February 2010

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 about the range of programs and tools that have been implemented in response to the financial crisis and to ensure appropriate accountability to the Congress and the public. The Federal Reserve's statutory mandate in conducting monetary policy is to foster maximum employment and stable prices. Financial stability is a critical prerequisite for achieving sustainable economic growth and price stability, and the steps taken since the summer of 2007 were necessary to support the liquidity of important financial markets and institutions in light of the extraordinary strains in financial markets.

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.

This report provides detailed information on the policy tools that have been implemented since the summer of 2007. It also provides financial reporting for 2009 through the third quarter. Figures for the full year of 2009 will be published in this report following the release of the audited financial statements of the Federal Reserve System.

In fulfillment of Section 129 of the Emergency Economic Stabilization Act of 2008, additional information on the status of certain credit facilities implemented in response to the financial crisis is included as an appendix to this report.

For prior editions of this report and other resources, please visit the Board's public website at www.federalreserve.gov/monetarypolicy/bst_reports.htm.

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Tables and Figures

Overview

Recent Developments

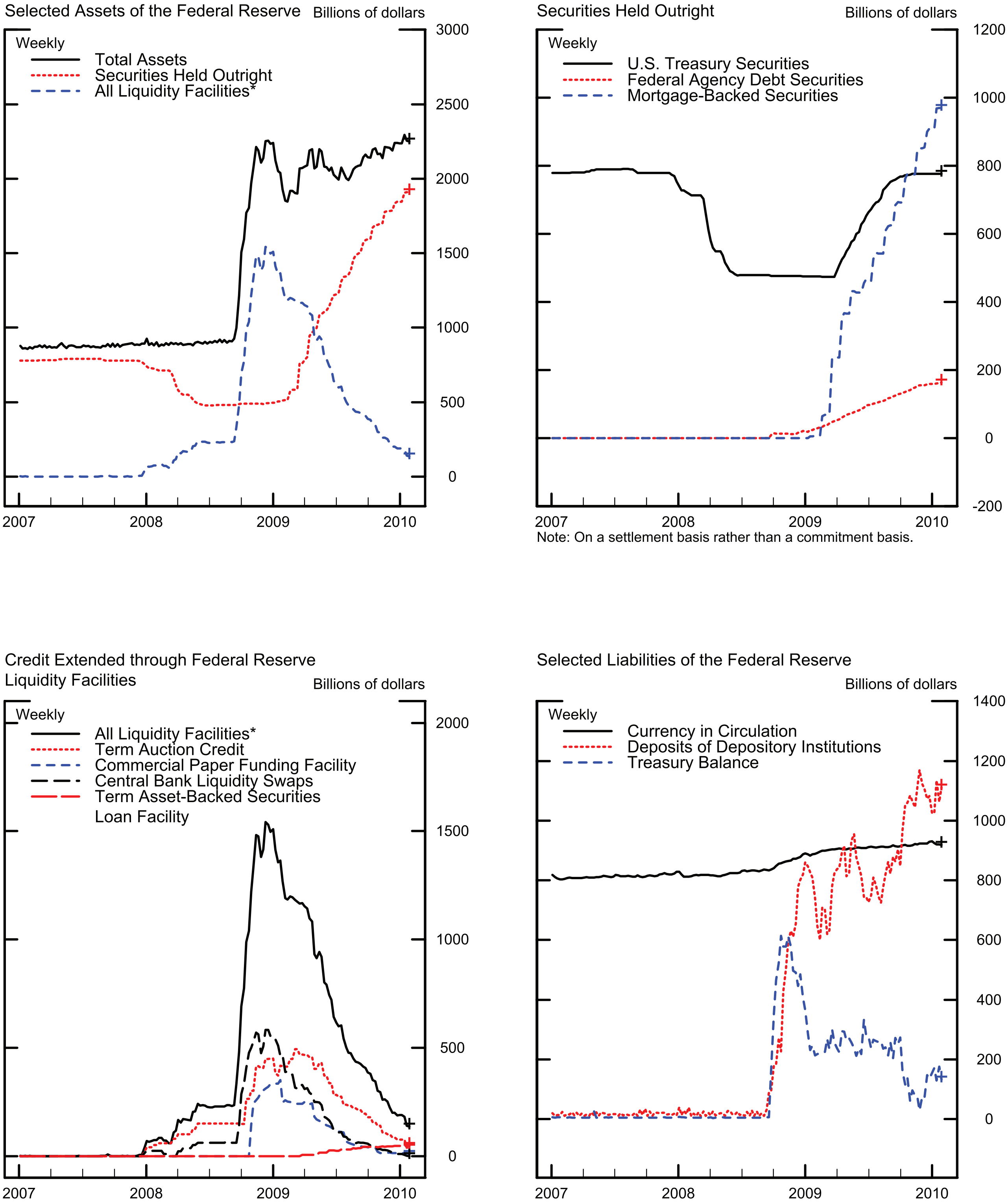
- As previously announced, the Federal Reserve closed the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF), the Commercial Paper Funding Facility (CPFF), the Primary Dealer Credit Facility (PDCF), and the Term Securities Lending Facility (TSLF) on February 1, 2010, in light of the improvement in financial conditions over recent months. CPFF LLC will retain its existing commercial paper holdings to maturity, and the LLC's other assets will remain until the LLC is dissolved.
- The temporary liquidity swap arrangements between the Federal Reserve and other central banks also expired on February 1, 2010.

Table 1. Assets, Liabilities, and Capital of the Federal Reserve System
Billions of dollars

Item	Current January 27, 2010	Change from December 30, 2009	Change from January 28, 2009
Total assets	**2,250**	**13**	**321**
Selected assets			
Securities held outright	1,910	65	1,399
U.S. Treasury securities[1]	777	+*	302
Federal agency debt securities[1]	164	4	136
Mortgage-backed securities[2]	970	62	963
Memo: Term Securities Lending Facility[3]	0	0	–124
Memo: Overnight securities lending[3]	4	–11	–2
Memo: Net commitments to purchase mortgage-backed securities[4]	133	–22	133
Lending to depository and other financial institutions	54	–42	–478
Primary, secondary, and seasonal credit	16	–4	–52
Term auction credit	39	–37	–377
Primary dealer and other broker-dealer credit	0	0	–32
Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility	0	0	–16
Central bank liquidity swaps[5]	*	–10	–466
Lending through other credit facilities	55	–7	–193
Net portfolio holdings of Commercial Paper Funding Facility LLC[6]	9	–5	–239
Term Asset-Backed Securities Loan Facility, net	46	–2	46
Support for specific institutions	91	4	–20
Credit extended to American International Group, Inc., net[7]	26	4	–12
Net portfolio holdings of Maiden Lane LLC[8]	27	+*	1
Net portfolio holdings of Maiden Lane II LLC[8]	15	–1	–4
Net portfolio holdings of Maiden Lane III LLC[8]	22	–1	–5
Net portfolio holdings of TALF LLC[9]	*	+*	+*
Preferred interests in AIA Aurora LLC and ALICO Holdings LLC[10]	25	+*	25
Total liabilities	**2,198**	**13**	**310**
Selected liabilities			
Federal Reserve notes in circulation	878	–12	29
Deposits of depository institutions	1,111	86	371
U.S. Treasury, general account	127	–23	88
U.S. Treasury, supplementary financing account	5	0	–170
Other deposits	*	–27	–1
Total capital	**52**	**+***	**11**

Note: Unaudited. Components may not sum to totals because of rounding.
* Less than $500 million.
1. Face value.
2. Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value, which is the remaining principal balance of the underlying mortgages. Does not include unsettled transactions.
3. Securities loans under the Term Securities Lending Facility 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 these programs.
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. 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 September 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.
9. As of January 27, 2010, TALF LLC had purchased no assets from the FRBNY.
10. Book value.

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



+ indicates most recent data point. Data are shown through 1/27/2010.
*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.

- The Federal Reserve is in the process of winding down its Term Auction Facility (TAF); the amount of 28-day credit offered on February 8, 2010, was reduced to $50 billion, and the final auction of $25 billion in 28-day credit will be held on March 8, 2010.
- On February 18, 2010, the Federal Reserve announced three changes to its lending programs for depository institutions. First, the Board approved an increase in the primary credit rate (generally referred to as the discount rate) from ½ percent to ¾ percent, effective February 19, 2010. Second, the Board announced that, effective March 18, 2010, the typical maximum maturity of primary credit loans would be shortened to overnight. These changes represent further normalization of the Federal Reserve's lending facilities and do not signal any change in the outlook for monetary policy. Finally, the Board announced that the minimum bid rate for the final TAF auction on March 8, 2010, had been raised by ¼ percentage point to ½ percent.
- In a letter to the U.S. Government Accountability Office (GAO) on January 19, 2010, the Federal Reserve announced that it would welcome a full review by the GAO of all aspects of the Federal Reserve's involvement in the extension of credit to American International Group, Inc. (AIG).
- On February 10, 2010, in prepared remarks for the U.S. House of Representatives Committee on Financial Services, Chairman Ben Bernanke discussed the Federal Reserve's strategy for exiting from the extraordinary lending and monetary policies that it implemented to combat the financial crisis and support economic activity. (The remarks can be found at www.federalreserve.gov/newsevents/testimony/bernanke20100210a.htm.)
- The fair value of the three Maiden Lane LLCs' net portfolio holdings, as of February, 10, 2010, were reported on the H.4.1 statistical release based on updated valuations as of December 31, 2009. The updated valuations resulted in a combined net unrealized gain of $0.7 billion for Maiden Lane LLC, Maiden Lane II LLC, and Maiden Lane III LLC.
- On December 28, 2009, the Federal Reserve Board proposed amendments to Regulation D (Reserve Requirements of Depository Institutions) that would enable the establishment of a term deposit facility. The public comment period for the proposed amendments ended on February 1, 2010. The Federal Reserve anticipates issuing a final rule in coming weeks. Under the proposal, Federal Reserve Banks would offer interest-bearing term deposits to eligible institutions through an auction mechanism. Term deposits are one of several tools the Federal Reserve could employ to drain reserves in order to support the effective implementation of monetary policy. This proposal is one component of a process of prudent planning on the part of the Federal Reserve and has no implications for monetary policy decisions in the near term.

System Open Market Account and Liquidity Arrangements with Foreign Central Banks

System Open Market Account (SOMA)

Recent Developments

- The SOMA portfolio has continued to expand, although the pace of Federal Reserve purchases of securities under the large-scale asset purchase programs (LSAPs) has slowed, reflecting the Federal Open Market Committee's (FOMC's) directive to gradually taper purchases under these programs to facilitate a smooth transition in financial markets.
- Under the FOMC's LSAPs, as of January 27, 2010, the Federal Reserve held about $164 billion in agency debt and also had purchased a total of $1.15 trillion of agency mortgage-backed securities (MBS) out of its announced target of $1.25 trillion, of which $970 billion had settled.

Table 2. System Open Market Account (SOMA) Securities Holdings

Billions of dollars, as of January 27, 2010

Security type	Total par value
U.S. Treasury bills	18
U.S. Treasury notes and bonds, nominal	709
U.S. Treasury notes and bonds, inflation-indexed[1]	49
Federal agency debt securities[2]	164
Mortgage-backed securities[3]	970
Total SOMA securities holdings	**1,910**

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

1. Includes inflation compensation.
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.

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 purchase and sell is relatively limited. The authority to conduct OMOs is granted under 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. More recently, the expansion of SOMA securities holdings has been driven by LSAPs. The composition of the SOMA is shown in table 2. Temporary OMOs typically are 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; under a reverse repo, the Trading Desk sells a security under an agreement to repurchase that security in the future. A repo is the economic equivalent of a collateralized loan; conversely, a reverse repo is the economic equivalent of collateralized borrowing. In both types of transactions, the difference between the purchase and sale prices reflects the interest on the loan or borrowing.

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.

The Federal Reserve's approach to the implementation of monetary policy has evolved considerably since 2007, and particularly 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 FOMC authorized purchases of up to $1.25 trillion of agency MBS and up to $200 billion of agency direct obligations. Subsequently, in November 2009, the FOMC announced that agency debt purchases would be about $175 billion. This amount, while somewhat less than the previously announced maximum of $200 billion, was consistent with the path of purchases and reflected the limited availability of agency debt.

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 holds some cash associated with the MBS purchase program.

The FRBNY announced in August 2009 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. The FRBNY announced in November 2009 that it would begin to use its own staff rather than external investment managers on select days to execute LSAP agency MBS purchases. 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.

In September 2009, the Federal Reserve began to purchase on-the-run agency securities—the most recently issued securities—in order to mitigate market dislocations and promote overall market functioning. Prior to this change, purchases were focused on off-the-run agency securities.

On September 23, 2009, the FOMC announced its intention to gradually slow the pace of its purchases of agency-guaranteed MBS and agency debt. In implementing this directive, the Trading Desk of the FRBNY announced that it would scale back the average weekly purchase amounts of agency MBS and reduce the size and frequency of agency debt purchases. The FOMC anticipates that these transactions will be executed by the end of the first quarter of 2010. The Federal Reserve's outright holdings of MBS are reported weekly in tables 1, 3, 10, and 11 of the H.4.1 statistical release. In addition, detailed data on all settled agency MBS holdings are published weekly on the FRBNY website (www.newyorkfed.org/markets/soma/sysopen_accholdings.html).

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 Treasury Inflation-Protected Securities (TIPS). The bulk of purchases have been in intermediate maturities. In August 2009, the FOMC announced that it decided to gradually slow the pace of these transactions in order to promote a smooth transition in markets as purchases of these Treasury securities are completed. The FOMC anticipated that the purchases would be completed by the end of October; the purchases were completed as planned.

In December 2009, the FRBNY conducted a set of small-scale, real-value, triparty reverse repurchase transactions with primary dealers. Reverse repurchase agreements are a tool that could be used to support a reduction in monetary accommodation at the appropriate time. These transactions were conducted to ensure operational readiness at the Federal Reserve, the major clearing banks, and the primary dealers, and had no material impact on the availability of reserves or on market rates.

On January, 11, 2010, the FRBNY published a revised policy regarding the administration of its relationships with primary dealers intended to provide greater transparency about the significant business standards expected of primary dealers and to offer clearer guidance on the process to become a primary dealer. Substantive changes from the previous policy include: a more structured presentation of the business standards expected of a primary dealer; a more formal application process for prospective primary dealers; an increase in the minimum net capital requirement, from $50 million to $150 million; a seasoning requirement of one year of relevant operations before a prospective dealer may submit an application; and a clear notice of actions the FRBNY may take against a noncompliant primary dealer.

Liquidity Swaps

Recent Developments

- Consistent with the Federal Reserve's previous announcements, the temporary liquidity swap arrangements between the Federal Reserve and other central banks expired on February 1, 2010.
- As of January 27, 2010, total dollar liquidity extended to foreign central banks had dropped to $175 million. The last outstanding draw under the central bank liquidity swap arrangements matured on February 12, 2010.

Background

Because of the global character of bank funding markets, the Federal Reserve worked with other central banks to provide liquidity to financial markets and institutions. As part of these efforts, the FRBNY 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 were established—dollar liquidity lines and foreign currency liquidity lines.

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

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. Subsequently, the FOMC authorized dollar liquidity swap lines 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. These temporary dollar liquidity swap arrangements expired on February 1, 2010.

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 compensates the FRBNY at a market-based rate.

When the FCB lends the dollars it obtained by drawing on its swap line to institutions in its jurisdiction, the dollars are transferred from the FCB account at the FRBNY to the account of the bank that the borrowing institution uses to clear its dollar transactions. The FCB 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, 10, and 11 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 had maturities ranging from overnight to three months.

Table 3. Amounts Outstanding under Dollar Liquidity Swaps

Billions of dollars

Central bank	Amount as of 1/27/2010	Amount as of 12/31/2008
Bank of Canada	0	0
Banco de Mexico	0	0
European Central Bank	*	291
Swiss National Bank	0	25
Bank of Japan	*	123
Bank of England	0	33
Danmarks Nationalbank	0	15
Reserve Bank of Australia	0	23
Sveriges Riksbank	0	25
Norges Bank	0	8
Reserve Bank of New Zealand	0	0
Bank of Korea	0	10
Banco Central do Brasil	0	0
Monetary Authority of Singapore	0	0
Total	*	**554**

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

* Less than $500 million.

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 were 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 mirrored the existing dollar liquidity swap lines, which provided 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 Federal Reserve did not draw on these swap lines, which expired on February 1, 2010.

Lending Facilities to Support Overall Market Liquidity

Lending to Depository Institutions

Recent Developments

- The Federal Reserve is in the process of winding down its Term Auction Facility (TAF). The amount of 28-day credit offered on February 8, 2010, was reduced to $50 billion, and a final auction of $25 billion in 28-day credit will be held on March 8, 2010. Credit provided to depository institutions through the discount window and the TAF has continued to decline, primarily reflecting reductions in loans outstanding under the TAF.
- TAF auctions have been undersubscribed since the October 5, 2008, auction. Since then, the auction rate has been equal to the minimum bid rate.
- On February 18, 2010, the Federal Reserve announced three changes to its lending programs for depository institutions. First, the Board approved an increase in the primary credit rate from ½ percent to ¾ percent, effective February 19, 2010. Second, the Board announced that, effective March 18, 2010, the typical maximum maturity of primary credit loans would be shortened to overnight. These changes represent further normalization of the Federal Reserve's lending facilities and do not signal any change in the outlook for monetary policy. Finally, the Board announced that the minimum bid rate for the final TAF auction on March 8, 2010, had been raised by ¼ percentage point to ½ percent.
- As indicated in table 6, total collateral pledged by depository institutions with discount window loans outstanding on January 27, 2010, was $168 billion, about three times the amount of credit outstanding.

Table 4. Discount Window Credit Outstanding to Depository Institutions

Daily average borrowing for each class of borrower over four weeks ending January 27, 2010

Type and size of borrower	Average number of borrowers[1]	Average borrowing ($ billions)[2]
Commercial banks[3]		
Assets: more than $50 billion	6	18
Assets: $5 billion to $50 billion	25	46
Assets: $250 million to $5 billion	89	9
Assets: less than $250 million	61	*
Thrift institutions and credit unions	31	2
Total	**213**	**75**

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

* Less than $500 million.

1. Average daily number of depository institutions with credit outstanding. Over this period, a total of 401 institutions borrowed.
2. Average daily borrowing by all depositories in each category.
3. Includes branches and agencies of foreign banks.

Table 5. Concentration of Discount Window Credit Outstanding to Depository Institutions

For four weeks ending January 27, 2010

Rank by amount of borrowing	Number of borrowers	Daily average borrowing ($ billions)
Top five	5	34
Next five	5	12
Other	203*	28
Total	**213**	**75**

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.

* Report updated to correct the figure for number of "Other" borrowers. The figure had previously been reported as 208.

Background

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

Depository institutions have, since 2003, had access to three types of discount window credit—primary credit, secondary credit, and seasonal credit. Primary credit is available to depository institutions in generally sound financial condition with few administrative requirements. 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.

On August 17, 2007, in order to promote orderly market functioning, the Federal Reserve began to allow the provision of primary credit for terms as long as 30 days. On March 16, 2008, the Federal Reserve increased the maximum maturity of primary credit loans to 90 days. On November 17, 2009, in response to improved financial conditions, the Federal Reserve announced that the maximum maturity on primary credit loans would be reduced to 28 days effective January 14, 2010.

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.

On September 24, 2009, the Federal Reserve announced that the TAF would be scaled back in response to continued improvements in financial market conditions. The auction amount for the 84-day auctions was reduced to $50 billion in October 2009 and to $25 billion in November 2009. In addition, the maturity dates of the 84-day auctions were adjusted over time to align with the maturity dates of the 28-day auctions. As of the January 11, 2010, TAF auction, the transition to a single 28-day auction cycle was completed. The final auction of $25 billion in 28-day credit will be held on March 8, 2010.

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 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.

Table 6. Lendable Value of Collateral Pledged by Borrowing Depository Institutions
Billions of dollars, as of January 27, 2010

Type of collateral	Lendable value
Loans	
Commercial	24
Residential mortgage	3
Commercial real estate	9
Consumer	11
Securities	
U.S. Treasury/agency	3
Municipal	10
Corporate market instruments	12
MBS/CMO: agency-guaranteed	9
MBS/CMO: other	10
Asset-backed	60
International (sovereign, agency, municipal, and corporate)	15
Total	**168**

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 $54 billion. The lendable value of collateral pledged by all depository institutions, including those without any outstanding loans, was $1,244 billion. Lendable value is value after application of appropriate haircuts. Components may not sum to total because of rounding.

Table 7. Lendable Value of Securities Pledged by Depository Institutions by Rating
Billions of dollars, as of January 27, 2010

Type of security and rating	Lendable value
U.S. Treasury, agency, and agency-guaranteed securities	155
Other securities	
AAA	185
Aa/AA[1]	40
A[2]	47
Baa/BBB[3]	22
Other investment-grade[4]	47
Total	**498**

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+ or F1+ 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.

At the heart of the condition monitoring process is an internal rating system that provides a framework for identifying institutions that may pose undue risks to the Federal Reserve. The rating system relies mostly on information from each institution's primary supervisor, including CAMELS ratings, to identify potentially problematic institutions and classify them according to the severity of the risk they pose to the Federal Reserve.[1] 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 discount window credit by the Federal Reserve must be secured to the satisfaction of the lending Reserve Bank by "acceptable collateral." Assets accepted as collateral are assigned a lendable value deemed appropriate by the Reserve Bank; lendable value is determined as the market price of the asset, less a haircut. When a market price is not available, a haircut may be applied to the outstanding balance or a valuation based on an asset's cash flow.

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.

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.frbservices.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. An institution may not pledge as collateral any instruments that the institution or its 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 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.

Changes to the lending margins on discount window collateral took 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, which began before the current financial crisis, of methodology and data sources. For more information on these changes to collateral margins, refer to 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.

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

As of January 27, 2010

Percent of collateral used	Number of borrowers	Total borrowing ($ billions)
Over 0 and under 25	65	11
25 to 50	64	15
50 to 75	48	11
75 to 90	15	15
Over 90	12	3
Total	**204**	**54**

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

Lending to Primary Dealers

Recent Developments

- As previously announced, the Federal Reserve closed the Primary Dealer Credit Facility (PDCF) and the Term Securities Lending Facility (TSLF) on February 1, 2010. All loans extended under these facilities were repaid in full, with interest, in accordance with the terms of the facility.
- There had been no borrowing at the PDCF since mid-May 2009.
- Since mid-August 2009, borrowing from the TSLF had remained unchanged at zero.

Background

On March 16, 2008, the Federal Reserve announced the creation of the PDCF, an overnight loan facility that provided funding to primary dealers and helped foster improved conditions in financial markets more generally. All credit provided under the PDCF was fully secured by collateral with appropriate haircuts—that is, the value of the collateral exceeded 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, 2008, 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.

On March 11, 2008, the Federal Reserve announced the creation of the TSLF. Under the TSLF, the Federal Reserve Bank of New York (FRBNY) lent 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 consisted of Treasury securities, agency securities, and agency-

Table 9. Credit Outstanding to Primary Dealers
As of January 27, 2010

Number of borrowers	Borrowing under PDCF ($ billions)	Borrowing under TSLF ($ billions)
0	0	0

Note: Unaudited. Borrowing figures represent total amounts of PDCF and TSLF credit extended as of the date shown. The total reported for the TSLF represents the par value of securities lent.

guaranteed mortgage-backed securities (MBS). For "Schedule 2" auctions, the eligible collateral included Schedule 1 collateral plus highly rated private securities. In mid-2008, the Federal Reserve introduced the Term Securities Lending Facility Options Program (TOP), which offered options to primary dealers to draw upon short-term, fixed-rate TSLF loans from the System Open Market Account (SOMA) portfolio in exchange for program-eligible collateral. The TOP was intended to enhance the effectiveness of the TSLF by offering added liquidity over periods of heightened collateral market pressures, such as quarter-end dates.

TSLF Schedule 1 and TOP auctions were suspended effective July 2009 in light of considerably lower use of the facility. Furthermore, in September 2009 the Federal Reserve announced its intention to scale back the size of TSLF auctions held between October 2009 and January 2010. The size of TSLF auctions was reduced to $50 billion in October 2009 and $25 billion in November 2009; offering amounts remained at $25 billion in December 2009 and January 2010. The January 7, 2010, TSLF Schedule 2 auction was the last auction conducted prior to the closure of the TSLF on February 1, 2010.

The TSLF supported the liquidity of primary dealers and was designed to foster improved conditions in financial markets more generally.

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 securities. Since July 9, 2009, this facility has lent housing-related government-sponsored enterprise (GSE) securities that are particularly sought after. Amounts outstanding under that program are reported in table 1A of the H.4.1 statistical release.

Table 10. Concentration of Borrowing at the PDCF and TSLF
As of January 27, 2010

Rank by amount of borrowing	Number of borrowers	Daily average borrowing ($ billions)
Top five	0	0
Next five	0	0
Other	0	0
Total	**0**	**0**

Note: Unaudited.

Collateral

Eligible collateral for loans extended through the PDCF included 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 could not exceed the lendable value of eligible collateral that the dealer provided to the FRBNY. The collateral was valued by the clearing banks; values were based on prices reported by a number of private-sector pricing services widely used by market participants. Loans extended under the PDCF were made with recourse beyond the collateral to 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 involved lending securities rather than cash: a dealer borrowed Treasury securities from the Federal Reserve and provided another security as collateral. Eligible collateral was determined by the Federal Reserve. Two schedules of collateral were defined. Schedule 1 collateral consisted of Treasury, agency, and agency-guaranteed MBS.

Table 11. PDCF Collateral by Type
Billions of dollars, as of January 27, 2010

Type of collateral	Lendable value
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. Borrowing on that date was zero. Lendable value is value after application of appropriate haircuts.

Table 12. PDCF Collateral by Rating
Billions of dollars, as of January 27, 2010

Type of collateral	Lendable value
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. Borrowing on that date was zero. Lendable value is value after application of appropriate haircuts.

Table 13. TSLF Collateral by Type
Billions of dollars, as of January 27, 2010

Type of collateral	Lendable value
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 that date was zero. Lendable value is value after application of appropriate haircuts.

Table 14. TSLF Collateral by Rating
Billions of dollars, as of January 27, 2010

Type of collateral	Lendable value
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 zero. Lendable value is value after application of appropriate haircuts.

Schedule 2 collateral included investment-grade corporate, municipal, mortgage-backed, and asset-backed securities, as well as Schedule 1 collateral. Haircuts on posted collateral were determined by the FRBNY using methods consistent 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

- As previously announced, the Federal Reserve closed the CPFF on February 1, 2010. CPFF LLC will retain its existing commercial paper holdings to maturity, and the LLC's other assets will remain until the LLC is dissolved.

Background

The CPFF, which was authorized under Section 13(3) of the Federal Reserve Act, was designed to support liquidity in the commercial paper markets. The CPFF provided a liquidity backstop to U.S. issuers of commercial paper through a specially created limited liability company (LLC) called CPFF LLC. This LLC purchased three-month unsecured and asset-backed commercial paper directly from eligible issuers. The FRBNY provides financing to the LLC, and the

Table 15. Concentration of CPFF Issuers
For four weeks ending January 27, 2010

Rank by amount of commercial paper	Number of borrowers	Daily average borrowing ($ billions)
Top five issuers	5	7
Other issuers	3	1
Total	**8**	**8**

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

Table 16. CPFF Commercial Paper Holdings by Type
Billions of dollars, as of January 27, 2010

Type of commercial paper	Value
Unsecured commercial paper	
Issued by financial firms	0
Issued by nonfinancial firms	0
Asset-backed commercial paper	4
Total	**4**

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

Table 17. CPFF Commercial Paper Holdings by Rating
Billions of dollars, as of January 27, 2010

Type of collateral	Value
Commercial paper with rating[1]	
A-1/P-1/F1	4
Split-rated	0
Downgraded after purchase	0
Total	**4**

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

1. The CPFF purchases only U.S. dollar-denominated commercial paper (including asset-backed commercial paper) that is rated at least A-1/P-1/F1 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/F1 by two or more. "Split-rated" is acceptable commercial paper that has received an A-1/P-1/F1 rating from two rating organizations and a lower rating from a third rating organization. When pledged commercial paper is downgraded below split-rated after purchase, the facility holds such paper to maturity.

FRBNY's loan to the LLC is secured by all of the assets of the LLC, including those purchased with the accumulated upfront fees paid by the issuers. Breakdowns of commercial paper held in 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, 2008. 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, 10, and 11 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. As previously announced, the CPFF was closed on February 1, 2010.

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

Recent Developments

- As previously announced, the Federal Reserve closed the AMLF on February 1, 2010. All loans made under the facility were repaid in full, with interest, in accordance with the terms of the facility.
- Credit outstanding under the AMLF had been zero since October 13, 2009.

Background

The AMLF was a lending facility that financed 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 was intended to assist money funds that held such paper in meeting the demand 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 were non-recourse loans; as a result, the Federal Reserve had rights to only the collateral securing the loan if the borrower elected not to repay. To help ensure that the AMLF was used for its intended purpose of providing a temporary liquidity backstop to MMMFs, the Federal Reserve established a redemption threshold for use of the facility. Under this requirement, a MMMF must have experienced material outflows—defined as at least five 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 sold was eligible collateral for AMLF loans to depository institutions and bank holding companies. Any eligible ABCP purchased from a MMMF that had experienced redemptions at these thresholds could have been pledged to the AMLF at any time within the five business days following the date that the threshold level of redemptions was reached.

The creation of the AMLF, announced on September 19, 2008, relied on authority under Section 13(3) of the Federal Reserve Act. It was administered by the Federal Reserve Bank of Boston, which was authorized to make AMLF loans to eligible borrowers in all 12 Federal Reserve Districts.

Table 18. AMLF: Number of Borrowers and Amount Outstanding

Daily average for four weeks ending January 27, 2010

	Number of borrowers	Borrowing ($ billions)
Total	**0**	**0**

Note: Unaudited.

The AMLF was closed on February 1, 2010. Since May 8, 2009, there had been no new borrowing through the AMLF, and as of October 13, 2009, all prior outstanding AMLF credit had matured.

Collateral

Collateral eligible for the AMLF was limited to ABCP that:

— was purchased by the borrower on or after September 19, 2008, from a registered investment company that held itself out as a MMMF and had 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 F1 at the time it was pledged to the Federal Reserve Bank of Boston (this would exclude paper that is rated A-1/P-1/F1 but was on watch for downgrade by any major rating agency);

— 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

— had a stated maturity that did not exceed 120 days if the borrower is a bank, or 270 days if the borrower is a non-bank.

The qualifying ABCP was transferred to the Federal Reserve Bank of Boston's restricted account at the Depository Trust Company before an advance, collateralized by that ABCP, was approved. The collateral was 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 were made without recourse, provided the requirements in the Letter of Agreement were met. A breakdown of AMLF collateral by credit rating is shown in table 19.

Table 19. AMLF Collateral by Rating

Billions of dollars, as of January 27, 2010

Type of collateral	Value
Asset-backed commercial paper with rating	
A-1/P-1/F1 and not on watch for downgrade	0
A-1/P-1/F1 but on watch for downgrade[1]	0
Below A-1/P-1/F1	0
Total	**0**

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

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 F1 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/F1 is ABCP that has deteriorated after it was pledged.

Term Asset-Backed Securities Loan Facility (TALF)

Recent Developments

- The January 2010 non-commercial mortgage-backed securities TALF subscription supported the primary issuance of one asset-backed securities (ABS) deal worth about $1.5 billion, of which approximately $0.5 billion was financed through the TALF. Approximately $0.6 billion in loans was also extended against previously issued TALF-eligible ABS collateral.

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 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 eligible nationally recognized statistical rating organizations (NRSROs) and do not have a credit rating below the highest investment-grade rating category from an eligible NRSRO. The loans provided through the TALF are non-recourse, meaning that the obligation of the borrower can be discharged by surrendering the collateral to the FRBNY. 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.

Table 20. TALF: Number of Borrowers and Loans Outstanding

As of January 27, 2010

Lending program	Number of borrowers	Borrowing ($ billions)
Non-CMBS	104	38
CMBS	81	8
Total	**145**	**46**

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.

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's providing additional funds from the TARP. As of January 27, 2010, however, the authorized limit for the program remained at $200 billion.

Between March and May 2009, the Federal Reserve expanded the range of eligible collateral for TALF loans to include:

- — ABS backed by loans or leases related to business equipment, leases of vehicle fleets, floorplan loans, mortgage servicing advances, and insurance premium finance loans; and
- — newly issued commercial mortgage-backed securities (CMBS) and certain high-quality CMBS issued before January 1, 2009 (so-called "legacy" CMBS).

High-quality newly issued and legacy CMBS must have at least two AAA ratings from a list of eligible NRSROs—DBRS, Inc.; Fitch Ratings; Moody's Investors Service; Realpoint; or Standard & Poor's—and must not have a rating below AAA from any of these rating agencies.

The Federal Reserve also authorized TALF loans with maturities of five years, available for the June 2009 funding, to finance purchases of CMBS, ABS backed by student loans, and ABS backed by loans guaranteed by the SBA. 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 September 1, 2009, the following four non-primary dealer broker-dealers were named as agents for the TALF: CastleOak Securities, LP; Loop Capital Markets, LLC; Wells Fargo Securities, LLC; and The Williams Capital Group, LP. These agents, like the primary dealers, may represent borrowers in accessing the facility.

On October 5, 2009, the Federal Reserve announced two changes to the procedures for evaluating ABS pledged to the TALF. The first change was to propose a rule that would establish criteria for the FRBNY to use when determining which NRSROs' ratings are accepted for establishing the eligibility of ABS to be pledged as collateral to the TALF. The Board's rule regarding NRSROs does not apply to discount window lending or to other extensions of credit provided by the Federal Reserve System. The rule establishing the process for approving NRSROs was finalized on December 4, 2009. The second change required the FRBNY to conduct a formal risk assessment of all proposed collateral in addition to continuing to require that collateral for TALF loans receive two AAA ratings from TALF-eligible NRSROs. These changes were intended to promote competition among credit rating agencies, ensure appropriate protection against credit risk for the U.S. taxpayer, and ensure that TALF collateral continues to comply with the existing high standards for credit quality, transparency, and simplicity of structure.

In accordance with the Board's rule, the FRBNY announced that the credit ratings of four NRSROs—DBRS, Inc.; Fitch Ratings; Moody's Investors Service; and Standard & Poor's—would be accepted for establishing the eligibility of selected types of non-mortgage-backed ABS as collateral for the TALF. These NRSROs' ratings were accepted beginning with the TALF's February 2010 non-mortgage-backed ABS subscription.

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 ABS backed by consumer, business, and commercial mortgage loans. Eligible collateral for the TALF includes U.S. dollar-denominated ABS that (1) have a credit rating in the highest long-term or, in the case of non-mortgage-backed ABS, the highest short-term investment-grade rating category (for example, AAA) from at least two eligible NRSROs and (2) do not have a credit rating below the highest investment-grade rating category from an eligible NRSRO. 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

Table 21A. Issuers of Non-CMBS that Collateralize Outstanding TALF Loans

As of January 27, 2010

Issuers
AH Mortgage Advance Trust 2009-ADV2
AH Mortgage Advance Trust 2009-ADV3
ALLY Auto Receivables Trust 2009-A
American Express Credit Account Master Trust
AmeriCredit Automobile Receivables Trust 2009-1
Bank of America Auto Trust 2009-1
Bank of America Auto Trust 2009-2
BMW Floorplan Master Owner Trust
BMW Vehicle Lease Trust 2009-1
Cabelas 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
CitiFinancial Auto Issuance Trust 2009-1
CNH Equipment Trust 2009-B
CNH Wholesale Master Note Trust
Discover Card Execution Note Trust
FIFC Premium Funding LLC
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
Ford Credit Floorplan Master Owner Trust A
GE Capital Credit Card Master Note Trust
GE Dealer Floorplan Master Note Trust
GE Equipment Midticket LLC, Series 2009-1
Great America Leasing Receivables Funding, L.L.C.
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
Hyundai Auto Receivables Trust 2009-A
Hyundai Floorplan Master Owner Trust
John Deere Owner Trust 2009
MMAF Equipment Finance LLC 2009-A
MMCA Auto Owner Trust 2009-A
Navistar Financial Dealer Note Master Owner Trust
Nissan Auto Lease Trust 2009-A
Nissan Auto Receivables 2009-A Owner Trust
OCWEN Servicer Advance Receivables Funding Company II Ltd.
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-CT
SLM Private Education Loan Trust 2009-D
U.S. Small Business Administration
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

Table 21B. Issuers of Newly Issued CMBS that Collateralize Outstanding TALF Loans

As of January 27, 2010

Issuers
DDR I Depositor LLC Trust Series 2009-DDR1

Table 21C. Issuers of Legacy CMBS that Collateralize Outstanding TALF Loans

As of January 27, 2010

Issuers
Banc of America Commercial Mortgage Inc. Series 2004-1
Banc of America Commercial Mortgage Inc. Series 2004-2
Banc of America Commercial Mortgage Inc. Series 2004-3
Banc of America Commercial Mortgage Inc. Series 2004-4
Banc of America Commercial Mortgage Inc. Series 2005-1
Banc of America Commercial Mortgage Inc. Series 2005-2
Banc of America Commercial Mortgage Inc. Series 2005-3
Banc of America Commercial Mortgage Inc. Series 2005-5
Banc of America Commercial Mortgage Inc. Series 2005-6
Banc of America Commercial Mortgage Trust 2006-1
Banc of America Commercial Mortgage Trust 2006-2
Banc of America Commercial Mortgage Trust 2006-4
Banc of America Commercial Mortgage Trust 2006-5
Banc of America Commercial Mortgage Trust 2006-6
Banc of America Commercial Mortgage Trust 2007-1
Banc of America Commercial Mortgage Trust 2007-2
Banc of America Commercial Mortgage Trust 2007-3
Banc of America Commercial Mortgage Trust 2007-4
Banc of America Commercial Mortgage Trust 2007-5
Bear Stearns Commercial Mortgage Securities Trust 2004-PWR4
Bear Stearns Commercial Mortgage Securities Trust 2005-PWR10
Bear Stearns Commercial Mortgage Securities Trust 2005-PWR7
Bear Stearns Commercial Mortgage Securities Trust 2005-PWR8
Bear Stearns Commercial Mortgage Securities Trust 2005-PWR9
Bear Stearns Commercial Mortgage Securities Trust 2005-TOP20
Bear Stearns Commercial Mortgage Securities Trust 2006-PWR12
Bear Stearns Commercial Mortgage Securities Trust 2006-PWR13
Bear Stearns Commercial Mortgage Securities Trust 2006-PWR14
Bear Stearns Commercial Mortgage Securities Trust 2006-TOP22
Bear Stearns Commercial Mortgage Securities Trust 2006-TOP24
Bear Stearns Commercial Mortgage Securities Trust 2007-PWR15
Bear Stearns Commercial Mortgage Securities Trust 2007-PWR16
Bear Stearns Commercial Mortgage Securities Trust 2007-PWR17
Bear Stearns Commercial Mortgage Securities Trust 2007-PWR18
Bear Stearns Commercial Mortgage Securities Trust 2007-TOP26
Bear Stearns Commercial Mortgage Securities Trust 2007-TOP28
CD 2005-CD1 Commercial Mortgage Trust
CD 2006-CD2 Mortgage Trust
CD 2006-CD3 Mortgage Trust
CD 2007-CD4 Commercial Mortgage Trust
CD 2007-CD5 Mortgage Trust
Citigroup Commercial Mortgage Trust 2004-C1
Citigroup Commercial Mortgage Trust 2006-C4
Citigroup Commercial Mortgage Trust 2008-C7
COBALT CMBS Commercial Mortgage Trust 2006-C1
COBALT CMBS Commercial Mortgage Trust 2007-C2
COBALT CMBS Commercial Mortgage Trust 2007-C3
COMM 2004-LNB2 Mortgage Trust
COMM 2005-C6 Mortgage Trust
COMM 2005-LP5 Mortgage Trust
COMM 2006-C7 Mortgage Trust
COMM 2006-C8 Mortgage Trust
Commercial Mortgage Loan Trust 2008-LS1
Commercial Mortgage Trust 2004-GG1
Commercial Mortgage Trust 2005-GG3
Commercial Mortgage Trust 2005-GG5
Commercial Mortgage Trust 2006-GG7
Commercial Mortgage Trust 2007-GG9
Credit Suisse Commercial Mortgage Trust Series 2006-C1
Credit Suisse Commercial Mortgage Trust Series 2006-C3
Credit Suisse Commercial Mortgage Trust Series 2006-C4
Credit Suisse Commercial Mortgage Trust Series 2006-C5
Credit Suisse Commercial Mortgage Trust Series 2007-C2
Credit Suisse Commercial Mortgage Trust Series 2007-C3
Credit Suisse Commercial Mortgage Trust Series 2007-C5
CSFB Commercial Mortgage Trust 2004-C3
CSFB Commercial Mortgage Trust 2005-C1
CSFB Commercial Mortgage Trust 2005-C2
CSFB Commercial Mortgage Trust 2005-C3
CSFB Commercial Mortgage Trust 2005-C4
CSFB Commercial Mortgage Trust 2005-C5
CSFB Commercial Mortgage Trust 2005-C6
GE Commercial Mortgage Corporation Series 2004-C3
GE Commercial Mortgage Corporation Series 2005-C1
GE Commercial Mortgage Corporation Series 2005-C4
GE Commercial Mortgage Corporation, Series 2007-C1 Trust

Table 21C. Issuers of Legacy CMBS that Collateralize Outstanding TALF Loans—*Continued*

As of January 27, 2010

Issuers
GMAC Commercial Mortgage Securities, Inc. Series 2004-C3 Trust
GMAC Commercial Mortgage Securities, Inc. Series 2006-C1 Trust
GS Mortgage Securities Corporation II Series 2004-GG2
GS Mortgage Securities Corporation II Series 2005-GG4
GS Mortgage Securities Trust 2006-GG6
GS Mortgage Securities Trust 2006-GG8
GS Mortgage Securities Trust 2007-GG10
J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2003-CIBC7
J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2004-C1
J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2004-C2
J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2004-C3
J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2004-CIBC8
J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2004-CIBC10
J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2004-PNC1
J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2005-CIBC11
J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2005-CIBC13
J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2005-LDP1
J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2005-LDP2
J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2005-LDP4
J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2005-LDP5
J.P. Morgan Chase Commercial Mortgage Securities Trust 2006-CIBC14
J.P. Morgan Chase Commercial Mortgage Securities Trust 2006-CIBC15
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 2006-LDP6
J.P. Morgan Chase Commercial Mortgage Securities Trust 2006-LDP8
J.P. Morgan Chase Commercial Mortgage Securities Trust 2007-LDP11
J.P. Morgan Chase Commercial Mortgage Securities Trust 2007-LDP12
LB Commercial Mortgage Trust 2007-C3
LB-UBS Commercial Mortgage Trust 2004-C1
LB-UBS Commercial Mortgage Trust 2004-C2
LB-UBS Commercial Mortgage Trust 2004-C4
LB-UBS Commercial Mortgage Trust 2004-C7
LB-UBS Commercial Mortgage Trust 2005-C2
LB-UBS Commercial Mortgage Trust 2005-C3
LB-UBS Commercial Mortgage Trust 2006-C1
LB-UBS Commercial Mortgage Trust 2006-C3
LB-UBS Commercial Mortgage Trust 2006-C6
LB-UBS Commercial Mortgage Trust 2006-C7
LB-UBS Commercial Mortgage Trust 2007-C1
LB-UBS Commercial Mortgage Trust 2007-C2
LB-UBS Commercial Mortgage Trust 2007-C6
LB-UBS Commercial Mortgage Trust 2007-C7
LB-UBS Commercial Mortgage Trust 2008-C1
Merrill Lynch Mortgage Trust 2003-KEY1
Merrill Lynch Mortgage Trust 2004-KEY2
Merrill Lynch Mortgage Trust 2005-CIP1
Merrill Lynch Mortgage Trust 2005-LC1
Merrill Lynch Mortgage Trust 2005-MKB2
Merrill Lynch Mortgage Trust 2006-C1
ML-CFC Commercial Mortgage Trust 2006-2
ML-CFC Commercial Mortgage Trust 2006-3
ML-CFC Commercial Mortgage Trust 2006-4
ML-CFC Commercial Mortgage Trust 2007-5
ML-CFC Commercial Mortgage Trust 2007-6
ML-CFC Commercial Mortgage Trust 2007-7
ML-CFC Commercial Mortgage Trust 2007-9
Morgan Stanley Capital I Trust 2003-IQ4
Morgan Stanley Capital I Trust 2004-TOP13
Morgan Stanley Capital I Trust 2005-HQ5
Morgan Stanley Capital I Trust 2005-HQ6
Morgan Stanley Capital I Trust 2005-HQ7
Morgan Stanley Capital I Trust 2005-IQ9
Morgan Stanley Capital I Trust 2006-HQ10

Table 21C. Issuers of Legacy CMBS that Collateralize Outstanding TALF Loans—*Continued*

As of January 27, 2010

Issuers
Morgan Stanley Capital I Trust 2006-HQ8
Morgan Stanley Capital I Trust 2006-IQ11
Morgan Stanley Capital I Trust 2006-IQ12
Morgan Stanley Capital I Trust 2006-TOP21
Morgan Stanley Capital I Trust 2006-TOP23
Morgan Stanley Capital I Trust 2007-HQ11
Morgan Stanley Capital I Trust 2007-IQ14
Morgan Stanley Capital I Trust 2007-IQ15
Morgan Stanley Capital I Trust 2007-TOP27
Wachovia Bank Commercial Mortgage Trust Series 2002-C1
Wachovia Bank Commercial Mortgage Trust Series 2003-C9
Wachovia Bank Commercial Mortgage Trust Series 2004-C12
Wachovia Bank Commercial Mortgage Trust Series 2004-C14
Wachovia Bank Commercial Mortgage Trust Series 2005-C16
Wachovia Bank Commercial Mortgage Trust Series 2005-C17
Wachovia Bank Commercial Mortgage Trust Series 2005-C19
Wachovia Bank Commercial Mortgage Trust Series 2005-C20
Wachovia Bank Commercial Mortgage Trust Series 2005-C22
Wachovia Bank Commercial Mortgage Trust Series 2006-C23
Wachovia Bank Commercial Mortgage Trust Series 2006-C24
Wachovia Bank Commercial Mortgage Trust Series 2006-C25
Wachovia Bank Commercial Mortgage Trust Series 2006-C26
Wachovia Bank Commercial Mortgage Trust Series 2006-C27
Wachovia Bank Commercial Mortgage Trust Series 2006-C28
Wachovia Bank Commercial Mortgage Trust Series 2006-C29
Wachovia Bank Commercial Mortgage Trust Series 2007-C30
Wachovia Bank Commercial Mortgage Trust Series 2007-C31
Wachovia Bank Commercial Mortgage Trust Series 2007-C32
Wachovia Bank Commercial Mortgage Trust Series 2007-C33

its territories. The underlying credit exposures of eligible ABS must be student loans, auto loans, credit card loans, loans or 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 lendable value of the ABS may be adjusted based on a risk assessment by the FRBNY. 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. Breakdowns of TALF collateral by underlying loan type and credit rating are shown in tables 22 and 23, respectively.

Table 22. TALF Collateral by Underlying Loan Type

Billions of dollars, as of January 27, 2010

Type of collateral	Value
By underlying loan type	
Auto	6
Commercial mortgages	10
Newly issued	*
Legacy	10
Credit card	21
Equipment	1
Floorplan	3
Premium service	1
Servicing advances	1
Small business	2
Student loan	7
Total	**52**

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

* Less than $500 million.

Table 23. TALF Collateral by Rating

Billions of dollars, as of January 27, 2010

Type of collateral	Value
Asset-backed securities with minimum rating of:[1]	
AAA/Aaa	52
AA+/Aa+ to AA-/Aa-	*
Total	**52**

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

1. Eligible ABS collateral for the TALF must have a credit rating in the highest long-term or, in the case of non-mortgage-backed ABS, the highest short-term investment-grade rating category from at least two eligible NRSROs and must not have a credit rating below the highest investment-grade rating category from an eligible NRSRO. When pledged collateral is downgraded below the highest investment-grade rating, existing loans against the collateral remain outstanding. However, the ABS may not be used as collateral for any new TALF loans until it regains its status as eligible collateral.

* Less than $500 million.

TALF LLC, a limited liability company, was formed to purchase and manage any asset-backed securities that might be surrendered by a TALF borrower or otherwise claimed by the FRBNY in connection with its enforcement rights to the TALF collateral. TALF LLC has committed to purchase, for a fee, all such ABS at a price equal to the TALF loan, plus accrued but unpaid interest. Purchases of these securities are funded first through the fees received by TALF LLC and any interest TALF LLC has earned on its investments. In the event that such funding proves insufficient, the U.S. Treasury's Troubled Asset Relief Program (TARP) will provide additional subordinated debt funding to TALF LLC to finance up to $20 billion of asset purchases. Subsequently, the FRBNY will finance any additional purchases of securities by providing senior debt funding to TALF LLC. Thus, the TARP funds provide credit protection to FRBNY. Financial information on TALF LLC is reported weekly in tables 1, 2, 8, 10, and 11 of the H.4.1 statistical release. As of January 27, 2010, TALF LLC had purchased no assets from the FRBNY.

Lending in Support of Specific Institutions

Quarterly Developments

- Net income, including changes in valuation, for the Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs was $0.3 billion, $1.8 billion, and $3.7 billion, respectively, for the quarter ended September 30, 2009. As presented in table 24, these changes resulted in improvements to the fair value asset coverage of loans by the Federal Reserve Bank of New York (FRBNY) to each of the Maiden Lane LLCs.
- 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 $3.8 billion in the third quarter of 2009. To date, cash flows from the Maiden Lane portfolio have been reinvested, primarily in agency mortgage-backed securities.

Background

During the 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 partially fund the purchase of a portfolio of mortgage-related securities, residential and commercial mortgage loans, and associated hedges from Bear Stearns. The LLC is managing 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, 10, and 11 of the H.4.1 statistical release.

Table 24. Fair Value Asset Coverage

Millions of dollars

	Fair value asset coverage of FRBNY loan on 9/30/2009	Fair value asset coverage of FRBNY loan on 6/30/2009
Maiden Lane LLC	(3,055)	(3,400)
Maiden Lane II LLC	(604)	(2,371)
Maiden Lane III LLC	3,645	(129)

Note: Unaudited. Fair value asset coverage is the amount by which the fair value of the net portfolio assets of each LLC (refer to 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 of dollars

	FRBNY senior loan	JPMC subordinate loan
Principal balance at closing	28,820	1,150
Most Recent Quarterly Activity		
Principal balance on 6/30/2009 (including accrued and capitalized interest)	29,159	1,217
Accrued and capitalized interest 6/30/2009 to 9/30/2009	37	16
Repayment during the period from 6/30/2009 to 9/30/2009	0	0
Principal balance on 9/30/2009 (including accrued and capitalized interest)	29,196	1,233

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.

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

Millions of dollars

	Fair Value on 9/30/2009	Fair Value on 6/30/2009
Agency MBS	17,437	16,424
Non-agency RMBS	1,938	1,962
Commercial loans	4,025	4,447
Residential loans	623	683
Swap contracts	1,318	1,827
TBA commitments[1]	382	1,199
Other investments	863	736
Cash and cash equivalents	1,446	1,805
Other assets[2]	527	827
Other liabilities[3]	(2,418)	(4,151)
Net assets	**26,141**	**25,759**

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

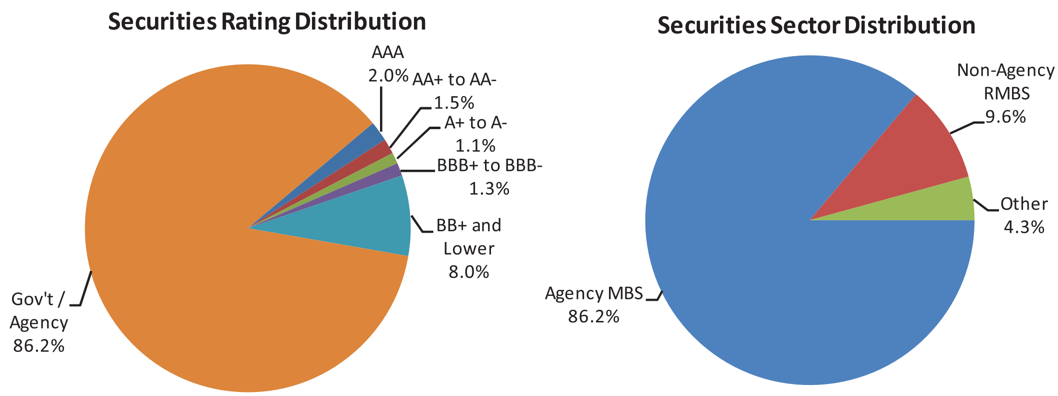
1. To be announced (TBA) commitments are commitments to purchase or sell mortgage-backed securities for a fixed price at a future date.
2. Including interest and principal receivable and other receivables.
3. Including amounts payable for securities purchased, collateral posted to Maiden Lane LLC by swap counterparties, and other liabilities and accrued expenses.

Table 27. Maiden Lane LLC Securities Distribution by Sector and Rating
Percent, as of September 30, 2009

Sector[1]	Rating						
	AAA	AA+ to AA–	A+ to A–	BBB+ to BBB–	BB+ and lower	Gov't/Agency	Total
Agency MBS[2]	0.0	0.0	0.0	0.0	0.0	86.2	86.2
Non-agency RMBS	0.5	0.6	0.8	0.4	7.3	0.0	9.6
Other[2]	1.5	0.9	0.3	0.9	0.7	0.0	4.3
Total	**2.0**	**1.5**	**1.1**	**1.3**	**8.0**	**86.2**	**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. It 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. Does not include Maiden Lane LLC's swaps and other derivative contracts, commercial and residential mortgage loans, and TBA commitments.
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 September 30, 2009



Additional details on the accounts of Maiden Lane LLC are presented in table 4 of the H.4.1 statistical release.

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

American International Group (AIG)

Recent Developments

- In a letter to the U.S. Government Accountability Office (GAO) on January 19, 2010, the Federal Reserve announced that it would welcome a full review by the GAO of all aspects of the Federal Reserve's involvement in the extension of credit to American International Group, Inc. (AIG).
- As shown in table 28A, the balance on the AIG revolving credit facility increased from $22.0 billion to $25.8 billion between December 30, 2009, and January 27, 2010. The increase is primarily attributed to a drawdown of $1.0 billion related to the repayment of commercial paper issued to CPFF LLC and $1.4 billion for settlement of AIG intercompany obligations.
- Table 28B shows the value of the Federal Reserve's preferred interests in special purpose vehicles (SPVs) holding the outstanding common stock of two insurance subsidiaries of AIG—American International Assurance Company Ltd. (AIA) and American Life Insurance Company (ALICO). These interests were

Table 28A. AIG Revolving Credit Facility
Billions of dollars

	Value
Balance on December 30, 2009	22.0
Principal drawdowns	4.0
Principal repayments and reductions	–0.5
Recapitalized interest and fees	0.2
Amortization of restructuring allowance	0.1
Balance on January 27, 2010	25.8

Note: Unaudited. Components may not sum to total because of rounding. Does not include Maiden Lane II LLC and Maiden Lane III LLC. Does not include preferred interests in AIA Aurora LLC and ALICO Holdings LLC.

Table 28B. Preferred Interests in AIA Aurora LLC and ALICO Holdings LLC
Billions of dollars

Balance on January 27, 2010	Value
Preferred Interests in AIA Aurora LLC and ALICO Holdings LLC[1]	25.1
Accrued dividends on preferred interests in AIA Aurora LLC and ALICO Holdings LLC	0.1

Note: Unaudited.
1. Book value.

received on December 1, 2009, in exchange for a reduction of $25 billion in the outstanding balance and amount available under the AIG revolving credit facility. Accrued dividends on the preferred interests in the two SPVs, AIA Aurora LLC and ALICO Holdings LLC, are included in “Other Federal Reserve assets” in table 1, and in “Other assets” in table 10 and table 11 of the H.4.1 statistical release.

Background

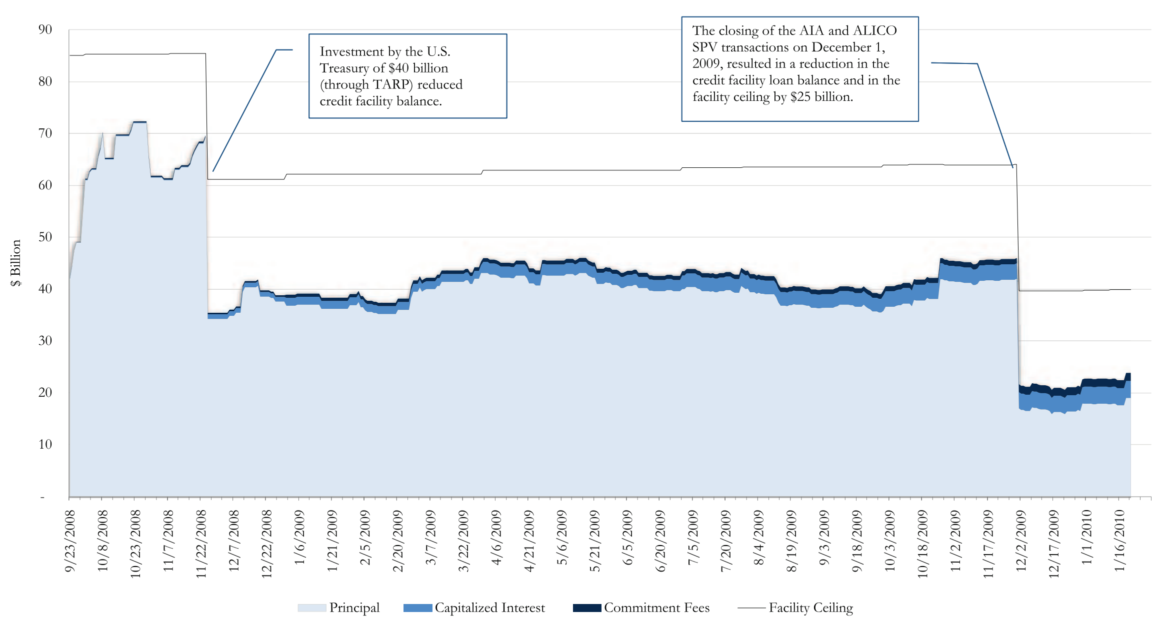
On September 16, 2008, the Federal Reserve, with the full support of the Treasury Department, announced that it would lend to AIG to prevent a disorderly failure of this systemically important firm, protect the financial system and the broader economy, and provide the company time to restructure its 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 10 and 11 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 AIG was reduced from $85 billion to $60 billion. (On October 8, 2008, the FRBNY was authorized to extend credit under a special securities borrowing facility to certain AIG subsidiaries. This arrangement was discontinued 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 was the three-month Libor plus 300 basis points, was modified by removing the existing interest rate floor of 3.5 percent on the Libor component. 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

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 December12, 2008, under a securities borrowing arrangement. The facility ceiling represents the limit on the credit agreement plus capitalized interest and fees. From November 7, 2008 until December 1, 2009, the ceiling was $60 billion (excluding capitalized interest and fees); on December 1, 2009, it was reduced to $35 billion.

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, 2009, as part of the restructuring of the U.S. government's assistance to AIG. These transactions were completed on December 1, 2009. Under these agreements, the FRBNY received preferred interests in two SPVs, AIA Aurora LLC and ALICO Holdings LLC, formed to hold the outstanding common stock of AIG's largest foreign insurance subsidiaries, AIA and ALICO. In exchange, upon the closing of each transaction and the resulting issuance of preferred interests, the outstanding balance of, and amount available to, AIG (excluding capitalized interest and fees) under the revolving credit facility was reduced by $25 billion. Specifically, the maximum amount available was reduced from $60 billion to $35 billion. By establishing the AIA and ALICO SPVs as separate legal entities, these transactions positioned AIA and ALICO for future initial public offerings (IPOs) or sale. The proceeds generated from an IPO or sale of AIA or ALICO would be used to redeem the preferred interests held by the FRBNY in Aurora LLC and ALICO Holdings LLC, respectively.

The interest rate on the loan to AIG is the three-month Libor, 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

Pursuant to authority granted by the Federal Reserve Board under Section 13(3) of the Federal Reserve Act, the FRBNY, on December 12, 2008, lent approximately $19.5 billion to a newly formed Delaware limited liability company, Maiden Lane II LLC, to partially fund the purchase of residential mortgage-backed securities (RMBS) from the securities lending portfolio of several regulated U.S. insurance subsidiaries of AIG. Maiden Lane II LLC acquired the RMBS, which had an aggregate par value of approximately $39.3 billion, at the then-current market value of the RMBS of approximately $20.8 billion, which was substantially below par value.[2] The full portfolio of RMBS held by Maiden Lane II LLC serves as collateral for the Federal Reserve's loan to Maiden Lane II LLC, and AIG's insurance subsidiaries also have a $1 billion subordinated position in Maiden Lane II LLC that is available to absorb first any losses that may be realized. Details of the terms of the loan are published on the FRBNY website (www.newyorkfed.org/markets/maidenlane2.html).

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

Millions of dollars

	FRBNY senior loan	AIG fixed deferred purchase price
Principal balance at closing	19,494	1,000
Most Recent Quarterly Activity		
Principal balance on 6/30/2009 (including accrued and capitalized interest)	17,712	1,020
Accrued and capitalized interest 6/30/2009 to 9/30/2009	55	8
Repayment during the period from 6/30/2009 to 9/30/2009	(966)	0
Principal balance on 9/30/2009 (including accrued and capitalized interest)	16,801	1,028

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 RMBS Portfolio Composition, Cash and Cash Equivalents, and Other Assets and Liabilities

Millions of dollars

	Fair Value on 9/30/2009	Fair Value on 6/30/2009
Alt-A (ARM)	4,903	4,455
Subprime	8,758	8,348
Option ARM	939	840
Other[1]	1,299	1,371
Cash and cash equivalents	297	327
Other assets[2]	3	3
Other liabilities[3]	(2)	(2)
Net assets	**16,197**	**15,341**

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

1. Includes all asset sectors that, individually, represent less than 5 percent of aggregate outstanding fair value of securities in the portfolio.
2. Including interest and principal receivable and other receivables.
3. Including accrued expenses and other payables.

2. The aggregate amount of interest and principal proceeds from RMBS received after the announcement date, but prior to the settlement date, net of financing costs, amounted to approximately $0.3 billion and therefore reduced the amount of funding required at settlement by $0.3 billion, from $20.8 billion to $20.5 billion.

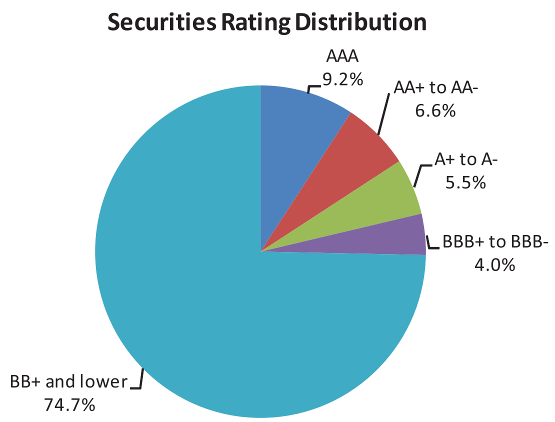
Table 31. Maiden Lane II LLC Securities Distribution by Sector and Rating
Percent, as of September 30, 2009

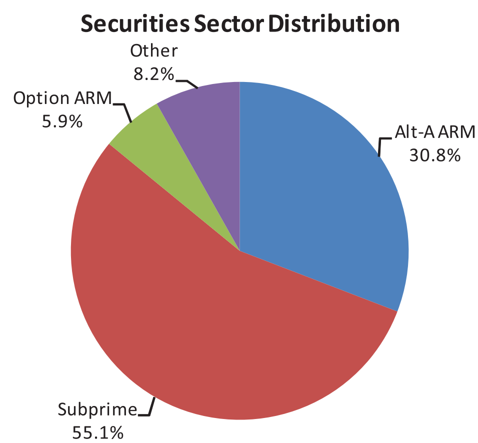
RMBS sector	Rating					
	AAA	AA+ to AA−	A+ to A−	BBB+ to BBB−	BB+ and lower	Total
Alt-A (ARM)	0.9	3.0	2.6	1.4	23.0	30.8
Subprime	8.1	3.0	2.9	2.6	38.5	55.1
Option ARM	0.0	0.0	0.0	0.0	5.9	5.9
Other[1]	0.1	0.6	0.0	0.0	7.4	8.2
Total	**9.1**	**6.6**	**5.5**	**4.0**	**74.7**	**100.0**

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. 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 Securities Distribution as of September 30, 2009





The net portfolio holdings of Maiden Lane II LLC are presented in tables 1, 10, and 11 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 September 30, 2009, in tables 29 through 31 and figure 4. This information is updated on a quarterly basis.

Maiden Lane III LLC

Pursuant to authority granted by the Federal Reserve Board under Section 13(3) of the Federal Reserve Act, the FRBNY in November and December 2008, lent approximately $24.3 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. Maiden Lane III LLC acquired these CDOs, which had an aggregate par value of approximately $62.1 billion, at the then-current market value of the CDOs of approximately $29.6 billion, which was substantially below par value.[3] The full portfolio of CDOs held by Maiden Lane III LLC serves as collateral for the Federal Reserve's loan to Maiden Lane III LLC, and an AIG subsidiary also has a $5 billion subordinated position in Maiden Lane III LLC that is available to absorb first any losses that may be realized. 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 net portfolio holdings of Maiden Lane III LLC are presented in tables 1, 10, and 11 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 September 30, 2009, in tables 32 through 34 and figure 5. This information is updated on a quarterly basis.

3. The aggregate amount of interest and principal proceeds from CDOs received after the announcement date, but prior to the settlement dates, net of financing costs, amounted to approximately $0.3 billion and therefore reduced the amount of funding required at settlement by $0.3 billion, from $29.6 billion to $29.3 billion.

Table 32. Maiden Lane III LLC Outstanding Principal Balance of Senior Loan and Equity Contribution

Millions of dollars

	FRBNY senior loan	AIG equity contribution
Principal balance at closing	24,339	5,000
Most Recent Quarterly Activity		
Principal balance on 6/30/2009 (including accrued and capitalized interest)	22,614	5,108
Accrued and capitalized interest 6/30/2009 to 9/30/2009	66	43
Repayment during the period from 6/30/2009 to 9/30/2009	(2,825)	0
Principal balance on 9/30/2009 (including accrued and capitalized interest)	19,855	5,151

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, Cash and Cash Equivalents, and Other Assets and Liabilities

Millions of dollars

	Fair Value on 9/30/2009	Fair Value on 6/30/2009
High-grade ABS CDO	16,001	14,491
Mezzanine ABS CDO	2,099	1,882
Commercial real estate CDO	4,572	4,186
RMBS, CMBS, & Other	246	225
Cash and cash equivalents	547	1,645
Other assets[1]	38	59
Other liabilities[2]	(3)	(4)
Net assets	**23,500**	**22,485**

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

1. Including interest and principal receivable and other receivables.
2. Including accrued expenses.

Table 34. Maiden Lane III LLC Securities Distribution by Sector, Vintage, and Rating

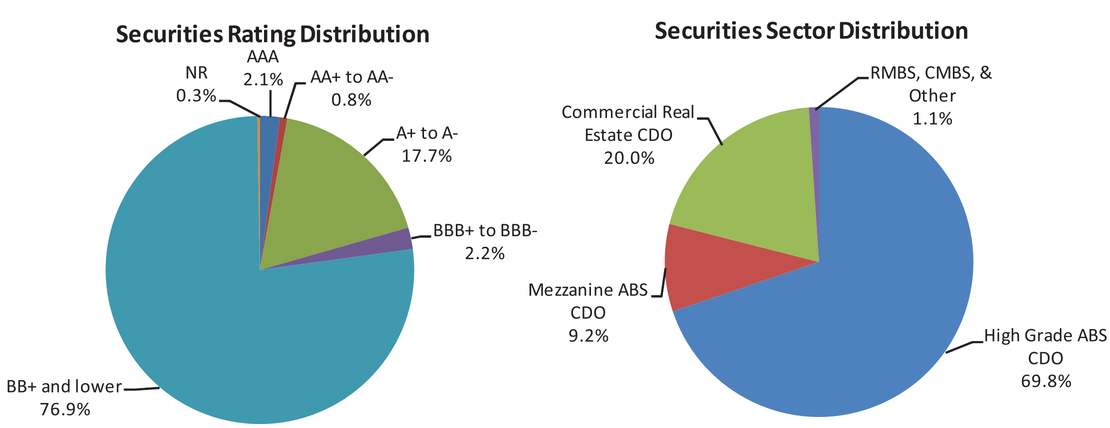
Percent, as of September 30, 2009

Sector and vintage[1]	Rating						
	AAA	AA+ to AA−	A+ to A−	BBB+ to BBB-	BB+ and lower	Not rated	Total
High-grade ABS CDO	0.0	0.0	0.0	0.7	69.1	0.0	69.8
Pre-2005	0.0	0.0	0.0	0.7	23.9	0.0	24.6
2005	0.0	0.0	0.0	0.0	30.1	0.0	30.1
2006	0.0	0.0	0.0	0.0	7.5	0.0	7.5
2007	0.0	0.0	0.0	0.0	7.6	0.0	7.6
Mezzanine ABS CDO	0.0	0.2	0.0	1.4	7.3	0.3	9.2
Pre-2005	0.0	0.2	0.0	1.0	4.0	0.3	5.5
2005	0.0	0.0	0.0	0.0	2.9	0.0	2.9
2006	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2007	0.0	0.0	0.0	0.4	0.3	0.0	0.7
Commercial real estate CDO	1.9	0.5	17.6	0.0	0.0	0.0	20.0
Pre-2005	1.9	0.5	2.8	0.0	0.0	0.0	5.2
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	0.0	0.0	14.8	0.0	0.0	0.0	14.8
RMBS, CMBS, and other	0.2	0.2	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	**2.1**	**0.8**	**17.7**	**2.2**	**76.9**	**0.3**	**100.0**

Note: Unaudited. This table presents the sector, vintage, and rating composition of the securities in the Maiden Lane III LLC portfolio as a percentage of all securities in the portfolio. It 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 Securities Distribution as of September 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, under which the government parties had agreed to provide certain loss protections and liquidity supports to Citigroup with respect to a designated pool of $301 billion of assets, are provided on the Federal Reserve Board's website (www.federalreserve.gov/monetarypolicy/bst_supportspecific.htm). The FRBNY has not extended credit to Citigroup under this arrangement.

On December 23, 2009, the Treasury, the Federal Reserve, and the FDIC agreed to terminate the Master Agreement dated January 15, 2009, with Citigroup Inc. In consideration for terminating the Master Agreement, the FRBNY received a $50 million termination fee from Citigroup. Outstanding expenses in connection with the Master Agreement and not yet reimbursed by Citigroup will continue to be reimbursable.

Bank of America

On January 16, 2009, the Treasury, the Federal Reserve, and the FDIC jointly announced that the U.S. government had agreed to provide certain support to Bank of America to promote financial market stability. Information concerning these actions is available 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 the package of supports announced in January 2009—specifically, a residual financing arrangement with the Federal Reserve 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.

In September 2009, Bank of America paid an exit fee in order to terminate the term sheet, which was never implemented, with the Treasury, the Federal Reserve, and the FDIC. The Federal Reserve's portion of the exit fee was $57 million.

Federal Reserve Banks' Financial Tables

Quarterly Developments

- The daily average balance of the Federal Reserve System Open Market Account (SOMA) holdings exceeded $1 trillion during the first three quarters of 2009 (table 36). Net earnings from the portfolio amounted to approximately $32 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).
- Net earnings from Federal Reserve loan programs over the first three quarters of the year amounted to about $2.2 billion; interest earned on Term Auction Facility (TAF) loans and credit extended to American International Group, Inc. (AIG) accounted for most of the total (table 37).
- After providing for the payment of dividends and reservation of an amount necessary to equate surplus with capital paid in, distributions to the U.S. Treasury as interest on Federal Reserve notes totaled $27 billion during the first three quarters of 2009, as noted in table 35.
- On January 12, 2010, the Federal Reserve Board announced preliminary unaudited results indicating that the Reserve Banks provided for payments of approximately $46.1 billion of their estimated 2009 net income of $52.1 billion to the U.S. Treasury. These payments represent an increase of $14.4 billion over the payments made in 2008, primarily due to increased earnings on securities holdings during 2009. The Reserve Banks' securities holdings and other assets expanded significantly during 2009 as a result of the Federal Reserve's response to the severe economic downturn. Figures for the full year of 2009 will be published in this report following the release of the audited financial statements of the Federal Reserve System.

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 investigations 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 three quarters of this year. Tables 36 through 38 present information for the SOMA portfolio, the Federal Reserve loan programs, and the variable interest entities—the Commercial Paper Funding Facility (CPFF) and Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs—for the first three quarters of this year. These tables are updated quarterly.

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

Millions of dollars

	January 1, 2009 to September 30, 2009
Interest income:	
Loans to depository institutions (refer to table 37)	889
Other loans (refer to table 37)	2,261
System Open Market Account (refer to table 36)	31,131
Consolidated variable interest entities (refer to table 38):	
Investments held by consolidated variable interest entities:	
Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs	4,668
Commercial Paper Funding Facility LLC	3,962
Total interest income	42,911
Interest expense:	
System Open Market Account (refer to table 36)	86
Depository institution deposits	1,496
Consolidated variable interest entities (refer to table 38)	200
Total interest expense	1,782
Net interest income	41,129
Non-interest income (loss):	
System Open Market Account—realized and unrealized losses, net (refer to table 36)	487
Investments held by consolidated variable interest entities gains (losses), net (refer to table 38):	
Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs	(3,802)
Commercial Paper Funding Facility LLC	8
Provision for loan restructuring (refer to table 37)[1]	(989)
Income from services	517
Reimbursable services to government agencies	299
Other income	25
Total non-interest (loss)	(3,455)
Operating expenses:	
Salaries and other benefits	2,019
Occupancy expense	202
Equipment expense	136
Assessments by the Board of Governors	641
Professional fees related to consolidated variable interest entities (refer to table 38)	88
Other expenses	401
Total operating expenses	3,487
Net income prior to distribution	34,187
Change in funded status of benefit plans[2]	297
Comprehensive income prior to distribution	34,484
Distribution of comprehensive income:	
Dividends paid to member banks	1,049
Remaining amount to be distributed	33,435
Memo: Distributions to U.S. Treasury (interest on Federal Reserve notes)[3]	26,977

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 is being recovered as it is amortized over the remaining term of the credit extension.

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 September 30, 2009, were $24,552 million.

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, though September 30, 2009, the related interest income and expense, and the realized and unrealized gains and losses for the first three quarters 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

Table 36. SOMA Financial Summary
Millions of dollars

	January 1, 2009 – September 30, 2009				
	Average daily balance[1]	Interest income (expense)	Realized gains (losses)	Unrealized gains (losses)	Net earnings
SOMA assets					
U.S. government securities[2]	592,742	16,202	—	—	16,202
Federal agency debt securities[2]	73,655	1,241	—	—	1,241
Mortgage-backed securities[3]	352,202	11,351	(411)	—	10,940
Investments denominated in foreign currencies[4]	24,505	231	—	898	1,129
Central bank liquidity swaps[5]	230,113	2,093	—	—	2,093
Securities purchased under agreements to resell	5,128	13	—	—	13
Total	**1,278,345**	**31,131**	**(411)**	**898**	**31,618**
SOMA liabilities					
Securities sold under agreements to repurchase	69,928	(86)	—	—	(86)
Total	**1,208,417**	**31,045**	**(411)**	**898**	**31,532**

Note: Unaudited. Components may not sum to totals because of rounding.
1. Based on holdings at opening of business.
2. Face value.
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. Does not include unsettled transactions.
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.

losses have no effect on the ability of the Reserve Banks to meet their financial obligations and responsibilities. As of September 30, 2009, the fair value of the U.S. government and agency securities held in the SOMA, excluding accrued interest, was $980 billion, the fair value of the agency-guaranteed MBS was $703 billion, and the fair value of investments denominated in foreign currencies was $26 billion, as determined by reference to quoted prices for identical securities, except for MBS, for which market values are obtained from an independent pricing vendor.

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 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 three quarters 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 about $2.2 billion during the first three quarters 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 September 30, 2009, no loans were impaired, and an allowance for loan losses was not required.

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

Table 37. Loan Programs Financial Summary

Millions of dollars

Loan programs	January 1, 2009 – September 30, 2009			
	Average daily balance[1]	Interest income[2]	Provision for loan restructuring	Total
Primary, secondary, and seasonal credit	46,864	176	—	176
Term Auction Facility (TAF)	351,661	713	—	713
Total loans to depository institutions	398,525	889	—	889
Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF)	10,315	72	—	72
Primary Dealer Credit Facility (PDCF) and other broker-dealer credit	10,167	37	—	37
Credit extended to American International Group, Inc. (AIG), net	41,753	1,938	(989)	949
Term Asset-Backed Securities Loan Facility (TALF)	16,011	214	—	214
Total loans to others	78,246	2,261	(989)	1,272
Total loan programs	**476,771**	**3,150**	**(989)**	**2,161**
Allowance for loan losses		—	—	—
Total loan programs, net	**476,771**	**3,150**	**(989)**	**2,161**

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 of dollars

Item	CPFF	ML	ML II	ML III	Total Maiden Lane LLCs
Net portfolio assets of the consolidated LLCs and the net position of FRBNY and subordinated interest holders as of September 30, 2009					
Net portfolio assets[1]	41,384	28,559	16,199	23,503	68,261
Other liabilities of consolidated LLCs	(360)	(2,418)	(2)	(3)	(2,423)
Net portfolio assets available	41,024	26,141	16,197	23,500	65,838
Loans extended to the consolidated LLCs by FRBNY[2]	36,589	29,196	16,801	19,855	65,852
Other beneficial interests[2,3]	0	1,233	1,028	5,151	7,412
Total loans	36,589	30,429	17,829	25,006	73,264
Cumulative change in net assets since the inception of the programs					
Allocated to FRBNY	4,435	(3,055)	(604)	0	(3,659)
Allocated to other beneficial interests	0	(1,233)	(1,028)	(1,506)	(3,767)
Cumulative change in net assets	4,435	(4,288)	(1,632)	(1,506)	(7,426)
Summary of consolidated VIE net income for the current year through September 30, 2009, including a reconciliation of total consolidated VIE net income to the consolidated VIE net income recorded by FRBNY					
Portfolio interest income[4]	3,962	1,369	876	2,423	4,668
Interest expense on loans extended by FRBNY[5]	(587)	(109)	(187)	(236)	(532)
Interest expense—other	0	(45)	(26)	(129)	(200)
Portfolio holdings gains (losses)[6]	8	(881)	(955)	(1,346)	(3,182)
Professional fees	(27)	(31)	(9)	(21)	(61)
Net income (loss) of consolidated LLCs	3,356	303	(301)	691	693
Less: Net income (loss) allocated to other beneficial interests[6]	0	(45)	(26)	691	620
Net income (loss) allocated to FRBNY	3,356	348	(275)	0	73
Add: Interest expense on loans extended by FRBNY, eliminated in consolidation[5]	587	109	187	236	532
Net income (loss) recorded by FRBNY	3,943	457	(88)	236	605

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

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 $3,802 million, 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" in table 35.

FRBNY is the sole beneficiary of 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 September 30, 2009.

Appendix

Additional Information Provided Pursuant to Section 129 of the Emergency Economic Stabilization Act of 2008

In light of improved functioning of financial markets, on February 1, 2010, the Federal Reserve closed the TSLF, PDCF, CPFF, and AMLF. As of that date, all loans under the TSLF, PDCF, and AMLF had been repaid in full, with interest, in accordance with the terms of each facility, and each of the facilities resulted in no loss to the Federal Reserve or taxpayers. Some credit extended to CPFF LLC will remain outstanding until April 2010, when the remaining commercial paper will mature.

For the reasons discussed below, the Board does not anticipate that the Federal Reserve or taxpayers will incur any net loss on the loans provided by the Federal Reserve Bank of New York (FRBNY) under the TALF, to AIG, to CPFF LLC, or to Maiden Lane LLC, Maiden Lane II LLC, or Maiden Lane III LLC (collectively, the "Maiden Lane facilities"). In making these assessments, the Board has considered, among other things, the terms and conditions governing the relevant facility and the type, nature, and value of the current collateral or other security arrangements associated with the facility. As discussed earlier in this report, the Federal Reserve has established various terms and conditions governing the types of collateral that may be pledged in support of a loan under a facility in order to mitigate the risk of loss. In the case of the Maiden Lane facilities, the Board also has considered analyses of the projected returns on the portfolio holdings of the respective special purpose vehicle (SPV) (the assets of which serve as collateral for the loan(s) extended to the SPV) conducted by the FRBNY or its advisors in connection with the most recent quarterly revaluation of the assets of each SPV.

Commercial Paper Funding Facility

As noted above, the CPFF was closed on February 1, 2010. While no new loans to the SPV established under the CPFF, CPFF LLC, were made after February 1, 2010, some credit extended to CPFF LLC will remain outstanding until the remaining commercial paper held by CPFF LLC matures. All advances by the FRBNY to the SPV are secured by all the assets of the SPV. In addition, in situations where the obligations acquired by the SPV are asset-backed commercial paper (ABCP), the advances are further secured by the assets that support the commercial paper. To use the CPFF, each issuer paid a facility fee. Furthermore, each time an issuer sold commercial paper that is not ABCP to the SPV, the issuer paid a surcharge unless it had entered into a collateral arrangement for the commercial paper, or had obtained an endorsement or guarantee of its obligation on the commercial paper, that was acceptable to the FRBNY. All fees have been retained by the SPV and serve as additional collateral for the FRBNY loans to provide an additional cushion against losses. As of January 27, 2010, the total value of the assets of CPFF LLC significantly exceeded the outstanding amount of the loans extended by the FRBNY under the CPFF.

Term Asset-Backed Securities Loan Facility

Under the TALF, the FRBNY makes loans on a collateralized basis to holders of eligible ABS and CMBS. The potential for the Federal Reserve or taxpayers to incur any net loss on the TALF loans extended by the FRBNY to the holders of ABS and CMBS is mitigated by the quality of the collateral, the risk assessment performed by the FRBNY on all pledged collateral, and the margin by which the value of the collateral exceeds the amount of the loan (the haircut). Potential losses to the Federal Reserve also are mitigated by the portion of interest on the TALF loans to borrowers transferred to TALF LLC and by $20 billion in credit protection provided by the Treasury under the Troubled Asset Relief Program (TARP), both of which are available to TALF LLC to purchase any collateral received by the FRBNY from a borrower in lieu of repaying a TALF loan or foreclosed upon due to a default by the borrower.

Loans to Maiden Lane LLC, Maiden Lane II LLC, and Maiden Lane III LLC

The portfolio holdings of each of Maiden Lane LLC (Maiden Lane), Maiden Lane II LLC (ML-II), and Maiden Lane III LLC (ML-III) are revalued in accordance with generally accepted accounting principles (GAAP) as of the end of each quarter to reflect an estimate of the fair value of the assets on the measurement date. The fair value determined through these revaluations may fluctuate over time. In addition, the fair value of the portfolio holdings that is reported on the weekly H.4.1 statistical release reflects any accrued interest earnings, principal repayments, expense payments and, to the extent any may have occurred since the most recent measurement date, realized gains or losses. The fair values as of January 27, 2010—as shown in table 1 of this report, and reported in greater detail in the H.4.1 release for that date—are based on quarterly revaluations as of September 30, 2009.

Because the collateral assets for the loans to Maiden Lane, ML-II, and ML-III are expected to generate cash proceeds and may be sold over time or held to maturity, the current reported fair values of the net portfolio holdings of Maiden Lane, ML-II, and ML-III do not reflect the amount of aggregate proceeds that the Federal Reserve could receive from the assets of the respective entity over the extended term of the loan to the entity. The extended terms of the loans provide an opportunity to dispose of the assets of each entity in an orderly manner over time and to collect interest on the assets held by the entity prior to their sale, other disposition, or maturity. Each of the loans extended to Maiden Lane, ML-II, and ML-III is current under the terms of the relevant loan agreement.

In addition, JPMorgan Chase will absorb the first $1.15 billion of realized losses on the assets of Maiden Lane, should any occur. Similarly, certain U.S. insurance subsidiaries of AIG have a $1 billion subordinated position in ML-II and an AIG affiliate has a $5 billion subordinated position in ML-III, which are available to absorb first any loss that ultimately is incurred by ML-II or ML-III, respectively. Moreover, under the terms of the agreements, the FRBNY is entitled to any residual cash flow generated by the collateral assets held by Maiden Lane after the loans made by the FRBNY and JPMorgan Chase are repaid, and five-sixths and two-thirds of any residual cash flow generated by the assets held by ML-II and ML-III, respectively, after the senior note of the FRBNY and the subordinate positions of AIG affiliates for these facilities are repaid.

Revolving Credit Facility for American International Group, Inc.

In light of the extremely broad and diverse range of collateral (including AIG's ownership interest in numerous nonpublic companies) and guarantees securing advances under the Revolving Credit Facility and the term of the credit facility, it is difficult to estimate with precision the aggregate value that ultimately will or may be received in the future from the sale of collateral or the enforcement of guarantees supporting the Revolving Credit Facility or from the sale of the preferred interests in the AIA and ALICO SPVs received in exchange for a reduction in the amount of debt outstanding under the Revolving Credit Facility, and disclosure of any such estimate could interfere with the goal of maximizing value through the company's global divestiture program and, consequently, diminish the proceeds available to repay the loan or redeem the preferred interests. However, based on the substantial assets and operations supporting repayment of the loan or redemption of the preferred interests, the capital and capital commitments provided to AIG under the TARP, and the most recently completed quarterly review of the security arrangements supporting the Revolving Credit Facility conducted as of September 30, 2009, by the FRBNY supported by analyses performed by its advisors, the Federal Reserve anticipates that the loans provided by the Federal Reserve under the Revolving Credit Facility, including interest and commitment fees under the modified terms of the facility, will be fully repaid and will not result in any net loss to the Federal Reserve or taxpayers.