at these thresholds could be pledged to AMLF at any time within the five business days following the date that the threshold level of redemptions was reached.

The initiation of the AMLF, announced on September 19, 2008, relied on authority under section 13(3) of the Federal Reserve Act. It is administered by the Federal Reserve Bank of Boston, which is authorized to make AMLF loans to eligible borrowers in all 12 Federal Reserve Districts. Lending through the AMLF is presented in table 1 of the weekly H.4.1 statistical release and is included in “Other loans” in tables 9 and 10 of the H.4.1 statistical release. The Federal Reserve Board has authorized extension of credit through the AMLF through February 1, 2010. Since May 8, 2009, there has been no new borrowing through the AMLF.

Collateral

Collateral eligible for the AMLF is limited to ABCP that:

- was purchased by the borrower on or after September 19, 2008, from a registered investment company that holds itself out as a MMMF and has experienced recent material outflows;
- was purchased by the borrower at the mutual fund’s acquisition cost as adjusted for amortization of premium or accretion of discount on the ABCP through the date of its purchase by the borrower;
- was not rated lower than A-1, P-1, or F-1 at the time it was pledged to the Federal Reserve Bank of Boston (this would exclude paper that is rated A-1/P-1/F-1 but is on watch for downgrade by any major rating agency);

Table 19. AMLF Collateral by Rating

As of August 26, 2009

Type of collateral	Value (\$ billions)
Asset-backed commercial paper with rating A-1/P-1/F-1 and not on watch for downgrade	*
A-1/P-1/F-1 but on watch for downgrade ¹	0
Below A-1/P-1/F-1	0
Total	*

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

* Less than \$500 million.

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

- was issued by an entity organized under the laws of the United States or a political subdivision thereof under a program that was in existence on September 18, 2008; and
- has a stated maturity that does not exceed 120 days if the borrower is a bank, or 270 days if the borrower is a non-bank.

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

Term Asset-Backed Securities Loan Facility (TALF)

Recent Developments

- TALF subscriptions in August supported primary issuance of 12 asset-backed securities (ABS) deals worth a total of about \$9 billion, of which approximately \$7 billion was financed through the TALF. In addition, \$2.1 billion in TALF loans were extended against legacy commercial mortgage-backed securities (CMBS) collateral as of the subscription settlement on August 28, 2009.
- On September 1, 2009, the FRBNY named four non-primary dealer broker-dealers as agents for the TALF. The four agents are CastleOak Securities, LP; Loop Capital Markets, LLC; Wells Fargo Securities, LLC; and The Williams Capital Group, LP. These agents, like the primary dealers, will represent borrowers in accessing the facility. The Federal Reserve

Table 20. TALF Number of Borrowers and Loans Outstanding

As of August 26, 2009

Lending program	Number of borrowers	Borrowing (\$ billions)
Term Asset-Backed Securities Loan Facility (TALF)	121	35
Non-CMBS	116	35
CMBS	15	1

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

anticipates that the appointment of these agents will enable a broader range of investors to access TALF financing.

- The September 3, 2009, non-CMBS TALF operation financed about \$7 billion in loan requests, supporting primary issuance of 14 ABS deals worth a total of about \$17 billion.

Background

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

Eligible collateral initially included U.S. dollar-denominated ABS that (1) are backed by student loans, auto loans, credit card loans, and loans guaranteed by the Small Business Administration (SBA) and (2) have a credit rating in the highest investment-grade rating category from two or more approved rating agencies and do not have a credit rating below the highest investment-grade rating category from a major rating agency. The loans provided through the TALF are non-recourse loans; the Federal Reserve has rights to only the collateral securing the loan in the event that the borrower elects not to repay. Borrowers commit their own risk capital in the form of haircuts against the collateral, which serve as the borrower's equity in the transaction and act as a buffer to absorb any decline in the collateral's value in the event the loan is not repaid. The U.S. Treasury is providing protection against losses of up to \$20 billion to the FRBNY using funds authorized under the Troubled Assets Relief Program (TARP) of the Emergency Economic Stabilization Act of 2008.

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

On March 19, 2009, the Federal Reserve Board announced that starting in April, the set of eligible collateral for TALF loans was being expanded to include ABS backed by loans or leases related to business equipment, leases of vehicle fleets, floorplan loans, and mortgage servicing advances.

On March 23, 2009, the Federal Reserve and the Treasury announced that they were planning on expanding the list of eligible collateral for TALF loans to include previously issued securities—so-called "legacy securities"—as a complement to the Treasury's Public-Private Investment Program.

On May 1, 2009, the Federal Reserve announced that starting in June 2009, newly issued CMBS and securities backed by insurance premium finance loans would be eligible collateral under the TALF. The Federal Reserve also authorized TALF loans with maturities of five years, available for the June funding, to finance purchases of CMBS, ABS backed by student loans, and ABS backed by loans guaranteed by the Small Business Administration. The Federal Reserve indicated that up to \$100 billion of TALF loans could have five-year maturities and that some of the interest on collateral financed with a five-year loan may be diverted toward an accelerated repayment of the loan, especially in the fourth and fifth years.

On May 19, 2009, the Federal Reserve announced that starting in July 2009, certain high-quality CMBS

Table 21. TALF Collateral by Underlying Credit Exposure

As of August 26, 2009

Type of collateral	Value (\$ billions)
Asset-backed securities by underlying loan type	
Auto	8
Commercial mortgages	1
Newly issued	0
Legacy	1
Credit card	20
Equipment	1
Premium finance	*
Floorplan	1
Servicing advances	1
Small business	*
Student loan	6
Total	39

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

* Less than \$500 million.

Table 22. TALF Collateral by Rating

As of August 26, 2009

Type of collateral	Value (\$ billions)
Asset-backed securities with rating	
AAA/Aaa	39
Total	39

Note: Unaudited.

issued before January 1, 2009 (legacy CMBS), would become eligible collateral under the TALF. The Federal Reserve indicated that eligible newly issued and legacy CMBS must have at least two AAA ratings from a list of approved ratings agencies—DBRS, Fitch, Moody's Investors Service, Realpoint, or Standard & Poor's—and must not have a rating below AAA from any of these rating agencies. More broadly, the Federal Reserve announced that it would be formalizing procedures for determining the set of rating agencies whose

Table 23A. Issuers of Non-CMBS that Collateralize Outstanding TALF Loans

As of August 26, 2009

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

ratings would be accepted for various types of eligible collateral in the Federal Reserve's credit programs.

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

Collateral and Risk Management

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

Table 23B. Issuers of CMBS that Collateralize Outstanding TALF Loans

As of August 26, 2009

Issuers
Banc of America Commercial Mortgage Inc.
Banc of America Commercial Mortgage Trust 2007-3
Bear Stearns Commercial Mortgage Securities Trust 2007-PWR15
Bear Stearns Commercial Mortgage Securities Trust 2007-PWR16
CD 2007-CD4 Commercial Mortgage Trust
COMM 2006-7 Mortgage Trust
Commercial Mortgage Loan Trust 2008-LS1
Commercial Mortgage Trust 2004-GG1
Commercial Mortgage Trust 2007-GG9
Credit Suisse Commercial Mortgage Trust Series 2007-C5
CSFB Commercial Mortgage Trust 2005-C1
CSFB Commercial Mortgage Trust 2005-C2
GMAC Commercial Mortgage Securities, Inc. Series 2006-C1 Trust
GS Mortgage Securities Corporation II
GS Mortgage Securities Trust 2006-GG6
J.P. Morgan Chase Commercial Mortgage Securities Corp.
J.P. Morgan Chase Commercial Mortgage Securities Trust 2006-CIBC16
J.P. Morgan Chase Commercial Mortgage Securities Trust 2006-CIBC17
J.P. Morgan Chase Commercial Mortgage Securities Trust 2007-LDP11
LB-UBS Commercial Mortgage Trust 2005-C3
LB-UBS Commercial Mortgage Trust 2007-C2
Merrill Lynch Mortgage Trust 2004-KEY2
Merrill Lynch Mortgage Trust 2005-CK11
Merrill Lynch, Countrywide Commercial Mortgage
Morgan Stanley Capital I
Wachovia Bank Commercial Mortgage Trust

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

Eligible legacy CMBS must be issued before January 1, 2009, must be senior in payment priority to all other interests in the underlying pool of commercial mortgages, and must meet certain other criteria designed to protect the Federal Reserve and the Treasury from credit risk. In almost all cases, eligible collateral for a particular borrower must not be backed by

loans originated or securitized by the borrower or by an affiliate of the borrower. The FRBNY's loan is secured by the ABS collateral, with the FRBNY lending an amount equal to the market value of the ABS less a haircut. The Federal Reserve has set initial haircuts for each type of eligible collateral to reflect an assessment of the riskiness and maturity of the various types of eligible ABS. In addition, the U.S. Treasury Department—under the TARP—will provide \$20 billion of credit protection to the FRBNY in connection with the TALF. Breakdowns of TALF collateral by underlying credit exposure and credit rating are shown in Tables 21 and 22, respectively.

Lending in Support of Specific Institutions

Recent Developments

- As presented in Table 24, net income including changes in valuation for the quarter ended June 30, 2009, resulted in improvements to the fair value asset coverage of loans of the Federal Reserve Bank of New York (FRBNY) to Maiden Lane and Maiden Lane III LLCs, while a net loss further reduced the coverage of the loan to Maiden Lane II LLC.
- Cash flows generated from the Maiden Lane II and Maiden Lane III portfolios are used to pay down the loans from the FRBNY. As shown in Tables 29 and 32, those repayments totaled about \$2.6 billion in the second quarter of 2009.

Background

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

Bear Stearns and Maiden Lane LLC

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

Table 24. Fair Value Asset Coverage

(\$ millions)

	Fair value asset coverage of FRBNY loan on 6/30/2009	Fair value asset coverage of FRBNY loan on 3/31/2009
Maiden Lane LLC	(3,400)	(3,771)
Maiden Lane II LLC	(2,371)	(1,965)
Maiden Lane III LLC	(129)	(3,435)

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

Table 25. Maiden Lane LLC Outstanding Principal Balance of Loans

(\$ millions)

	FRBNY senior loan	JPMC subordinate loan
Principal balance at closing	28,820	1,150
<i>Most Recent Quarterly Activity</i>		
Principal balance on 3/31/2009 (including accrued and capitalized interest)	29,123	1,202
Accrued and capitalized interest 3/31/2009 to 6/30/2009	36	15
Repayment during the period from 3/31/2009 to 6/30/2009	-	-
Principal balance on 6/30/2009 (including accrued and capitalized interest)	29,159	1,217

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

and associated hedges from Bear Stearns. The LLC will manage its assets through time to maximize the repayment of credit extended to the LLC and to minimize disruption to the financial markets. In the second quarter of 2008, the FRBNY extended credit to Maiden Lane LLC. Details of the terms of the loan are published on the FRBNY website (www.newyorkfed.org/markets/maidenlane.html). The assets of Maiden Lane LLC are presented weekly in tables 1, 9, and 10 of the H.4.1 statistical release. Additional details on the accounts of Maiden Lane LLC are presented in table 4 of the H.4.1 statistical release.

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

(\$ millions)

	Fair value on 6/30/2009	Fair value on 3/31/2009
Agency CMOs	16,424	14,369
Non-agency CMOs	1,962	1,552
Commercial loans	4,447	4,697
Residential loans	683	780
Swap contracts	1,827	2,280
TBA commitments ¹	1,199	1,448
Other investments	736	1,221
Cash & cash equivalents	1,805	2,640
Other assets ²	827	1,869
Other liabilities ³	(4,151)	(5,505)
Net assets	25,759	25,352

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

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

2. Including interest and principal receivable and other receivables.

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

Table 27. Maiden Lane LLC Securities Distribution by Type and Rating (in percent)

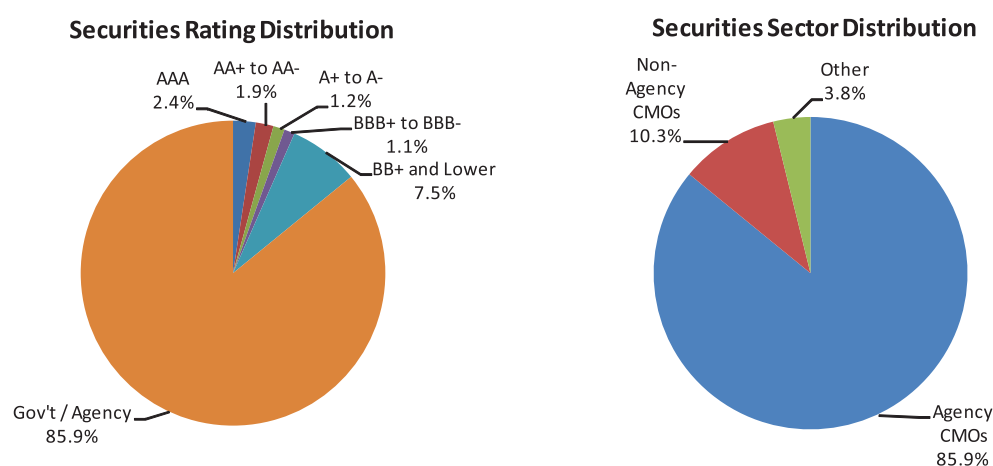
As of June 30, 2009

Security type ¹	Rating						Total
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and lower	Gov't/Agency	
Agency CMOs	0.0	0.0	0.0	0.0	0.0	85.9	85.9
Non-agency CMOs	0.8	0.7	0.9	0.7	7.2	0.0	10.3
Other ²	1.6	1.2	0.3	0.4	0.3	0.0	3.8
Total	2.4	1.9	1.2	1.1	7.5	85.9	100.0

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

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

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

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

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

American International Group (AIG)

Recent Developments

- The balance on the AIG revolving credit facility declined by \$3.1 billion between July 29, 2009, and August 26, 2009, as loan repayments outpaced loan

Table 28. AIG Revolving Credit Facility

Borrower	Borrowing (\$ billions)
Balance on July 29, 2009	42.2
Principal drawdowns	0.8
Principal repayments	-3.9
Recapitalized interest & fees	*
Amortization of restructuring allowance	0.1
Balance on August 26, 2009	39.1

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

* Less than \$500 million.

drawdowns over the reporting period (Table 28). Recapitalized interest and fees and the amortization of the restructuring allowance contributed an insignificant amount to the facility balance. These amounts are amortized over the remaining term of the credit extension, and thus are expected to trend toward zero.

Asset Divestitures

- On August 11, 2009, AIG Financial Products completed the sale of its energy and infrastructure investment assets, realizing aggregate net proceeds in excess of \$1.9 billion.
- On August 12, 2009, AIG announced that it had entered into an agreement to sell 100 percent of its shares of AIG Finance (Hong Kong) Limited ("AIG Finance") to China Construction Bank Asia for \$70 million in cash, subject to typical closing adjustments, plus the repayment of intra-group indebtedness and deposits of approximately \$557 million in U.S. dollars. The transaction is subject to the satis-

faction of certain conditions, including approvals by appropriate regulatory authorities.

Management Updates

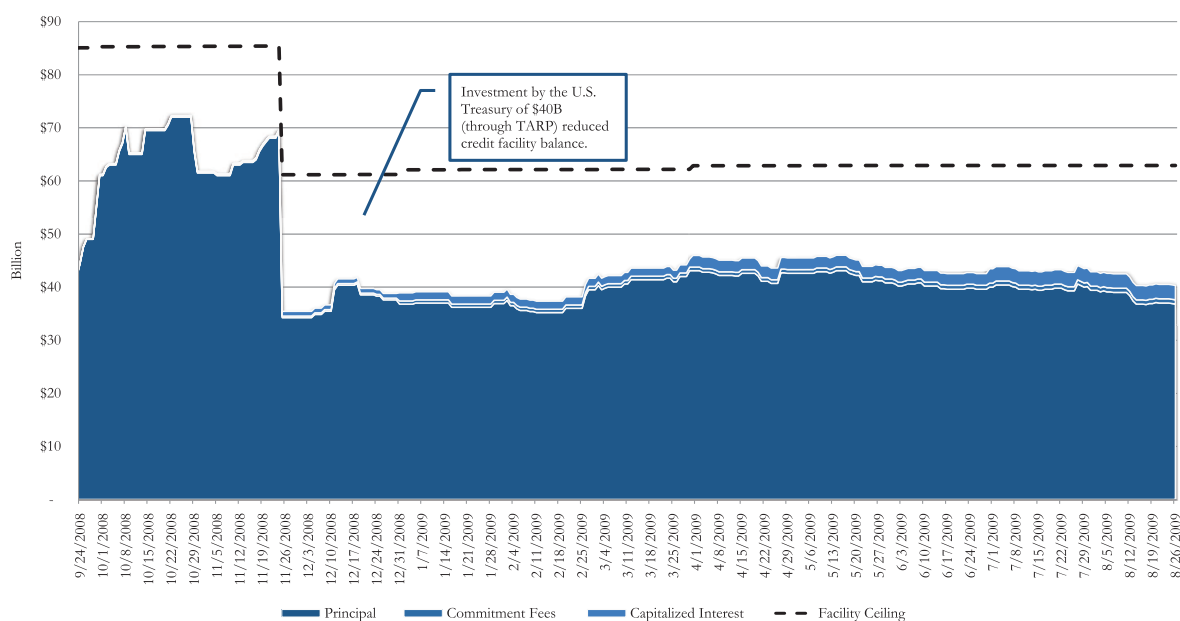
- On August 7, 2009, AIG announced that Robert G. Gifford had been named President and Chief Executive Officer of AIG Global Real Estate, the international real estate investment organization.
- On August 20, 2009, AIG announced that Jay S. Wintrob had been named President and Chief Executive Officer of Domestic Life and Retirement Services. Mr. Wintrob will lead AIG's U.S.-based life insurance and retirement services businesses, which market their products and services under the brands American General, American General Life and Accident Insurance Company (AGLA), SunAmerica, Variable Annuity Life Insurance Company (VALIC), and Western National. Mary Jane Fortin, currently Senior Executive Vice President, Chief Administrative Officer, and Chief Financial Officer of the domestic life companies, has been named President and Chief Executive Officer of American General Life Companies.

Background

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

On November 10, 2008, the Federal Reserve and the Treasury announced a restructuring of the government's financial support to AIG. As part of this restructuring, two new limited liability companies (LLCs) were created, Maiden Lane II LLC and Maiden Lane III LLC, and the line of credit extended to the company was reduced from \$85 billion to \$60 billion. (On October 8, 2008, the FRBNY was authorized to extend credit to certain AIG subsidiaries against a range of securities. This arrangement was discontinued

Figure 3. AIG Revolving Credit



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

after the establishment of the Maiden Lane II facility.) More detail on these LLCs is reported in the remainder of this section. Additional information is included in tables 5 and 6 of the H.4.1 statistical release.

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

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

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

The interest rate on the loan to AIG is the three-month LIBOR rate plus 300 basis points. The lending

under this facility is secured by a pledge of assets of AIG and its primary nonregulated subsidiaries, including all or a substantial portion of AIG's ownership interest in its regulated U.S. and foreign subsidiaries. Furthermore, AIG's obligations to the FRBNY are guaranteed by certain domestic, nonregulated subsidiaries of AIG with more than \$50 million in assets.

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

Maiden Lane II LLC

Under section 13(3) of the Federal Reserve Act, the Federal Reserve Board authorized the FRBNY to lend

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

(\$ millions)

	FRBNY senior loan	AIG fixed deferred purchase price
Principal balance at closing	19,494	1,000
<i>Most Recent Quarterly Activity</i>		
Principal balance on 3/31/2009 (including accrued and capitalized interest)	18,638	1,012
Accrued and capitalized interest 3/31/2009 to 6/30/2009	64	8
Repayment during the period from 3/31/2009 to 6/30/2009	(990)	-
Principal balance on 6/30/2009 (including accrued and capitalized interest)	17,712	1,020

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

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

(\$ millions)

Type of asset	Fair value on 6/30/2009	Fair value on 3/31/2009
Alt-A (ARM)	4,455	4,401
Subprime	8,348	9,744
Option ARM ¹	840	728
Other ^{1,2}	1,371	1,497
Cash & cash equivalents	327	297
Other assets ^{3,4}	3	7
Other liabilities ^{4,5}	(2)	(2)
Total	15,341	16,673

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

1. Aggregate fair value of positions classified under "Option ARM" was included as part of "Other" in previous reports because it was less than 5 percent of the aggregate fair value of securities in the portfolio at that time.

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

3. Including interest and principal receivable and other receivables.

4. "Other assets" and "Other liabilities" were not presented in previous reports.

5. Including accrued expenses.

Table 31. Maiden Lane II LLC Asset Distribution by Sector and Rating (in percent)

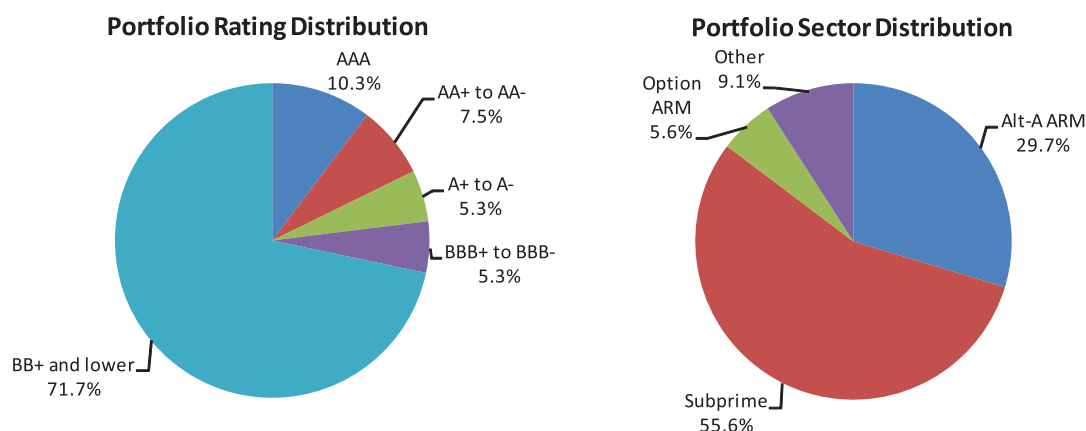
As of June 30, 2009

RMBS sector	Rating					Total
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and lower	
Alt-A (ARM)	1.4	3.1	1.8	2.3	21.0	29.7
Subprime	8.8	3.3	3.5	2.9	37.2	55.6
Option ARM ¹	0.0	0.0	0.0	0.0	5.6	5.6
Other ^{1,2}	0.2	1.0	0.0	0.0	7.9	9.1
Total	10.3	7.5	5.3	5.3	71.7	100.0

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

1. Aggregate fair value of positions classified under "Option ARM" was included as part of "Other" in previous reports because it was less than 5 percent of the aggregate fair value of securities in the portfolio at that time.

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

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

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

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

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

Maiden Lane III LLC

Under section 13(3) of the Federal Reserve Act, the Federal Reserve Board authorized the FRBNY to lend

up to \$30 billion to a newly formed Delaware limited liability company, Maiden Lane III LLC, to fund the purchase of certain asset-backed collateralized debt obligations (ABS CDOs) from certain counterparties of AIG Financial Products Corp. (AIGFP) on which AIGFP had written credit default swaps and similar contracts. On November 25, 2008, the FRBNY loaned about \$24.4 billion to Maiden Lane III LLC. Details of the terms of the loan are published on the FRBNY website (www.newyorkfed.org/markets/maidenlane3.html). Assets of the portfolio of the LLC will be managed to maximize cash flows to ensure repayment of obligations of the LLC while minimizing disruptions to financial markets.

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

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

Table 32. Maiden Lane III LLC Outstanding Principal Balance of Senior Loan and Equity Contribution
(\$ millions)

	FRBNY senior loan	AIG equity contribution
Principal balance at closing	24,339	5,000
<i>Most Recent Quarterly Activity</i>		
Principal balance on 3/31/2009 (including accrued and capitalized interest)	24,168	5,065
Accrued and capitalized interest 3/31/2009 to 6/30/2009	82	43
Repayment during the period from 3/31/2009 to 6/30/2009	(1,636)	–
Principal balance on 6/30/2009 (including accrued and capitalized interest)	22,614	5,108

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

Table 33. Maiden Lane III LLC Summary of Portfolio Composition and Cash/Cash Equivalents
(\$ millions)

Asset type	Fair value on 6/30/2009	Fair value on 3/31/2009
High-grade ABS collateralized debt Obligations (CDO)	14,491	13,565
Mezzanine ABS CDO	1,882	1,832
Commercial real estate CDO	4,186	3,761
RMBS, CMBS, & Other	225	–
Cash & cash equivalents	1,645	1,508
Other assets ^{1,2}	59	73
Other liabilities ^{2,3}	(4)	(5)
Total	22,485	20,733

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

1. Including interest and principal receivable and other receivables.

2. “Other assets” and “Other liabilities” were not presented in previous reports.

3. Including accrued expenses.

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

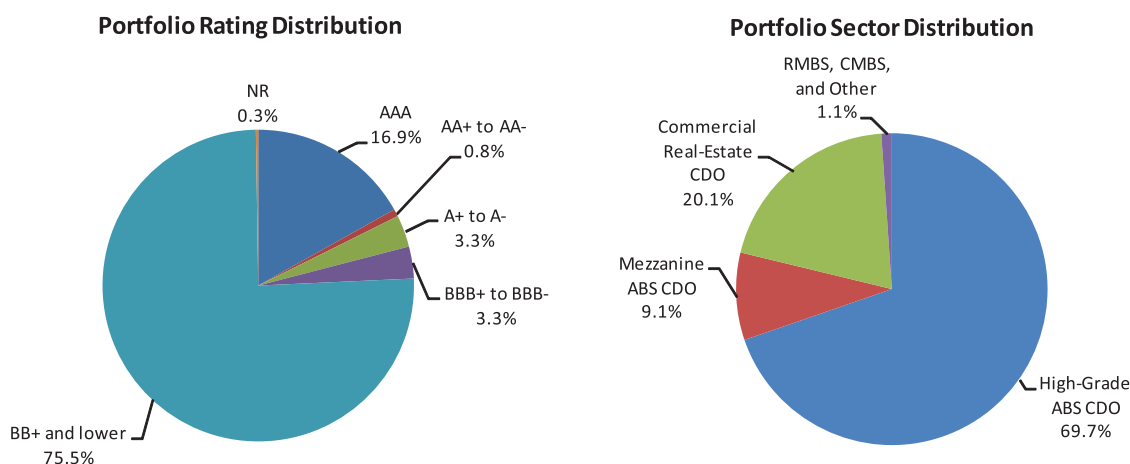
As of June 30, 2009

Security type/vintage ¹	Rating						Total
	AAA	AA+ to AA–	A+ to A–	BBB+ to BBB–	BB+ and lower	Not rated	
High-grade ABS CDO	0.0	0.0	0.0	0.7	69.0	0.0	69.7
Pre-2005	0.0	0.0	0.0	0.7	24.2	0.0	24.9
2005	0.0	0.0	0.0	0.0	29.6	0.0	29.6
2006	0.0	0.0	0.0	0.0	7.6	0.0	7.6
2007	0.0	0.0	0.0	0.0	7.6	0.0	7.6
Mezzanine ABS CDO	0.0	0.2	0.2	2.4	6.0	0.3	9.1
Pre-2005	0.0	0.2	0.2	1.7	3.1	0.3	5.5
2005	0.0	0.0	0.0	0.0	2.8	0.0	2.8
2006	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2007	0.0	0.0	0.0	0.8	0.0	0.0	0.8
Commercial real estate CDO	16.7	0.5	3.0	0.0	0.0	0.0	20.1
Pre-2005	2.7	0.5	3.0	0.0	0.0	0.0	6.1
2005	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2006	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2007	14.0	0.0	0.0	0.0	0.0	0.0	14.0
RMBS, CMBS, and other	0.2	0.1	0.1	0.1	0.5	0.0	1.1
Pre-2005	0.0	0.0	0.0	0.1	0.1	0.0	0.2
2005	0.2	0.1	0.1	0.1	0.4	0.0	0.8
2006	0.0	0.0	0.0	0.0	0.1	0.0	0.1
2007	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	16.9	0.8	3.3	3.3	75.5	0.3	100.0

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

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

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



Citigroup

On November 23, 2008, the Treasury, the Federal Reserve, and the Federal Deposit Insurance Corporation (FDIC) jointly announced that the U.S. government would provide support to Citigroup in an effort to support financial markets. The terms of the arrangement are provided on the Federal Reserve Board's website (www.federalreserve.gov/monetarypolicy/bst_supportspecific.htm). Because the FRBNY has not extended credit to Citigroup under this arrangement, the commitment is not reflected in the H.4.1 statistical release.

Bank of America

On January 16, 2009, the Treasury, the Federal Reserve, and the FDIC jointly announced that the U.S.

government would provide support to Bank of America to support financial market stability. The terms of the support are provided on the Federal Reserve Board's website (www.federalreserve.gov/monetarypolicy/bst_supportspecific.htm). On May 7, 2009, following the release of the results of the Supervisory Capital Assessment Program, Bank of America announced that it did not plan to move forward with a part of this planned support—specifically, a residual financing arrangement authorized for the company and the related guarantee protections that would be provided by the Treasury and the FDIC with respect to an identified pool of approximately \$118 billion in assets. Because the Federal Reserve has not extended credit to Bank of America under this arrangement, the commitment is not reflected in the H.4.1 statistical release.

Federal Reserve Banks' Financial Tables

Quarterly Developments

- As noted in Table 36, the daily average balance of the Federal Reserve System Open Market Account (SOMA) holdings exceeded \$1 trillion during the first half of 2009. Total earnings from the portfolio amounted to approximately \$16 billion during this period; most of the earnings are attributable to the holdings of U.S. government securities and agency-guaranteed mortgage-backed securities (MBS) and central bank liquidity swaps.
- As noted in Table 37, net earnings from Federal Reserve loan programs over the first half of the year amounted to \$874 million; interest earned on the TAF loans accounted for most of the total.

Background

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

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

The Board of Governors' financial statements are audited annually by an independent audit firm retained by the Board's Office of Inspector General. The audit firm also provides a report on compliance and on internal control over financial reporting in accordance with government auditing standards. The Office of Inspector General also conducts audits, reviews, and investiga-

tions relating to the Board's programs and operations as well as of Board functions delegated to the Reserve Banks.

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

Combined Statement of Income and Comprehensive Income

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

SOMA Financial Summary

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

Although the fair value of security holdings can be substantially greater than or less than the recorded value at any point in time, these unrealized gains or losses have no effect on the ability of the Reserve Banks to meet their financial obligations and responsibilities. As of June 30, 2009, the fair value of the U.S. government and agency securities held in the SOMA, excluding accrued interest, was \$812 billion, the fair value of the agency-guaranteed MBS was \$463 billion, and the fair value of investments denominated in foreign currencies was \$25 billion, as determined by reference to quoted prices for identical securities.

Table 35. Federal Reserve Banks' Combined Statement of Income and Comprehensive Income

(\$ millions)

	January 1, 2009 – June 30, 2009
Interest income:	
Loans to depository institutions (see table 37)	704
Other loans (see table 37)	1,594
System Open Market Account (see table 36)	17,141
Consolidated variable interest entities (table 38):	
Investments held by consolidated variable interest entities:	
Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs	3,144
Commercial Paper Funding Facility LLC	3,668
Total interest income	26,251
Interest expense:	
System Open Market Account (see table 36)	63
Depository institution deposits	992
Consolidated variable interest entities (see table 38)	133
Total interest expense	1,188
Net interest income	25,063
Non-interest income (loss):	
System Open Market Account - realized and unrealized losses, net (see table 36)	(858)
Investments held by consolidated variable interest entities gains (losses), net (see table 38):	
Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs	(4,762)
Commercial Paper Funding Facility LLC	5
Provision for loan restructuring (see table 37) ¹	(1,424)
Income from services	358
Reimbursable services to government agencies	190
Other income	136
Total non-interest (loss)	(6,355)
Operating expenses:	
Salaries and other benefits	1,294
Occupancy expense	135
Equipment expense	93
Assessments by the Board of Governors	446
Professional fees related to consolidated variable interest entities (see table 38)	65
Other expenses	289
Total operating expenses	2,322
Net income prior to distribution	16,386
Change in funded status of benefit plans ²	180
Comprehensive income prior to distribution	16,566
Distribution of comprehensive income:	
Dividends paid to member banks	679
Remaining amount to be distributed	15,887
Memo: Distributions to U.S. Treasury (interest on Federal Reserve notes) ³	12,586

Note: Unaudited.

1. In accordance with GAAP, as of June 30, 2009, the AIG revolving credit extension was reduced by a \$1.4 billion adjustment for loan restructuring. The adjustment is related to the loan modification, announced on March 2, 2009, which eliminated the existing floor on the interest rate. The restructuring adjustment will be recovered as it is amortized over the remaining term of the credit extension—for example, as noted elsewhere in this report, the unamortized value of this adjustment was valued at \$1.2 billion as of August 26.

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

3. The Board of Governors requires each Reserve Bank to distribute any remaining net earnings to the U.S. Treasury as interest on Federal Reserve notes, after providing for the payment of dividends and reservation of an amount necessary to equate surplus with capital paid-in. These distributions are made weekly based on estimated net earnings for the preceding week. The amount of each Bank's weekly distribution to the U.S. Treasury would be affected by significant losses and increases in capital paid-in at a Reserve Bank, which would require that the Reserve Bank retains net earnings until the surplus is equal to the capital paid-in. The distributions to the U.S. Treasury are reported on an accrual basis; actual payments to the U.S. Treasury during the period from January 1, 2009, through June 30, 2009, were \$10,161 million.

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

The SOMA holds foreign currency deposits and foreign government debt instruments denominated in foreign currencies with foreign central banks and the Bank for International Settlements. Central bank liquidity swaps are the foreign currencies that the Federal Reserve acquires and records as an asset (excluding accrued interest) on the Federal Reserve's balance sheet. On January 5, 2009, the Federal Reserve began purchasing MBS guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Transactions in MBS are

Table 36. SOMA Financial Summary

(\$ millions)

Loan programs	January 1, 2009 – June 30, 2009				
	Average daily balance ¹	Interest income/ (expense)	Realized gains (losses)	Unrealized gains (losses)	Net earnings
<i>SOMA assets</i>					
U.S. government securities ²	526,953	9,504	–	–	9,504
Federal agency and government-sponsored enterprise securities ²	54,050	614	–	–	614
Agency-guaranteed mortgage-backed securities ³	233,501	4,968	(352)	–	4,616
Investments denominated in foreign currencies ⁴	24,243	162	–	(506)	(344)
Central bank liquidity swaps ⁵	308,020	1,880	–	–	1,880
Securities purchased under agreements to resell	7,735	13	–	–	13
Total	1,154,502	17,141	(352)	(506)	16,283
<i>SOMA liabilities</i>					
Securities sold under agreements to repurchase	70,701	(63)	–	–	(63)
Total	1,083,801	17,078	(352)	(506)	16,220

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

1. Based on holdings at opening of business.

2. Face value.

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

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

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

recorded on settlement dates, which can extend several months into the future. MBS dollar roll transactions, which consist of a purchase of securities combined with an agreement to sell securities in the future, may generate realized gains and losses.

Loan Programs Financial Summary

Table 37 summarizes the average daily loan balances and interest income of the Federal Reserve for the first half of 2009. The most significant loan balance is the TAF, which was established at the end of 2007. As noted earlier in this report, during 2008 the Federal Reserve established several lending facilities under

authority of section 13(3) of the Federal Reserve Act. These included the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF), the Primary Dealer Credit Facility (PDCF), and credit extended to American International Group, Inc. (AIG). Amounts funded by the Reserve Banks under all these programs are recorded as loans by the Reserve Banks. Net earnings from these loan programs were \$874 million during the first half of 2009. All loans must be fully collateralized to the satisfaction of the lending Reserve Bank, with an appropriate haircut applied to the collateral. At June 30, 2009, no loans were impaired, and an allowance for loan losses was not required.

Table 37. Loan Programs Financial Summary

(\$ millions)

Loan programs	January 1, 2009 – June 30, 2009			
	Average daily balance ¹	Interest income ²	Provision for loan restructuring	Total
Primary, secondary, and seasonal credit	54,157	134	–	134
Term Auction Facility	415,079	570	–	570
Total loans to depository institutions	469,236	704	–	704
Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF)	14,370	70	–	70
Primary Dealer Credit Facility (PDCF) and other broker-dealer credit	15,335	37	–	37
Credit extended to American International Group, Inc. (AIG), net	42,250	1,427	(1,424)	3
Term Asset-Backed Securities Loan Facility (TALF)	6,874	60	–	60
Total loans to others	78,829	1,594	(1,424)	170
Total loan programs	548,065	2,298	(1,424)	874
Allowance for loan losses	–	–	–	–
Total loan programs, net	548,065	2,298	(1,424)	874

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

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

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

Table 38. Consolidated Variable Interest Entities Financial Summary

(\$ millions)

Consolidated LLCs	January 1, 2009 – June 30, 2009				
	CPFF	ML	ML II	ML III	Total Maiden Lane LLCs
<i>Net portfolio assets of the consolidated LLCs and the net position of FRBNY and subordinated interest holders</i>					
Net portfolio assets ¹	115,147	29,910 ^r	15,343	22,489	67,742 ^r
Other liabilities of consolidated LLCs	(154)	(4,151) ^r	(2)	(4)	(4,157) ^r
Net portfolio assets available	114,993	25,759	15,341	22,485	63,585
 Loans extended to the consolidated LLCs by FRBNY ²					
Other beneficial interests ^{2,3}	110,810	29,159	17,712	22,614	69,485
Total loans	0	1,217	1,020	5,108	7,345
	110,810	30,376	18,732	27,722	76,830
 Cumulative change in net assets since the inception of the programs					
Allocated to FRBNY	4,183	(3,400)	(2,371)	(129)	(5,900)
Allocated to other beneficial interests	0	(1,217)	(1,020)	(5,108)	(7,345)
Cumulative change in net assets	4,183	(4,617)	(3,391)	(5,237)	(13,245)
 Current period income of the consolidated LLCs					
<i>Summary of consolidated VIE net income for the current year through June 30, 2009, including a reconciliation of total consolidated VIE net income to the consolidated VIE net income recorded by FRBNY</i>					
Portfolio interest income ⁴	3,668	930	592	1,622	3,144
Interest expense on loans extended by FRBNY ⁵	(546)	(72)	(132)	(169)	(373)
Interest expense—other	0	(30)	(17)	(86)	(133)
Portfolio holdings gains (losses) ⁶	5	(832)	(2,496)	(4,391)	(7,719)
Professional fees	(22)	(22)	(6)	(15)	(43)
Net income (loss) of consolidated LLCs	3,105	(26)	(2,059)	(3,039)	(5,124)
Less: Net income (loss) allocated to other beneficial interests ⁶	0	(30)	(17)	(2,910)	(2,957)
Net income (loss) allocated to FRBNY	3,105	4	(2,042)	(129)	(2,167)
Add: Interest expense on loans extended by FRBNY, eliminated in consolidation ⁵	546	72	132	169	373
Net income (loss) recorded by FRBNY	3,651	76	(1,910)	40	(1,794)

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

r Revised for technical adjustments.

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

2. Includes accrued interest.

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

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

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

6. The amount of Maiden Lane portfolio holdings losses allocated to FRBNY is \$4,762, which is the total of portfolio holdings gains (losses) reduced by the net income (loss) allocated to other beneficial interests. This amount is reported as "Investments held by consolidated variable interest entities gains (losses), net" on Table 35.

Consolidated Variable Interest Entities (VIEs) Financial Summary

Table 38 summarizes the assets and liabilities of various consolidated VIEs previously discussed in this report. It also summarizes the net position of senior and subordinated interest holders and the allocation of the change in net assets to interest holders. The FRBNY is the sole beneficiary of the CPFF LLC and the primary beneficiary of the Maiden Lane LLCs. Commercial paper holdings are recorded at book value, which includes amortized cost and related fees. Maiden Lane LLC, Maiden Lane II LLC, and Maiden Lane III LLC holdings are recorded at fair value, which reflects an estimate of the price that would be received upon selling an asset if the transaction were to be conducted in an orderly market on the measurement date. Consistent with generally accepted accounting principles, the

assets and liabilities of these LLCs have been consolidated with the assets and liabilities of the FRBNY. As a consequence of the consolidation, the extensions of credit from the FRBNY to the LLCs are eliminated.

"Net portfolio assets available" represent the net assets available to beneficiaries of the consolidated VIEs and for repayment of loans extended by the FRBNY. "Net income (loss) allocated to FRBNY" represents the allocation of the change in net assets and liabilities of the consolidated VIEs available for repayment of the loans extended by the FRBNY and other beneficiaries of the consolidated VIEs. The differences between the fair value of the net assets available and the face value of the loans (including accrued interest) are indicative of gains or losses that would have been incurred by the beneficiaries if the assets had been fully liquidated at prices equal to the fair value as of June 30, 2009.